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ABED ALNASSER ABDALLAH
American University of Sharjah, United Arab Emirates

WISSAM ABDALLAH
Lebanese American University, Lebanon

DOES CROSS-LISTING MITIGATE SUB-OPTIMAL CORPORATE INVESTMENT?

Abstract:

This paper examines whether managers of cross-listed firms improve corporate investment efficiency through learning from the stock market upon cross-listing. Using a sample of UK firms cross-listed on US regulated and unregulated stock markets, we find that cross-listed firms on unregulated markets invest more efficiently than non-cross-listed firms following cross-listing. The analysis of pre- and post-cross-listing shows that cross-listed firms improve their investment efficiency post cross-listing regardless of the location of cross-listing (i.e. regulated versus unregulated exchanges). Furthermore, we find firms with low level of private information embedded in their stock prices, and firms with higher board independence improve their investment post cross-listing. Our findings suggest that managers of cross-listed firms are guided by firm-specific characteristic more than by stock market signals when they embark on new investment projects. Moreover, we find evidence that cross-listed firms on regulated exchanges perform poorly after cross-listing, whereas those cross-listed on unregulated exchange experience high performance post cross-listing. This indicates that the listing and regulatory requirements imposed on cross-listed firms by the US Securities and Exchange Commission (SEC) do not effectively deter managers from investing in value-destroying projects.

Keywords:

Cross-listing, investment efficiency, stock market feedback, price informativeness

JEL Classification: G14, G31