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Why Do Chinese Firms Cross-List in The United States?

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Introduction

An interesting aspect to study the convergence of corporate governance is cross-listing. Cross-listing is when a company lists its shares on more than one stock exchange. In recent decades, there has been a drastic increase in cross-listing. Firms from around the world have sought to list their shares in the US. China, with its burgeoning economy, provides a natural starting point in developing a theoretical framework for understanding why firms cross-list in the US. We contribute to the strategy and management literature by using an institution-based view in developing a theoretical framework for understanding the phenomenon of why some Chinese firms cross-list in the US.

One of the most important mechanisms through which governance convergence could occur is cross-listing. What is cross-listing? Why is it important? Cross-listing is when a company lists its shares on more than one stock exchange. As the world economy becomes increasingly interconnected, firms around the world are looking for new ways to grow and gain competitive advantages. There are many different approaches firms use to increase their competitiveness. One way a firm may look to grow is by raising capital on an overseas stock exchange. For example, a company listed in China can list its shares in Hong Kong, in the US, or on a number of different exchanges around the world in order to raise new capital. In understanding the impact of cross-listing, we focus specifically on the case of China.

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According to recently released World Bank data (2011), China has surpassed Japan as the world's second largest economy. China's gross domestic product (GDP) has grown from \$1.2 trillion to nearly \$5 trillion over the past decade. China is becoming increasingly important and its impact on the number of cross-listed firms in the US has also been substantial. More and more Chinese firms have chosen to cross-list in the US in recent years: at the end of 2010, China had more firms cross-listed in the US than any other country (Citibank, 2011).

Institutions play an important role in a firm's strategy in deciding where to cross-list its shares. Popularly known as the rules of the game in a society, institutions are the humanly devised constraints that shape human interactions (North, 1990). In order to understand why Chinese firms cross-list we use an institution-based view (Peng et al., 2009). By leveraging an institution-based view we can gain insight into why some Chinese firms cross-list in the US.

When a firm from a less strict institutional environment decides to cross-list on a US-based exchange, the firm subjects itself to much stricter reporting requirements and must play by US rules. This means that the firm must register with the Securities and Exchange Commission (SEC) and comply with US securities laws. It is well accepted that the reporting requirements for US-based exchanges are more stringent than those of Chinese exchanges. Stricter reporting requirements can lead to increased reporting and compliance costs for firms that elect to cross-list on US-based exchanges, such as the New York Stock Exchange (NYSE) or the National Association of Securities Dealers Automated Quotations (NASDAQ). These firms must allocate additional resources to meet the reporting requirements of the SEC and the testing and accounting requirements of Sarbanes-Oxley (SOX). Despite these listing costs, firms that have cross-listed in the US typically report lower costs of capital, easier access to foreign capital markets, and an increased shareholder base, resulting in higher stock liquidity and increased visibility and prestige (Doidge et al., 2004).

Before a firm lists on an exchange, the exchange will conduct an investigation of the firm and require the firm to provide certain information in the specified format of the exchange (Chemmanur and Fulghieri, 2006). This process results in convergence of the cross-listing firms' accounting format with the standards of the host stock exchange. Typically, higher quality exchanges require more information, adding complexity and increased costs to the firm.

Therefore, the decision to cross-list must be a strategic one that ensures that the expected benefits of cross-listing outweigh the costs

(Peng and Su, 2011). Given the increased growth of cross-border capital flows and the important strategic implications of cross-listing, we argue that cross-listing is a salient research area to consider when evaluating the impact of institutions. We also suggest that the effects of cross-listing have important implications on the convergence of governance practices. By leveraging an institution-based view we develop a theoretical framework for understanding the impact of institutions on different types of firm-ownership, status, cross-border mergers and acquisitions (M&As), and compensation implications.

Market segmentation, bonding, and proximity

The finance and economics literature has largely used three hypotheses to research why firms cross-list: namely, (1) market segmentation, (2) bonding, and (3) proximity. Out of the three hypotheses, arguably the most empirically researched is the market segmentation hypothesis.

The logic behind cross-listing under the market segmentation hypothesis is that the net benefits derived from cross-listing will include both a lower cost of capital and increased liquidity. These benefits are made possible by the accessibility of the firm's shares to non-resident investors – investors who would otherwise not hold the shares due to the segmentation of the markets (Karolyi, 2006). Hail and Leuz (2009) found that cross-listing shares on US-based exchanges (AMEX, NASDAQ, NYSE) reduced the cost of capital by between 70 and 120 basis points on average. Miller (1999) showed abnormal positive stock reactions on the first day that cross-listed shares traded in the US. While this analysis captures some elements of why a firm may cross-list in the US, the initial share price reaction is only one piece of the puzzle.

Karolyi (2006) suggested that there are only limited research benefits gained by limiting cross-listing research to stock market reactions. He argued that market segmentation fails to account for many other elements involved in the firm-level decision to cross-list and that new research initiatives on cross-listing should focus on corporate governance problems among management, shareholders, and other stakeholders, which, in turn, can limit the perceived potential net benefits of market segmentation. Stulz (1999) introduced the impact of governance into the cross-listing literature. Stulz argued that a firm's cost of capital depends critically on its corporate governance system. The issue of governance helps us introduce a new possibility for why a firm may cross-list in the US, which is for bonding purposes.

The bonding hypothesis is often used in finance and economics papers to explain why firms from emerging economies, operating in weak institutional environments, elect to cross-list their shares in a stricter institutional environment, such as the US (Dojidge, 2004; Reese and Weisbach, 2002). The central idea is that cross-listing on a US-based stock exchange, or other foreign exchange with higher listing standards than the home country environment, commits the listing firm to the stricter institutional environment. Coffee (2002) detailed three important implications of a firm cross-listing on a US-based exchange such as the NYSE or NASDAQ:

1. Listing on the US-based exchange subjects the firm to the enforcement powers of the SEC.
2. The US-based shareholders now have the ability to exercise effective and low-cost legal remedies, such as class actions and derivative actions, which may not be available in the firm's home country.
3. When a firm lists by level II or level III American depository receipts (ADRs) on US-based exchanges, its entry into the US market commits the firm to providing more complete financial information, in compliance with SEC requirements and US generally accepted accounting principles (GAAP).¹

Thus, bonding to US institutions by cross listing can have significant implications for a foreign firm, especially if the US is very different institutionally and culturally from the home country of the firm.

When a firm decides to cross-list, it has many different exchange locations to choose from. Exchanges around the globe are competing to attract foreign listings, in order to gain more revenue and trading volume. The NYSE and the London Stock Exchange (LSE) have engaged in vigorous competition to attract listings from firms in third countries, especially those from emerging economies. Why then would a firm from an emerging economy such as China list its shares on the NYSE, as opposed to the LSE or an exchange that may be closer geographically such as Hong Kong or Singapore? To answer this question, some scholars have recently focused their attention on the effect of proximity on cross-listing. Sarkissian and Schill (2004) found that geographic, economic, cultural, and industrial proximity play important factors in the choice of overseas listing choices.

One may suspect that other than firms from Canada or Mexico, Western European firms would be the most likely candidates to cross-list in the US because of cultural and geographical proximity. However,

Table 12.1 Percentage of firms cross-listed in the US by country at the end of 2000 and 2010

Rank	End of 2000		End of 2010	
1	UK	12%	China	29%
2	Brazil	10%	UK	11%
3	Japan	10%	Brazil	9%
4	Mexico	7%	Japan	6%
5	China	6%	Mexico	5%
6	Chile	6%	Argentina	4%
7	Argentina	5%	India	3%
8	Ireland	5%	Chile	3%
9	Netherlands	5%	Ireland	3%
10	France	4%	Netherlands	3%

Source: Adapted from Citibank Universal Issuance Guide (2011). Data refers to the NASDAQ and NYSE.

looking at the percentage make up of firms cross-listed in the US over time reveals some interesting trends. In 2000, the UK had the highest percentage of cross-listed firms in the US. However, by the end of 2010 China had claimed the top spot (Citibank, 2011).

This may be somewhat counterintuitive if we use cultural and geographical proximity as catalysts for why Chinese firms may cross-list in the US. For example, if a Chinese firm wants to cross-list its shares, it is arguable that listing in Hong Kong or Singapore may be more feasible than listing on a US-based exchange for two reasons. First, the geographic proximity is higher. Second, the Chinese institutional environment and cultural practices are likely closer to those in Hong Kong or Singapore than to those in the US. However, as Table 12.1 shows, China now has the highest percentage of cross-listed firms in the US, calling into question whether culture and proximity are really key drivers behind Chinese firms cross-listing in the US. This observation brings us to our research question: why do some Chinese firms show a preference to cross-list in the US?

Behind Chinese cross listing

We argue that an institution-based view is appropriate for examining the cross-listing phenomenon (Peng et al., 2009). By cross-listing in the US, a firm may be able to benefit from the US institutions (Peng and Su, 2011). A country's stock market is an appropriate setting in which to examine the impact of institutions. A developed stock market, such

as a US-based exchange, is likely to encourage the implementation of codes of good governance in order to increase the efficiency of the country's corporate governance system (Aguilera and Cuervo-Cazurra, 2004). In general, US-based stock exchanges are thought to offer shareholders a high level of transparency and strong codes of good governance. Companies must release quarterly earnings, disclose compensation data, material investments, and many other items that enable investors to make informed decisions. By going through the disclosure process and increasing transparency, foreign firms learn the rules of the game when competing in the US.

When analyzing Chinese firms, it is important to recognize there are many different firm types. For the purposes of this chapter we will focus on the ownership factor to differentiate between Chinese firms. The difference found in ownership structure is highly reflective of the impact of institutions in China. For example, the largest Chinese firms often have significant state ownership, whereas smaller younger firms in China do not (Peng, Tan, and Tong, 2004). Broadly, there are two competing types of enterprises found in China: state-owned enterprises (SOEs) and non-state-owned enterprises (non-SOEs). The institutional forces in China directly affect their strategies. It is our goal to understand how these institutions impact the strategic choice of Chinese firms in terms of their listing decision.

As shown in Figure 12.1, we have separated the cross-listing decision by two firm types, (1) SOEs and (2) non-SOEs. The rules of the games are very different between SOEs and non-SOEs. SOEs may initially list their shares within China (as the government dictates this decision), and subsequently cross-list outside of China in a relatively culturally similar economy such as Hong Kong. Once the SOEs start to implement strategies (international joint ventures, M&As, alliances) outside of Asia, they often opt to list in the US. The process is different for non-SOEs because of the institutions in China. In general, these firms look outward to limit the institutional impact of government restrictions (Yamakawa, Peng, and Deeds, 2008). Therefore, a likely process for these non-SOEs is to compete with the dominant SOEs by listing initially in a culturally similar economy such as Hong Kong or Singapore, and subsequently, after gaining more experience, cross-list in the US. It is important to note that the use of Hong Kong and Singapore is for illustrative purposes. We are not suggesting this is the only path in Chinese firms' cross-listing, but we do suggest that both non-SOEs and SOEs increasingly have the goal of ending up on a US-based exchange. Some may even be able to do this for their primary listing, but others

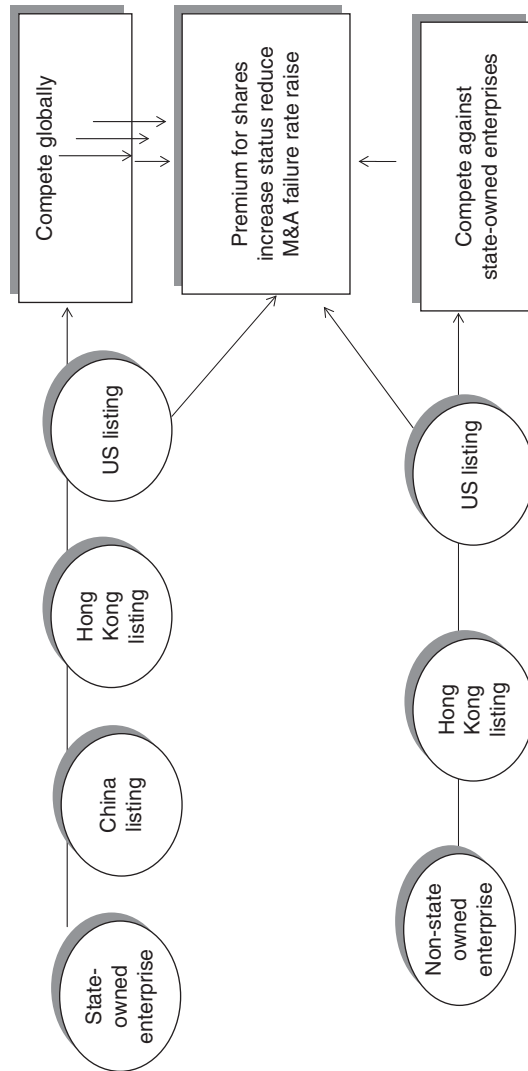


Figure 12.1 Why do Chinese firms cross-list in the US?

may have to go through the process of multiple listings that we have presented.

The difference in the process that SOEs and non-SOEs use to list on a US-based exchange is largely due to the impact of the institutions in China. Due to differences in ownership structure (Peng et al., 2004), non-SOEs do not have as strong ties to the government as SOEs. These weaker ties may result in higher costs of capital at home, less brand recognition, and even less regulatory advantages for non-SOEs, as they may not receive government support. Therefore, to compete with SOEs and to offset these disadvantages, non-SOEs often have to look outside of China to reap lower costs of capital.

However, SOEs are also looking to the US to fuel future growth. SOEs are involved in many industries ranging from natural resources to high technology, and these firms are often dependent on consumer demand from the US to keep this growth going. Investors in the US have often met Chinese stock listings with enthusiasm, regardless of the ownership differences. For example, there are numerous examples of Chinese listings in the US rising substantially in their first day of trading, as exemplified by China Cache's incredible 95 per cent rise over its offering price in its first day of trading itself in October 2010 (*BusinessWeek*, 2010). Both SOEs and non-SOEs have undoubtedly taken notice of the positive investment sentiment of US-based exchanges for Chinese firms listing in the US. We argue that US investors have a strong appetite for Chinese firms, and are thereby willing to pay a premium to have an opportunity to participate in the strong growth in China. Both SOEs and non-SOEs are eager to satiate this appetite with shares offerings of their firms as they recognize this premium may be higher than other exchanges around the world.

Proposition 1: non-SOEs cross-list in the US to help offset the disadvantages of weak government ties in order to compete with SOEs within China.

Proposition 2: both SOEs and non-SOEs list on US-based exchanges to take advantage of positive investor sentiment, receiving a premium for their shares listed in the US.

Although receiving a premium for shares is an added value for any firm, it is not the only reason a Chinese firm may list on a US-based exchange. Chinese firms may cross-list in order to gain status. US investors' perception of a Chinese firm may be double-sided. On the one hand, China's recent climb to become the second largest economy in

the world is symbolic of the growth and influence of the country's firms. Many investors want an opportunity to participate in this growth. But on the other hand, many critics remain skeptical of Chinese firms, due to recent product recalls, government control, and the general lack of transparency found in Chinese firms as reported by some media (Peng, Sun, and Blevins, 2011). By cross-listing, a Chinese firm may reduce some of the liability of foreignness, because cross-listing signals to market participants that the Chinese firm is adopting best standards by listing in the US. Cross-listing in turn may also help alleviate concerns about the institutional impact of firm ownership by the Chinese government (Peng and Su, 2011). Although Chinese firms were not part of their sample, the findings reported by Doidge (2004) and Doidge et al. (2009), that voting premiums² are 43 per cent lower for foreign firms that are cross-listed in the US compared to domestic firms, may support this notion for Chinese firms.

Assuming that institutions in China have weaker standards concerning transparency and performance reporting, this limits the credibility of firms. Indeed, when converting to US accounting figures many Chinese firms' performance numbers may look quite different compared to when using Chinese reporting. For example, the accounting changes can be so significant that a firm may previously have reported being profitable, but after converting to SEC requirements the firm may no longer be profitable based on US accounting standards. However, undergoing the process of conforming to SEC requirements sends an important credibility signal.

Credibility helps lead to status. Status plays an important role in market-based competition (Podolny, 1993). Status has been shown to afford firms many benefits ranging from forming alliances, establishing suppliers, to influencing success in the establishment of new firms (Gulati, 1998; Pollock et al., 2010; Stuart et al., 1999). In the US, Wall Street analysts and the media can have a significant impact on a firm and its reputation (Fombrun and Shanley, 1990; Pollock and Rindova, 2003). Chinese firms seeking to gain status may see the US as the best place to be, as they can use the US institutional influence as demonstrated by the media and Wall Street to help build their global status. Baker et al. (2002) found increased analyst coverage and media print for foreign firms that cross-list, and that increased coverage was greater when the listing was in the US, when compared to in the UK. Other scholars have supported this notion arguing that new ventures in emerging economies seek non-discriminatory regulatory environments in developed economies in order to gain advantages in transparency,

financing, and other benefits afforded by higher status (Yamakawa et al., 2008). These findings lend support to our argument of why a Chinese firm would choose the US in order to increase its status. Specifically:

Proposition 3: Chinese firms cross-list in the US to send positive governance signals to global markets in order to increase their status.

Pagano et al. (2002) found that cross-listing in the US by European firms appears to be driven by the need to fund growth and foreign sales expansion, generally in the high-tech sectors. With China's recent technology boom, the NASDAQ in particular is a likely home for many Chinese high-tech growth firms. As of October 2010, 31 Chinese initial public offerings (IPOs) had been completed on the NASDAQ in 2010 alone, bringing the total number of Chinese IPOs completed on the NASDAQ to 154, compared with only 70 total listings at the end of 2007 (NASDAQ, 2010). This means that these Chinese firms sought the US for the primary offering before any other market in the world. One reason they may enter the US is their perception that they can grow by using M&As both at home and abroad (Peng, 2012).

One potential way a Chinese firm can grow is indeed through M&As (Lin et al., 2009; Peng, 2012; Sun et al., 2011; Yang et al., 2011). However, firms from some other emerging economies have been more successful in their cross-border M&A strategies. For example, Indian firms have a 67 per cent completion rate in cross-border M&As, while Chinese firms complete less than half (47 per cent) of their cross-border M&A attempts (Sun et al., 2011).

Institutional environments and ownership likely play a role in the success and failure of cross-border M&As (Sun et al., 2011). If a Chinese firm is already listed in the US, it has undoubtedly increased its understanding of the rules of the game in the host economy. It has also gained a new tool to use in M&As (Peng and Su, 2011). For example, let us assume that a Chinese firm wants to purchase a publicly traded US firm. The Chinese firm would like to make this purchase using half cash and half equity. If the Chinese firm is not listed on a US-based exchange, it cannot use its equity shares as a medium of exchange. The firm may only use its shares as an acceptable currency if its shares trade on a US-based exchange (Pagano et al., 2002). Therefore, the firm's preference to cross-list would be based on the proximity of where it would like to grow and expand (Peng and Su, 2011).

Many Chinese firms trading on US-based exchanges are followed by Wall Street analysts. As previously noted, media and transparency

are products of institutions. If a Chinese firm is trading on a US-based exchange and has analyst coverage, then many US-based investors may be familiar with the Chinese firm's strategy, due to its increased exposure. With increased status and familiarity from analyst coverage, Chinese firms may improve their odds for cross-border M&A success. If Wall Street analysts and the media show support for a potential M&A, then shareholders and management of the target firm may be more likely to help make sure the deal is successful. As many high-tech Chinese firms have chosen the NASDAQ for their cross-listing, we expect to see M&A activity involving Chinese firms increase in the US. Therefore:

Proposition 4: M&As targeting US firms are likely to be more successful for Chinese firms that are cross-listed in the US, than for Chinese firms that are not cross-listed or that are cross-listed on a non-US-based exchange.

In addition, institutions also impact executive compensation. For example, the two largest banks in the world by market capitalization (as of this writing), Industrial and Commercial Bank of China (ICBC) and China Construction Bank (CCB), are based in China. The chief executive officers (CEOs) of these banks earned less than \$250,000 each, while the CEO of the US-based JP Morgan Chase Bank earned nearly \$20 million, despite the company's relatively smaller size by market capitalization (Reuters, 2010). The role of institutions helps explain the variation of compensation between the CEOs, and Chinese CEOs may be looking to escape the constraints on their compensation by mitigating the effects of institutions of their home country. Indeed, worldwide CEOs are attempting to increase convergence to levels of compensation similar to US CEOs. Southam and Sapp (2010) found that CEOs of Canadian firms that cross-listed in the US had compensation levels higher than CEOs of non-cross-listed Canadian firms. In other words, CEOs of Canadian cross-listed firms were able to fill the convergence gap in compensation by cross-listing in the US.

As Chinese CEOs and executives take note of the disparity between their compensation and the compensation of their American counterparts, they may be interested in raising their compensation to at least approach (if not match) them. One possible way to achieve this goal is to cross-list in the US. We argue that by cross-listing on the NYSE or NASDAQ, executives may attempt to put themselves on the same compensation playing field (or at least the same comparison group) as

US CEOs – the highest paid CEOs in the world. By going through the cross-listing process, the CEOs gain international experience, which is an important aspect for compensation of Chinese managers. Peng et al. (2010) found that CEOs with international experience in China earned 17.94 per cent more than comparable CEOs without such experience. By listing in the US, CEOs of Chinese firms are potentially taking the first step to increase convergence in their pay to comparable levels of CEOs of US firms – just as the CEOs of the Canadian cross-listed firms did (Southam and Sapp, 2010). This leads to our final propositions:

Proposition 5a: Chinese cross-listed firms will have higher compensation levels for their CEOs after cross-listing.

Proposition 5b: Chinese cross-listed firms will have higher compensation levels for their CEOs than comparable non-cross-listed Chinese firms.

Cross-listing and convergence

In emerging economies in general, and China in particular, governance reforms need to find ways to reduce concentrated ownership and controlling shareholders often caused by state ownership (Young et al., 2008). While this may seem obvious, it is easier said than done, due to the power of state ownership and institutional inertia. Institutional change tends to occur at a slow pace. Where international pressures may lead to similar changes in one institutional domain, these effects may be reduced by the wider configuration of national institutions (Aguilera and Jackson, 2003: 461). This interaction may offer an explanation as to why internationalization has not led to quick convergence in national corporate governance practices.

Despite these forces of institutional inertia, cross-listing often has an immediate effect on governance practices. By undergoing the cross-listing process, a Chinese firm must learn and conform to various US governance practices and implement them as required by the SEC. This implies that cross-listing firms, at a minimum on the surface, are forced to converge with US accounting practices and reporting requirements. While Chinese cross-listed firms in the US have undoubtedly resulted in some convergence among governance practices of firms from China, the effect of cross-listing may be more pronounced depending on whether the firms are SOEs or non-SOEs. For example, non-SOEs may be more likely to display higher levels of convergence with US firms because non-SOEs have less path dependency, and may be more

flexible in adopting new codes of governance due to variables such as firm size, age, and equity ownership. However, further research is necessary to gain a deeper understanding of the overall impact of Chinese ownership structures on their ability and motivation to converge to Anglo-American governance standards.

Our chapter highlights some of the key drivers behind a Chinese firm's decision to cross-list in the US. While we primarily focus here on cross-listing at the firm level, there are at least three important implications that can be drawn from our propositions regarding the convergence/divergence debate. First, we suggest that both non-SOEs and SOEs cross-list in the US to take advantage of the institutional advantages, namely, increased visibility and transparency. This means that Chinese firms are attracted to the institutional differences that US-based exchanges offer. This further implies that cross-listed Chinese firms are open to adopting new standards of governance (which may be perceived as an upfront cost) for the longer term benefits afforded by increased transparency and visibility.

Second, we suggest that by cross-listing, firms are more likely to engage in M&A activity outside their home country. Along with increased M&A activity, alliances and joint ventures are also likely to form after cross-listing. As a result, knowledge spillover leads to greater convergence in best practices facilitated by organizational learning.

Third, we argue that cross-listing will result in increased executive compensation. This means that the firms are likely to adopt elements of pay-for-performance incentives based on the US compensation structure. This shift in focus to pay-for-performance may help reduce principals conflicts that are often associated with SOEs (Young et al., 2008). While the overall impact of cross-listing on convergence is not completely known, we believe it is – and will remain – a key driver of convergence in the future.

Discussion

Our chapter contributes to the literature by bringing the underexplored area of cross-listing into the strategy and management literature. By leveraging the institution-based view, we build a theoretical framework to analyze the cross-listing decision from a management perspective. The choice of where Chinese firms decide to list their shares has increased our understanding of the impact of institutions.

It is important to acknowledge that whenever we make generalizations about entire countries, there are bound to be exceptions. As previously

noted, there are many different types of Chinese firms. Within the category of SOEs and non-SOEs there may be variance among firm strategies that cannot be explained by all the aspects discussed here (Peng et al., 2004). Since our argument is theoretical, further research is necessary to empirically validate the propositions set out in this chapter. Despite the limitations of our chapter we hope it will generate more research. In particular, with more research we hope we can understand whether the propositions and ideas we advanced about Chinese firms apply to other emerging economy firms as well.

We believe that many of our propositions, despite their theoretical nature, are readily testable. Compensation data can compare the changes in salaries of executives of firms that have cross-listed in the US to Chinese firms that have not cross-listed. The status of Chinese firms can be examined by using longitudinal network analysis. We argue with more Chinese firms trading on US-based exchanges that international joint ventures, alliances, and partnerships will begin to emerge for the Chinese firms that are cross-listed and that are successfully able to increase their status. Whether or not a premium is received for Chinese firms when they cross-list can be measured by stock market reactions and investor sentiment analysis. Scholars have noted Chinese firms have room to improve their success rate in cross-border M&As (Sun et al., 2011). By comparing the success rates of cross-listed Chinese firms to Chinese firms not cross-listed, we may be able to gain some insight on the organizational learning processes at Chinese firms that have cross-listed their shares in the US.

There are also managerial implications. With China's already thriving stock exchange, firms looking to list their shares abroad need to understand the impact that cross-listing can have on their firm. By undergoing the cross-listing process, managers have to implement US accounting principles, and ultimately are subjected to pressures from Wall Street analysts. This may result in the firm having to diverge from some of its older practices in order to meet the demands of US and global investors. Despite the challenges associated with these changes, the upfront costs associated with cross-listing for Chinese firms is likely offset by the long-term benefits, as evidenced by the large increase in Chinese firms that have listed their shares in the US.

Conclusion

By leveraging the institution-based view, we have extended our understanding of cross-listing from a management perspective. We believe

the underexplored area of cross-listing provides an important research area from which to gain unique insights into the impact of institutions on firms' strategies. We also believe that cross-listing is a major driver of convergence in corporate governance practice. It is our hope that by helping to introduce this unique topic, our chapter will generate new research opportunities within the institution-based view.

Notes

1. Level II and Level III exchange listing requires conforming with the SEC, whereas Level I listing (also known as over the counter [OTC] listings) do not. The focus of our chapter is on cross-listing firms on exchanges regulated by the SEC, not firm cross-listing on OTC exchanges.
2. When a firm has two classes of shares that are differentiated only by their voting rights, the percentage difference between the prices of high voting shares and low voting shares is the voting premium and the voting premium can be used as a proxy for the private benefits of control.

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