

THE INVESTMENT ANALYSTS JOURNAL

N Bhana*

Overseas listing by companies listed on the Johannesburg Stock Exchange and its impact on shareholder wealth

**Graduate School of Business, University of Durban-Westville, Private Bag X54001, Durban 4000, Republic of South Africa. Email: mba@mancosa.co.za*

1. Introduction

The decision to list or not to list abroad has become increasingly important for corporate managers in view of the recent trend of globalization of security markets. An increasing number of companies are listing their securities on foreign exchanges worldwide. In line with this trend many South African companies have recently chosen to list their shares on overseas stock exchanges. From a managerial perspective, this phenomenon raises important issues pertaining to the costs, benefits and net benefits (benefits less costs) of foreign listing.

Theoretical and expert evidence suggests many potential benefits of foreign listings such as lower cost of capital, increased liquidity of shares traded, higher profile and visibility of a company abroad. The potential costs include listing fees and increased financial disclosure requirements. The purpose of this investigation is to determine if foreign listings by South African companies have resulted in an increase in shareholders' wealth.

In South Africa the debate relating to foreign listings by South African companies has become particularly heated, with the business community and the trade unions on opposite sides of the issue. Access to capital seems to be the main reason why South African companies are looking at offshore listings. Bridge (1998:35) reports that trade unions have expressed misgivings, accusing companies listing offshore of giving a vote of no confidence to South Africa. The trade unions argue that having grown rich under apartheid by exploiting voteless black workers, white capitalists are trying to escape with their ill-gotten wealth by seeking primary listings offshore.

During the apartheid years, increasingly rigid exchange controls and economic isolation of the country prevented South African companies from expanding overseas. Protected by a lack of foreign competition, several South African companies grew dominant in their local markets. South African Breweries (SAB), for example, has 98% of the local beer market. South Africa's economic isolation, however, is now over and exchange controls have been gradually relaxed. Companies such as SAB must now look outside South Africa if they want to expand their business. Noting this trend, Sikhakhane (1998) reports that companies such as SAB are seeking primary listings overseas because if they are to become global companies they need access to global capital. South Africa has a limited savings pool and because of its status as an emerging capital market, the cost of raising capital locally is high. A primary listing in London or New York will significantly improve the access to and the cost of raising capital by South African companies.

Klein (1998:1) reports that the ANC government has given a qualified approval for companies such as SAB and the Anglo American Corporation seeking a primary listing on the London Stock Exchange (LSE). The government has recognized that local capital would be insufficient to finance the international growth of large South African companies. Another argument in support of this trend is that by tapping international capital markets South African companies are able to invest more at home. Lunsche (1997:3) reports that the seven stock exchanges associated with the Southern African Development Community (SADC) have agreed to harmonise their listing requirements to facilitate dual listings of companies in the region.

Generally, institutional and environmental factors are now favourably aligned to encourage foreign listings by South African companies. However, to date there have been no studies to investigate the possible benefits to local companies seeking overseas listings. The purpose of this investigation is to address this deficiency by investigating the share price reaction to South African companies seeking a listing on the LSE during the period 1986 - 97.

2. The Costs and Benefits of Listing on a Foreign Exchange

2.1 Benefits of a foreign listing

The major benefits of listing on a foreign exchange, as noted by Saudagaran (1988), and Biddle and Saudagaran (1991), fall into four distinct categories.

2.1.1 Financial benefits

The major theoretical rationale for foreign listings is the segmentation of capital markets. As pointed out by Alexander, Eun, and Janakiraman (1988), capital markets can be completely segmented, partially segmented, or completely integrated. In completely segmented capital markets, investors in one country are unwilling or unable to invest in securities in other countries, and vice-versa. Segmentation typically occurs because of barriers to capital flows, including government controls on foreign exchange and capital controls, tax policies, language and cultural barriers, legal barriers, knowledge and information barriers, and the cost of purchasing securities. The cost of capital in segmented markets tends to be higher than in integrated markets. In completely integrated capital markets, investors have access to the same set of domestic and foreign securities. The actual situation existing in today's capital markets falls into a grey area of partial segmentation where there are facilitative as well as non-facilitative conditions.

Another financial dimension to foreign listings is market liquidity, defined as the trading volume in the securities market and the ability of companies to sell new securities at existing market prices (Saudagaran, 1988). The cost of capital is higher in markets that are small and relatively thin. Thus a foreign listing is likely to result in a lower cost of capital since the pricing of the security will be in an integrated rather than segmented market (Errunza and Losq, 1985). In addition, costs may be lower if the transaction costs in the foreign markets are lower than they are in the domestic market and if the foreign market is more liquid than the domestic market.

Biddle and Saudagaran (1991) point out that many companies list overseas in order to change the control structure of the firm, either in terms of shareholders or in the mix of debt and equity providers of capital. Given the degree of segmentation and the thinness of domestic markets, companies can gain access to foreign equity capital and thus increase their managerial autonomy. This assumes that the shares are broadly dispersed among several shareholders. However, if the shares are acquired by actively involved institutional investors, there could actually be a loss of control. Finally, foreign listings can also facilitate foreign mergers and acquisitions by creating local shares to satisfy local regulatory requirements.

2.1.2 Marketing and public relations benefits

An important aspect of a foreign listing is the increased publicity and name recognition that accompanies the initial listing. Potential investors become much more interested in the company and its products, possibly creating greater market demand for the company's products as well as its securities. The listing company must meet different members of the investment community, such as bankers, financial analysts, lawyers, exchange officials, regulatory authorities, and journalists.

Mittoo (1992) also refers to a foreign listing as a signalling mechanism, in that management is signalling to the market about the future prospects of the company. The foreign listing gives the impression that the company is attempting to be a major player in international markets. Choi and Stonehill (1982) found that enhancement of corporate prestige internationally was the most common response among Japanese and Korean companies considering listing in the United States.

An additional public relations benefit accrues from the company listings on foreign stock exchanges in order to facilitate trading for foreign shareholders. Even if the company is not issuing new shares, it can facilitate the trade for existing shareholders. This creates goodwill among foreign shareholders.

2.1.3 Political benefits

As companies do business abroad, they often confront protectionist attitudes from the government and consumers. By listing on foreign stock exchanges, companies not only derive the public relations benefit of the listing, but they also make shares available that can be used to meet local ownership requirements for joint ventures. This also allows the company to diversify the funding sources for its local affiliates rather than rely on local debt markets, which may be controlled, or on continual infusions of capital from the home country. In politically or economically unstable markets, a company would rather tap local capital markets than put more of its capital at risk.

2.1.4 Employee relations benefits

Many companies can improve their image in the eyes of local employees by having employee share ownership plans

(ESOPs) in countries where they are allowed. ESOPs can be a good source of reward for employees as well as creating stronger employee identity with the company. However, employees may not be interested in holding foreign securities but may prefer to hold securities listed on their own capital markets.

2.2 Costs of foreign listing

There are financial and non-financial costs to listing on a foreign exchange. In the case of the United States, the cost of a first-time registration with the SEC is quite significant, including accounting, legal, printing, and registration fees (Cochrane, 1992). The company must also pay the listing costs of the stock exchange. A non-financial cost of the listing is the additional disclosure that accompanies the listing, both in terms of the required financial information as well as voluntary disclosures that may be required from companies competing for capital in that market. There may also be perceived competitive disadvantage costs. However, the additional disclosure might also be considered a benefit if it increases the company's ability to raise additional capital or lowers its cost of capital.

3.1 Previous studies of foreign listings and share price behaviour

The theoretical insights on the links between segmentation, cross-listing and valuation have been subjected to considerable empirical testing using the event-study methodology. The empirical literature taken in its totality, presents a mixed picture.

Howe and Kelm (1987) have investigated the effects of overseas listings on the share price of ordinary shares. Using a sample of 165 companies which were listed on the New York Stock Exchange (NYSE) and which applied for listings in Basel, Frankfurt, Paris, and Tokyo over the period 1962 - 1985, they concluded that overseas listings result in significant wealth losses for shareholders. In particular, they find that most wealth losses occur during the pre-listing period (application and approval phase of the listing) and that the post-listing period is not consistently associated with negative returns.

Alexander, Eun and Janakiraman (1988) examined 34 non - US companies that listed their shares on U.S. exchanges i.e., New York and American stock exchanges. They found that such cross - listing leads to significantly lower expected returns in both the pre - listing and post-listing periods for non - Canadian companies in their sample. However, the effect for Canadian companies was weak, suggesting a greater degree of financial market integration between U.S. and Canadian markets.

Lee (1991) analyzes the returns from 141 U.S. companies that listed their shares on the LSE and the Toronto Stock Exchange (TSE) over the 1962 - 86 period. They found that U.S. companies listing on the LSE earned positive abnormal returns over the pre-listing period and that the gains are eliminated subsequently during the post-listing period. Shareholders of the U.S. firms admitted to the TSE earned negative abnormal returns over both the pre - and post - listing periods. These results are generally consistent with the results of the Howe and Kelm study which revealed that foreign listings by U.S. companies do not increase shareholder wealth.

Jayaraman, Shastri and Tandon (1993) studied 95 non-U.S. companies that listed their shares on U.S. exchanges (the NYSE, the American Stock Exchange, or NASDAQ) during the period 1983 to 1988, and found positive and significant abnormal returns of 0,47% on the day of the listing. However, the abnormal return on the day after listing was - 0,48%, suggesting that the beneficial effects all but disappeared the day after listing. They found that the positive effects basically came from 44 Japanese companies in the sample (with a day - of - listing abnormal return of 0,8%), and the abnormal returns for the companies from the rest of the world were negative. In a study of 53 Canadian companies that became cross - listed on U.S. exchanges between 1981 and 1990, Foerster and Karolyi (1993) found that the pre - listing period was characterized by significant positive abnormal returns, and the post - listing period by negative abnormal returns, suggesting financial market segmentation between the U.S. and Canadian markets. These results are opposite those found in the Alexander, Eun and Janakiraman (1988) study.

In perhaps the most comprehensive study, Ting, Diltz and Apilado (1994) examined the wealth effects of 346 U.S. companies listing their shares on ten different foreign stock exchanges by evaluating returns on their application dates for listing, acceptance dates for listing, and the actual listing dates. They detected no abnormal return on the application date; a positive but non - significant abnormal return was found on the acceptance date; a negative abnormal return was observed on the day of listing. Negative cumulative abnormal returns were observed over the 125 post - listing trading days.

3.2 Theoretical models to explain share volatility associated with foreign listings

There are several models that provide a theoretical basis for a linkage between information arrival, trading volume and the variance of return on security. Kyle (1985) models a market which consists of three types of traders - informed investors who trade to maximize their profits from private information, random liquidity traders whose orders arrive randomly, and the specialist who learns about private information from price and volume changes. In this model, the variance of returns over a trading interval reflects the arrival of new information and increased trading volume is associated with a larger variance.

Admati and Pfleiderer (1988) modify Kyle's model to include a fourth class of traders called discretionary liquidity traders. This class of traders, in contrast to random liquidity traders, has discretion about the timing of their trades, but like other liquidity traders have no private information. One of the main implications of this model is that both informed and discretionary liquidity traders would prefer to trade when the market is active, thus resulting in the variance of returns being high when trading was most active.

Freedman (1989) extends Kyle's model by examining the impact of allowing informed traders to allocate their trading of a dually listed share optimally between two separate markets in which the security is cross-listed. In this model, one market is assumed to open some hours before the other. This model also differs from that of Admati and Pfleiderer in the assumption regarding the life of information. In the latter model, private information is revealed publicly, and becomes useless one period after it is observed. In contrast, the Freedman model allows for a long-lived information structure by assuming a life of two periods. This assumption, then, requires informed traders to decide how best to divide their trading between the two markets in which the security is cross-listed. One of the implications of this model is that cross-listings causes the variance of returns to increase regardless of the number of informed traders or the amount of liquidity trading. This follows from the fact that cross-listing provides informed traders with additional opportunities to trade on, and profit from their long-lived information. Thus, cross-listing results in more information being revealed, which in turn, causes the variance of share price in the domestic stock exchange to increase.

The above models suggest that listing of South African company shares on the LSE should result in an increase in the variance of returns on a security, where the variance is based on closing prices in the exchange on which the underlying share trades. A similar implication can be drawn based on the theory of noise trading suggested by Black (1986) and French and Roll (1986). In these models, variance is caused by the overreaction of traders to each others' trades. As a result, cross-listing should result in an increase in variance since it causes an increase in trading time, and therefore, is likely to generate more trading. As argued by French and Roll (1986), this hypothesis also implies that the autocorrelation of share returns should become more negative after the cross-listing.

A further hypothesis can be proposed to explain volatility changes caused by cross-listings. This hypothesis implies a change in volatility of the underlying shares is related to the possibility that after the dual listing, returns on the shares may be generated by a two-factor model (the domestic and U.K. market factors), while only one factor (the domestic market factor) affects returns before the dual listing. This hypothesis suggests that changes in volatility accompanying the dual listing are related to changes in the return generating process.

4. Methodology and Sample Data

4.1 Sample selection and data

The sample population for this investigation consists of JSE listed companies that were subsequently listed on the LSE during the 1986 - 97 period. The sample data and listing dates were drawn from various issues of the "London Stock Exchange Quarterly Bulletin." For the final sample selection, the following criteria were imposed :

1. The companies had ordinary shares traded on the JSE during the test period.
2. Closing prices on the underlying shares are available for a 301 - day period around the listing date on the LSE, i.e., starting 150 days before, and ending 150 days after the listing date.
3. Closing prices for the JSE market index are available for the above - mentioned 301 - day period.
4. The companies did not make any announcements of major importance within forty days of actual listing on the LSE.

A total of 35 companies met these criteria and were chosen for the final sample for this investigation. For each company included in the sample, daily data on share prices, share variances and JSE market index were obtained from the database of the JSE and "McGregor's Online Information Services." Details related to the returns on the LSE market index were obtained from the "London Stock Exchange Quarterly."

A typical listing chronology involves an application, approval of the application, and finally listing. Applications and

approval are generally not reported in the news media. The typical gap between application and actual listing on major stock exchanges is only about 19 trading days (Howe and Kelm, 1987). These factors preclude a separate analysis of the application, approval, and listing dates.

4.2 Research methodology

The methodology related to event studies suggested by Brown and Warner (1985) was used for this investigation. The effects on the share price of domestic companies seeking a listing on the LSE are measured relative to a standard estimated from a market model. The abnormal return for security i , is as follows :

$$AR_{it} = R_{it} - E(R_{it}) \quad (1)$$

where t is the day measured relative to the event date, AR_{it} is the abnormal return for security i for day t , R is the observed return for security i during day t , and $E(R_{it})$ is the expected rate of return on security i for day t .

The expected return for security i is given by the following :

$$E(R_{it}) = \alpha_i + \beta_i E(R_{m,t}) + e_{it} \quad (2)$$

where :

$E(R_{m,t})$ = the return on the market portfolio represented by the JSE Overall Index for day t ,

β_i = the beta coefficient of the regression,

α_i = the regression intercept, and

e_{it} = the disturbance term.

The difference between the actual returns and the predicted returns is called the abnormal return, AR_{it} :

$$AR_{it} = R_{it} - (\alpha_i + \beta_i E(R_{m,t})) \quad (3)$$

Once the abnormal returns are obtained for each security, they are averaged across securities to obtain the return for an equally-weighted portfolio. Therefore, average abnormal returns for each relative day are computed using the following :

$$AR = \sum_{i=1}^N \frac{AR_{i,t}}{N} \quad (4)$$

where N is the number of securities with abnormal returns during day t . The daily abnormal returns for the period surrounding the listing date on the LSE are reported in Table 1.

The cumulative abnormal returns for a portfolio P , of N securities, CAR_P , are calculated by summing the average abnormal returns over the event time :

$$CAR_{p,k,L} = \sum_{t=k}^L AR_{p,t} \quad (5)$$

where $CAR_{p,k,L}$ is the cumulative abnormal return of portfolio P for the period from $t =$ day k until $t =$ day L . To test whether the average cumulative abnormal return, CAR , is statistically significant, we compute the t -test statistic. This t -statistic also takes care of the possible misspecification caused by the autocorrelation of average residuals of the market model (Brown and Warner, 1985).

The empirical tests consist of examining the behaviour of returns on the event date portfolio of the underlying shares where the event date ($t=0$) is the listing date on the LSE. The volatility of returns on the underlying shares are composed in the pre-listing and the post-listing periods.

The effect of the listing is examined using the abnormal returns generated by the market model and comparing them with benchmark mean returns (and volatility of returns) estimated over the 125 - day period starting 150 days and ending 26 days before the listing date on the LSE. These benchmarks are then used to obtain the abnormal returns and the significance of the abnormal returns over the listing period starting 25 days before and ending 25 days after the listing date.

The comparison of volatilities, autocorrelations, betas and residual risks is, based on pre - listing values estimated over a 125 day pre - listing period starting 150 days and ending 26 days before the listing date, and post - listing values estimated over a 125 - day post - listing period starting 26 days after and ending 150 days after the listing.

The following hypothesis will be tested :

H1 = There is a relationship between foreign listing and significantly improved marketability of a company's shares and also finance related benefits such as easier and cheaper access to overseas capital markets. A positive share market reaction is expected due to the perception that overseas listings are beneficial and that they also create additional demand for the underlying shares.

5. Empirical Results

5.1 The effect of LSE listing on underlying share price

Table 1: Abnormal returns and cumulative abnormal returns of underlying shares for 51 trading days around listing dates on the LSE.

Day	AR (%)	CAR (%)	t - statistic
- 25	0,08	0,08	0,33
- 20	0,13	0,37	0,61
- 15	- 0,09	0,24	0,47
- 10	0,17	0,46	0,78
- 5	- 0,10	0,31	0,52
- 4	- 0,05	0,26	0,23
- 3	0,43	0,69	1,76*
- 2	0,52	1,21	1,92**
- 1	0,61	1,82	2,17**
0	0,45	2,27	1,81*
1	0,33	2,60	1,67*
	0,16	2,76	0,73
	0,11	2,87	0,54
	- 0,18	2,69	0,87
	- 0,25	2,44	1,53
10	0,13	2,51	0,66
15	0,07	2,68	0,24
20	- 0,12	2,35	0,56
25	- 0,18	2,14	0,93

* Daily abnormal return is significant at the 10% level.

** Daily abnormal return is significant at the 5% level.

Table 1 represents the average residuals (AR) and cumulative average residuals (CAR) for the 51 - day test period from $t = -25$ to $t = +25$ relative to the listing date $t = 0$. The data indicate that the CAR over the pre - listing and post - listing period are 1,82% and - 0,13%, respectively. The AR on the actual listing date is 0,45%, and the CAR over the 51 - day test period is 2,14%. The average residuals for the three days immediately preceding the listing, the day of the listing, and the day after the listing are all statistically significant. Because the 51 - day interval represents approximately one - fifth of a year, the day + 25 CAR represents an annualized gain of about 10,7%.

However, these results are in sharp contrast to previous studies such as that undertaken by Howe and Kelm (1987), who report that foreign listings by U.S. companies result in significant wealth losses especially over the pre --listing period. The results of this study are also inconsistent with those reported by Alexander, Eun and Janakiraman (1988) who while finding significant shareholder gains in the pre - listing period also reported significant losses in the post - listing period.

Our results reveal, significant positive abnormal returns associated with South African companies listing on the LSE. This suggests that there is value associated with foreign listing of the underlying shares. We interpret this value as stemming from the fact that a foreign listing provides South African companies with access to another capital market allowing them to choose a cheaper source of capital in situations where they need to raise capital. This option has positive value that is reflected in the price of the underlying share during the listing period.

It can be speculated that the negative market reaction for foreign listing documented by Howe and Kelm (1987) is partly attributable to their sample which consists entirely of large U.S. companies which are already listed on major stock exchanges. It appears that the major benefits of a dual listing on the LSE by South African companies such as increased liquidity and lower cost of capital may not be relevant factors in the case of large U.S. companies that list abroad. Furthermore, the effects of foreign listings appear to be different over various stock exchanges. A company listed on an emerging capital market is likely to benefit from a secondary listing on a developed capital market.

5.2 The effect of LSE listing on underlying share volatility

In this section, we present the results of the analysis of the effects of listing on LSE on the volatility of returns on the underlying share. The volatility comparison is based on pre - and post - listing variances computed from close to close returns on the underlying security, where the 125 - day pre - listing (post - listing) period starts 150 (26) days before (after) and ends 26(150) days before (after) the LSE listing date. Table 2 presents the results of this investigation. Column 2 of the table presents the mean ratio of the post - listing to the pre - listing variances, column 3 provides the t - statistic from a standard parametric test of the null hypothesis that the ratio of the variances is 1, while column 4 contains the corresponding z - statistic from the non-parametric squared rank test suggested in Conover (1980).

As can be seen from table 2, the listing on the LSE is associated with an increase in variance of returns on the underlying security, with the magnitude of this increase averaging 48,5%. This change in variance is significant at the 1% level in both the parametric and non - parametric tests. Specifically, the parametric test yield a t - statistic of 2,97, while the Z - statistic for the squared rank test is 4,25.

Table 2: A comparison of variances of daily returns on underlying shares around the listing dates on the LSE.

Sample	Ratio of post-to pre-listing variances ^a	t-statistic ^b	z-statistic ^c
35 RSA companies listing on the LSE.	1,4853	2,97*	4,25*

a The pre - listing (post - listing) period is 150(26) days before (after) to 26(150) days before (after) the listing date.

b The t - statistic is for a standard parametric test of the hypothesis that the variance is 1.

c The z - statistic is from the squared - rank test. See Conover (1980) for more details.

* Indicates significance at the 5% level.

As discussed earlier, there are a number of studies that suggest that the variance of returns on a share would increase following cross - listing. This conclusion is based on either one of the hypotheses that increased trading time associated with the cross - listing allows for more revelation of information (Freedman, 1989) or that increased trading time allows for

more noise trading (Black, 1986). Our results that the variance of returns increases after the listing on the LSE is consistent with the above two hypotheses.

If noise trading is the cause of the observed increase in variance, then as suggested by French and Roll (1986), one would also expect to observe changes in the autocorrelation structure of daily returns around the listing date. Specifically, if the noise trading hypothesis is correct, then overreactions in share price would be corrected in subsequent trades, thus inducing a negative autocorrelation structure. This suggests that if increased noise trading is causing the observed increase in volatility, we should observe a more negative autocorrelation structure after the listing on the LSE.

Table 3: A comparison of autocorrelations (standard errors) of daily returns on underlying shares around listing dates on the LSE.

Sample	Lag	Pre-listing ^a Autocorrelation	Pre-listing ^b Autocorrelation
35 RSA companies listing on the LSE.	1	0,0267 (0,087)	0,0079 (0,092)
	5	0,0039 (0,092)	-0,0094 (0,097)
	15	-0,0207 (0,104)	-0,0113 (0,113)

a The pre - listing period is 150 days before to 26 days before the listing date.

b The post - listing period is 26 days after to 150 days after the listing date.

Table 3 provides the autocorrelations for lags of one, five and fifteen days for the sample of underlying shares listed on the LSE. As can be seen from this table, there is very little change in the autocorrelation structure associated with the LSE listing. This suggests that the observed increase in volatility is not consistent with the noise trading hypothesis.

Another possible explanation for the increase in volatility is related to the argument that before the LSE listing, the returns on the underlying shares were generated by the domestic factor only, while a second factor (the U.K. market factor) also affects returns after the LSE listing. In this scenario, the increased volatility could result from changes in the return-generating process. To test this hypothesis, we estimate a two-factor model of returns before and after the LSE listings, and compare the estimated coefficients of the domestic and U.K. market factors in the pre - and post - listing periods.

The results of this test are presented in table 4. As can be seen from the table the listing on the LSE has an insignificant effect on both the domestic and U.K. betas of the underlying shares. In addition, the table also indicates that the listing has no effect on the explanatory power of the two-index model, (as measured by the residual variance and the R²). This suggests that observed increase in volatility cannot be attributed to a change in the return - generating process for the underlying shares.

Table 4: A comparison of betas for the underlying shares around listing dates on the LSE^a

Variable	Average pre-listing ^b value	Average post-listing ^c value	t-statistic ^d
Domestic beta (β_{dom})	0,823	0,803	-0,08
LSE beta (β_{LSE})	-0,005	0,004	0,23
Residual variance	0,064	0,060	-0,89
Regression R ²	0,185	0,204	0,78

a Rdom is the return on the index of the country of listing (RSA) for the underlying share. RLSE is the return on the LSE index.

b The pre-listing period is 150 days before to 26 days before the listing date.

c The post - listing period is 26 days after to 150 days after the listing date.

d The t-statistic is for a standard parametric test of the hypothesis that the pre-listing value is equal to the post-listing value.

To summarize, the results presented in this section indicate that the observed increase in volatility of returns on the underlying shares after the listing of shares on the LSE cannot be explained by either the noise trading hypothesis, or changes in the return - generating process. Our results are consistent with the hypothesis suggested by Freedman (1989) that cross-listing should be associated with an increase in the variance of returns on the dually listed security, since informed traders are likely to trade in both markets and that increased trading time allows for more revelation of information.

Conclusions

This study provides further empirical evidence regarding the impact of overseas listings on the underlying share capital of the issuing company. Using a sample of 35 South African companies that were listed on the LSE during the 1986-97 period, the results from this study indicate that overseas listings do cause a significant increase in shareholders wealth in the short-term. We find that listing on the LSE is associated with positive and statistically significant abnormal returns for the three days preceding the listing, the day of the listing, and the day after the listing. Over the 51 – day test period the annualized abnormal gains amount to 10,7%. We interpret this result as being consistent with the notion that listing on the LSE has value since it provides South African companies with access to another capital market which may provide a cheaper source of capital.

We also find that the foreign listing is associated with an increase in volatility of returns on the underlying shares. We interpret this evidence as being consistent with the model in Freedman (1989), where the existence of cross- holdings helps informed traders distribute their trades across two markets to take advantage of information differentials on the market. This activity causes an increase in the generation of private information, thus resulting in an increase in volatility of returns on the cross- listed security.

The result from this study contrast with those of an earlier study by Howe and Kelm analyzing the share price impact of four other foreign stock exchange listings. Their conclusion that overseas listings by U.S. companies result in significant losses to shareholders and that managers attempting to maximize shareholders wealth should avoid overseas listings not supported here. This suggests the effects of the overseas listing on shareholders wealth is not a universal event across foreign stock exchanges. The results of this investigation have two implications for South African companies seeking out foreign listings: (1) overseas listings should not be discouraged as an early move in achieving long- term objectives since such listings result in significant gains to shareholders at least in the short run, and (2) managers of these companies must be careful in selecting an appropriate overseas stock exchange since the effects of such listings appear to be different across various stock exchanges.

Given the robustness and significance of the results, the cost of a foreign listing appear to be noticeably outweighed by the benefits. However, many costs are indirect and difficult to quantify. In particular, we believe that regulatory uncertainty is an important cost. Not only are overseas regulations different, but that they can and do change. For example, in response to the recent foreign exchange and stock market collapse in emerging capital markets, Malaysia has imposed exchange controls over capital movements by foreign investors.

Thus, an overseas listing may introduce an element of uncertainty into the future prospects of the underlying shares.