



The Overseas-listed Company Valuation of the Home-market Characteristics, Company Characteristics—the Case of the U.S. and Hong Kong Markets

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Abstract. This paper selects overseas-listed companies in the U.S. and Hong Kong markets from 2000 to 2018, and uses the Tobin'q model to analysis the valuation effects on home market characteristics and company characteristics. The results show that: the level of economic development of home market, the size of company, and the financial performance are the main factors affecting the overseas companies' valuation. The valuation of overseas companies is significantly related to the economic development of home market, but the longer the company's duration, the lower the correlation between company's valuation and home market's economic, and the stronger the dependence on host market. This study provides a few implications for the market and listing companies to improve valuation.

Keywords: The Overseas-listed Company Valuation, Home market characteristics, Company characteristics, Tobin'q model.

1 Introduction

In the context of global financial opening, the host market competition for high-quality company listing, more and more companies are seeking cross-listing to obtain higher valuations. Classical theory believes that companies can obtain valuation premiums through cross-listing. Lian L S et al. [1] believe that the introduction of developed market investors through the opening of the capital market will optimize the investor structure, and improve the efficiency of the capital market. The "quality contagion" hypothesis believes that low-quality companies may "contaminate" financial market, reducing the host markets' valuation, Gozzi et al. [2] found that the valuation of cross-listing increased during the year of listing, and then decreased over the next two years. the existing literature has mixed conclusions on this topic.

This paper selects the U.S. market with a wide range of overseas companies, and the Hong Kong market with a relatively single source (mainly mainland China) as the research objects. It empirically analyzes the valuation premium and influencing factors

of overseas-listed companies from the home market characteristics and company characteristics. Therefore, in-depth study of the overseas listing companies' valuation with home market characteristics and company characteristics, are of great significance for the design of the "international board" system and the choice of the company's overseas listing.

The remainder of the paper is organized as follows: Section 2 presents the literature review and hypotheses; the empirical model and data are presented in Section 3; the results of the empirical method are detailed in Section 4; and Section 5 concludes.

2 Literature Review and Hypotheses

2.1 The Home Market Binding Effect

The company's reputation enhancement through overseas-listing has an obvious binding effect. First of all, at the level of legal aspect, after listed, companies accept the strict laws and regulations on the host market, the valuation of listed companies produces a binding effect on the host market at the legal level. Chen K J [3] believes that the improvement of law-market rule can reduce the earnings management of listed companies, increase company valuation. Secondly, at the level of information environment, the shareholders and managers of overseas listing must be subject to the regulations on the host market, which can reduce agency costs, strengthen investor protection. Xie H B et al. [4] found that in a higher legal region, the directors with overseas backgrounds in weakening the cost of corporate debt financing is weaker. In addition, at the level of the market environment, Chen L et al. [5] found after the company listing, the improvement of the macroeconomic environment can also expand the company's scale and enhance the market reputation, Harri [6] studied the factors affecting the price-earnings ratio in emerging markets, found that the market's economic growth potential has a significant impact on the price-earnings ratio.

Based on the research of the above scholars, combined with the relevant company valuation theory, this paper proposes that under various uncertain factors, the valuation of foreign companies listing has a binding effect on the home market. The legal environment, information environment and market environment factors of the home market have an impact on the company's choice of listing. this paper proposes hypothesis H1:

H1: The overseas company's listing valuation is related to the home market.

2.2 Differences in Binding of the Home Market

Although the listing of overseas companies has a binding effect, not all overseas listing can bring about good binding effect. Doidge et al. [7] believe that the economic characteristics of the home market are the most important determinant of corporate governance, Yi R H et al. [8] found that there are "reputation rent-seeking" behaviors of non-quality companies in the return of H shares to listing. Sun et al. [9] found that mainland Chinese stocks contain little information about company characteristics. When they are listed in Hong Kong, they have a negative spillover effect on Hong Kong stocks. At the same time, the quality contagion hypothesis also believes that low-quality companies

from emerging markets listed may have a negative impact on the host market by increasing information asymmetry and increasing market volatility.

By analyzing the research of the above scholars, this paper believes that there are differences in the valuation binding effect of overseas companies listing from different home markets. Companies from mature markets have more significant market valuation effects due to their systematic laws, regulations, strong market scale, and various complete regulatory measures. However, companies from emerging markets are prone to quality contagion due to their weak economic foundation, unsound laws and regulations, and other market conditions, thereby lowering market valuations. Based on the above analysis, this paper proposes hypothesis H2:

H2: The valuation binding effect of the overseas companies from mature markets is more significant than that of emerging markets.

2.3 Persistence of Overseas-listed Companies' Valuation

Theories such as reputation binding, investor cognition hypothesis, and institutional restraint hypothesis all believe that companies benefit from cross-listing. Chen P R & Tian C Z [10] concluded that cross-listing can increase company value. However, as the duration of listing of overseas companies increases, valuation premiums may decrease or discounts may appear. Omar A & Esqueda [11] believe that compared with the value before the cross-listing, the company loses value by the fifth year. Sarkissian & Schill [12] found that in global exchanges, the valuation premium for overseas-listing is temporary and will dissipate eventually.

The market timing hypothesis indicates that more companies choose to cross-list during periods of high valuations, and the growth of company valuations is not permanent. Combining the existing literature, this paper finds that there is no uniform conclusion on whether this correlation is positive or negative. Based on the above analysis, this paper proposes hypothesis H3:

H3: The valuation of overseas-listed companies gradually decreases over time.

3 Model and Data

3.1 Empirical Model

With reference to the methods of Ioannou & Serafeim [13], Tobin'q is selected as an indicator to measure the company's valuation. In order to test the valuation factors of overseas-listed companies, we use the method of Nicola & Stavros [14] to analyze the market performance. Considering that the economic development has a cyclical cumulative effect, the lag period of Tobin'q is added to the model, so the following model is constructed:

$$\text{Tobin'q}_{i,t} = a_0 + \text{Tobin'q}_{i,t-1} + a_1 I_c + a_2 I_e + a_3 CV_{i,t} + \varepsilon_i \quad (1)$$

Taking into account the availability of data, after excluding companies with inconsistencies in ST, PT. Until 2018, 534 overseas-listed companies in the U.S. and Hong Kong markets were finally selected as the research sample (including 325 listed companies in the U.S. market, 209 listed companies in the Hong Kong market), a total of 8930 observations. Based on the analysis of home market, overseas companies from mature markets are 284 listed companies, emerging markets are 250 listed companies. Based on the analysis of company duration, referring to Nicola & Stavros [14], five years are regarded as a division period, mature companies are 405 listed companies, young companies are 129 listed companies. Also, in order to eliminate extreme outliers, the data is processed by Winsorize before and after 1%. The descriptive statistics of the main variables are shown in Table 2.

4 Results

Based on the model and method, all regression results passed the test, that is, the mixed OLS estimation and the fixed-effects panel estimation passed the F test, the DGMM and the SGMM passed the Wald test, and there was no second-order autocorrelation in the disturbance term, also, the GMM models have passed Sargan's over-identification test, the empirical analysis takes the SGMM regression results as an example. The following regression results do not make too much statement about the model test results.

4.1 Empirical Results with All Samples

It can be seen from Table 3 that Tobin'q has a significant cyclic cumulative effect. Whether it is estimated by DGMM or SGMM, Tobin'q first-order lag coefficient is significantly positive at the 1% level.

Among the home market characteristics, the regression results of R_GDP, Freedom and Openness to Tobin'q are significantly positive, that is, the home market economic development, degree of liberalization and trade openness have a significant positive impact on the company's overseas-listing valuation. It shows that companies from countries with fast economic growth, perfect market economy systems, and high openness have obtained significant valuation premiums. There is a significant binding effect between the valuation of companies' overseas-listing and the characteristics of their home markets. Therefore, the hypothesis H1 is established.

Among the company's characteristics, the regression results of Size and Growth to Tobin'q are significantly positive, indicating that the company's size and main business income growth rate have a significant positive impact on the company's valuation. Roe has an insignificant positive effect on Tobin'q, indicating that Roe has a positive but not significant effect on the company's valuation. Lev has an insignificant negative impact on Tobin'q, indicating that the company's debt level has a negative impact on the company's valuation, but it is not significant. Rate_F has a significant negative effect overall, and Rate_H has a positive effect overall. The variable coefficients and significance in models (1)-(8) are generally consistent with each other, which verifies the robustness of the model from the side.

Table 3. Tobin'q in all company samples.

To- bin'q	POLS (1)	FE (2)	DGMM (3)	SGMM (4)	SGMM (5)	SGMM (6)	SGMM (7)	SGMM (8)
To- bin'q _{t-1}			0.3703*** (3.5447)	0.3986*** (12.0132)	0.4983** *	0.4955*** (9.0163)	0.5103*** (8.5669)	0.5947*** (6.7632)
R _{GDP}	0.0482*** (6.8435)	0.0361*** (5.2742)	0.0454*** (4.4892)	0.0328*** (3.6183)	0.0315** (3.1487)	0.0162* (2.4206)	0.0332*** (3.4468)	0.0337** (3.2643)
Free- dom	-0.1666 (-1.4319)	0.0633* (2.2361)	0.1358 (1.7979)		0.1604* (2.0293)	0.4266*** (3.7002)	0.1691* (2.0064)	0.2035* (2.2601)
Open- ness	0.0144** (2.6192)	0.0147 (1.6426)	0.01453** (2.6469)			0.0565* (2.5193)	0.0728* (2.4214)	0.0277** (2.8241)
Age	-0.0276* (-2.0747)	-0.1287* (2.3334)	-0.0074*** (-3.3349)				0.0062* (2.0856)	0.0068** (2.3254)
Size	0.1113*** (-3.8580)	0.1074*** (8.4041)	0.1943*** (4.4039)					0.0071* (2.1077)
Growth	0.2463* (1.9912)	0.1468* (2.0242)	0.0457* (2.0282)					0.0652* (2.0784)
Roe	0.0638 (1.1469)	0.0217 (1.1242)	0.0164 (1.1249)					0.0117 (1.3945)
Lev	-0.0253 (-0.4887)	-0.0157 (-1.5796)	-0.0049 (-0.5711)					-0.0256 (-1.0747)
Rate _F	-0.0721 (-1.7608)	-0.0031 (-0.366)	-0.1864 (-0.7263)	-0.2615 (-0.7976)	0.2485** (-2.6428)	0.0129*** (-5.5083)	0.1343*** (-5.4971)	-0.2192* (-2.3613)
Rate _H	0.0463** (2.843)	-0.3303 (-1.3258)	-0.1287 (-0.3257)	0.0126(0.0012)	0.0024 (0.0317)	-0.1018 (-1.0182)	0.1037 (1.0411)	0.006 (0.1041)
Constant	2.4014*** (8.6291)	2.4928*** (8.1253)	2.3155*** (8.2928)	2.0167*** (6.0453)	2.1163** *	2.8721*** (6.6057)	2.0382 (6.2137)	2.9205*** (9.8569)
N	8930	8930	8930	8930	8930	8930	8930	8930
F/Wald	60.7546	65.4871	212.4450	305.6239	351.9294	416.5624	497.9353	510.5303
Haus- man		75.9642						
AR(1)			-3.5652 (0.0000)	-4.0143 (0.0000)	-5.1032 (0.0000)	-5.1813 (0.0000)	-6.1485 (0.0000)	-5.6122 (0.0000)
AR(2)			-0.6115 (0.4953)	0.9617 (0.3813)	0.6176 (0.4932)	0.6278 (0.4894)	0.6392 (0.4841)	0.7253 (0.5089)
Sargan			16.1751 (0.1728)	17.8946 (0.1883)	21.0718 (0.2305)	18.4212 (0.4283)	18.4215 (0.5608)	36.8416 (0.2772)

Note: *, ** and *** denote statistical significance at the 10%, 5%, 1% level, the same below.

4.2 Empirical Results with Different Home-Markets Samples

It can be seen from Table 4 that in the regression results of different home market, Tobin'q lagging coefficients all passed the 1% significance level test, indicating that whether companies from mature markets or emerging markets have the cyclic cumulative effect of valuation.

Among the home market characteristics, R_GDP, Freedom and Openness have a significant positive impact on Tobin'q, which is the same as the full sample result. However, the degree of influence of the home market characteristics are different. Compared with emerging markets, R_GDP, Freedom and Openness from mature markets have a greater significant impact on Tobin'q. The effect is robust, which can verify the validity of the hypothesis H2.

Among the company's characteristics, the Size, Growth, and Roe all have a significant positive impact on Hong Kong Tobin'q. Although the U.S. market has a positive impact, it is not significant. It shows that the valuation of overseas companies from emerging markets is more affected by company characteristics than those from mature markets. However, the regression results of Age in different markets are different. The duration of overseas companies from mature markets is negatively correlated with valuation, and emerging markets is positively correlated with valuation.

Table 4. Tobin'q in different home-markets samples.

Tobin'q	From mature markets				From emerging markets			
	POLS (17)	FE (18)	DGMM (19)	SGMM (20)	POLS (21)	FE (22)	DGMM (23)	SGMM (24)
Tobin'q _{t-1}			0.9103*** (14.9476)	0			0.9863*** (8.9152)	0.9850*** (9.7653)
R _{GDP}	0.0875 (1.9522)	0.0970 (0.9332)	0.0344** (3.1278)	8653*** (5.2655)	0.0738*** (6.5597)	0.0185** (2.7552)	0.0383 (0.6309)	0.0148* (1.9556)
Freedom	0.0151** (3.1005)	0.1985* (2.2843)	0.0613* (2.2305)	0.0295** (5.8877)	0.1239*** (7.8786)	0.2286 (0.9145)	0.0355 (0.9663)	0.0662* (2.2603)
Openness	0.1129*** (3.6953)	0.2753* (2.1483)	0.3272* (2.3675)	0.4282*** (6.8738)	0.1772*** (3.6425)	0.0224 (0.7088)	0.3947** (3.0986)	0.3946** (3.1088)
Age	0.0128*** (3.7543)	-0.0714 (-0.5672)	-0.0593 (-0.5537)	-0.0246** (-2.9062)	0.0267*** (9.0581)	0.2455*** (6.0286)	0.0733 (1.4451)	0.0747 (0.5713)
Size	0.0494*** (5.7732)	0.1849 (-0.4413)	0.1046 (0.3334)	0.1476 (1.7874)	0.1664*** (6.1027)	0.0538*** (12.5692)	0.1388*** (4.2535)	0.0456** (2.8397)
Growth	0.2459* (1.9906)	0.2248 (0.1183)	0.1047 (0.5742)	0.2133 (-1.2958)	0.0753* (2.5548)	0.1798** (3.2142)	0.4387** (2.6084)	0.0932** (2.6642)
Roe	0.0924 (0.6206)	0.2569 (0.1393)	0.0778 (0.9306)	0.1472 (1.7883)	0.1142*** (5.1497)	0.0968*** (7.1373)	0.0964*** (3.5225)	0.0468** (2.8653)
Lev	-0.0043 (-1.6959)	-0.1038 (-0.3653)	-0.3875 (-1.2153)	-0.5216* (-2.2625)	0.8872*** (8.4284)	0.6758** (2.6063)	0.3163 (0.7127)	-0.2232 (-0.8837)
Rate _F	0.0128*** (-5.2673)	-0.1329 (-0.4964)	-0.7761 (-1.5587)	0.1123*** (-6.8890)	0.7658*** (3.4183)	-0.2748* (-2.1226)	-0.0803 (-0.5575)	-0.0918 (-1.0562)
Rate _H	0.2065** (0.8112)	0.0128* (2.1943)	0.0112 (1.2075)	0.0868 (1.0772)	0.0683 (0.4062)	-0.0983 (-0.9619)	0.0883 (1.7667)	0.0238 (0.9713)
Constant	0.7759* (2.0805)	0.01827* (2.2184)	0.0474 (1.3777)	-0.0487 (-1.8846)	2.8008*** (4.6963)	1.3914 (1.7120)	0.0558 (1.6642)	0.0718* (2.3679)
N	3825	3825	3825	3825	5105	5105	5105	5105
F/Wald	9.5786	49.4583	101.6283	114.9113	42.3316	49.0959	120.8472	122.1104
Hausman		97.1787				234.2643		
AR(1)			-2.7273 (0.0425)	-2.9058 (0.0281)			-5.7827 (0.0008)	-6.0653 (0.0000)
AR(2)			-0.934 (0.367)	-1.1049 (0.2724)			-0.943 (0.3329)	-0.9944 (0.3118)
Sargan			37.9623 (0.6815)	39.8047 (0.2134)			42.0014 (0.8528)	60.4226 (0.4942)

Note: *, ** and *** denote statistical significance at the 10%, 5%, 1% level, the same below.

4.3 Empirical Results with Differences in Duration Samples

It can be seen from Table 5 that the Tobin'q lag coefficient passed the 1% significance test in the above two cases, indicating that both mature companies and young companies have the cyclic cumulative effect of valuation.

Among the home market characteristics, the regression results of different durations show differences. Although R_{GDP}, Freedom and Openness all have a positive impact on Tobin'q, they are generally not significant in mature companies, but significant in young companies. The possible reason is that compared with mature companies with stable development, young companies rely more on the home market. It shows that the longer the company's duration, the lower the correlation between the company's valuation with the economic development on the home market, and the stronger the dependence on the host market.

Among the company's characteristics, Size, Growth, and Roe are significantly positive for Tobin'q, and Lev is significantly negative for Tobin'q, which is the same as the full-sample regression result. The duration of mature overseas-listed companies is negatively correlated with valuation, but not significant, however, the duration of young overseas-listed companies is significantly positively correlated with valuation. Although there is a significant short-term valuation premium in the valuation of overseas-listed companies, the long-term discount is not significant, so the hypothesis H3 is not valid.

Table 5. Tobin'q in different duration samples.

Tobin'q	Mature company (Duration >5)				Young company (Duration <5)			
	POLS (25)	FE (26)	DGMM (27)	SGMM (28)	POLS (29)	FE (30)	DGMM (31)	SGMM (32)
Tobin'q _{t-1}			0.9914*** (8.5027)	0.9916*** (8.7514)			0.9948*** (7.6237)	0.9794*** (7.4058)
R _{GDP}	0.5792* (2.4768)	0.0117* (2.3256)	0.5586 (1.4991)	0.4009 (1.0943)	0.6553* (2.1061)	0.770** (2.998)	0.4066** (3.1207)	0.1182*** (5.1369)
Freedom	0.2061 (1.0942)	0.0282* (2.1315)	0.22016** (2.5438)	0.4699* (2.3293)	5.8562*** (6.3818)	4.949*** (6.519)	2.9461 (1.3917)	2.0364*** (3.6689)
Openness	0.2839*** (3.5255)	0.1472 (1.3712)	0.1759 (1.6982)	0.08827 (0.9285)	-0.5035*** (-7.7429)	0.057* (2.519)	0.9412 (1.7568)	1.0858* (2.4982)
Age	-0.0312*** (-4.6740)	-0.0536*** (-3.3953)	-0.4136 (-1.1067)	-0.9628 (-0.0314)	0.0284*** (6.7072)	0.027* (2.043)	0.0649** (2.3862)	0.1455*** (6.2028)
Size	0.1857*** (9.2913)	-0.0584* (-2.1246)	0.5827 (1.1067)	0.5717** (3.0944)	0.1397*** (8.5234)	0.083*** (9.799)	0.0683 (0.6947)	0.0447*** (6.9882)
Growth	-0.0012*** (3.7026)	0.0781 (1.5305)	0.0464* (2.0283)	0.6617** (2.7343)	0.2038 (-0.3394)	0.828** (2.561)	0.3142*** (3.5952)	0.1930*** (4.2354)
Roc	0.0144 (0.3097)	0.0959 (1.5223)	0.5858 (0.9140)	0.7358 (1.1573)	0.1922 (0.4826)	0.141 (0.828)	0.1217 (1.3713)	0.2193** (2.6485)
Lev	-0.0063*** (-3.5187)	0.0837 (0.7554)	-0.0833 (-0.7262)	-0.0527 (-0.4843)	-0.0586*** (-3.6713)	-0.030** (-2.909)	-0.0812 (-0.4286)	-0.0795*** (-6.6407)
Rate _F	-0.0122*** (-3.6817)	-0.0373 (-0.8772)	-0.0347 (-1.3987)	-0.1408 (-0.6086)	-0.0118*** (-3.8423)	-0.083** (-2.956)	-0.0346 (-0.1441)	-0.1053*** (-7.1350)
Rate _H	-0.1243 (-1.9058)	-0.0816 (1.5177)	0.6285 (0.0738)	0.0536(0.6353)	0.0891* (2.3169)	0.029 (1.351)	0.3902 (0.0516)	0.3124*** (5.338)
Constant	2.5514*** (3.0146)	-2.1251** (-2.8437)	0.8873** (2.8311)	0.8388 (0.7854)	-1.8374** (-2.5517)	-2.670*** (-4.483)	1.1291 (0.8245)	0.5432*** (7.2728)
N	4837	4837	4837	4837	4093	4093	4093	4093
F/Wald	17.4938	47.3965	710.9887	974.3785	29.5243	64.6123	757.1492	1020.5403
Hausman		87.7623				91.7637		
AR(1)			-5.1145 (0.0019)	-3.4123 (0.0086)			-6.3534 (0.0000)	-6.7609 (0.0000)
AR(2)			0.5133 (0.5847)	-0.7437 (0.4432)			-1.9732(0.1365)	-1.2566 (0.2257)
Sargan			13.6269 (0.3641)	12.1431 (0.2823)			12.0419 (0.4904)	15.1824 (0.3788)

Note: *, ** and *** denote statistical significance at the 10%, 5%, 1% level, the same below.

5 Conclusion

This paper constructs a Tobin'q theoretical model for overseas-listed companies' valuation, selects the U.S. market and the Hong Kong market as representative research objects, and further examines the influence of home market and company duration on the overseas-listed companies' valuation. The study found that:

Generally speaking, among the characteristics of the home market, the economic development level, liberalization degree and trade openness have a significant positive impact on the company's overseas-listed valuation. Among the company's characteristics, company size and financial performance have a significant positive impact on the overseas-listed companies' valuation, which is consistent with the perception of valuation theory.

From the perspective of home market, the valuation of overseas-listed companies is related to the economy development of the home market. The higher the economic development of the home market, the higher the company's valuation. The valuation of

overseas-listed companies from emerging markets is more affected by company characteristics than those from mature markets. From the perspective of the company's duration, the market timing hypothesis indicates that more companies choose to cross-list during periods of high valuations, and the growth of company valuations is not permanent. The longer the company's duration, the lower the correlation between the company's valuation and the economic development of the home market, but the higher the dependence on the host market. At the same time, there is a significant short-term valuation premium in the valuation of overseas-listed companies, but the long-term discount is not significant.

Based on the above analysis, the following suggestions are put forward: First, overseas-listing companies, not only can they get a valuation premium by listing in mature markets, but also list in the emerging markets with rapid economic development. In addition, company size and financial performance affect the valuation of listed companies, especially for emerging markets. Therefore, companies should increase market size, enhance financial transparency, and reduce debt risk, so as to enhance the listed companies' valuation. Second, the economic development of the home market should be used as a factor in selecting overseas-listing companies, as far as the maturity of the company is concerned, young companies are more dependent on the home market's market. As the company's duration increases, the valuation correlation with home market decreases, but its dependence on the host market increases. Third, the securities market should enhance the management of listed companies, and formulate a regulatory system to regulate business behavior, to improve the market valuation of listed companies and the persistence of premiums.

Since this paper only considers the U.S. and Hong Kong markets, it has limitations. Since Tobin's q model provides an easier way to dealing with home market data, we may make a comparison between the characteristics of home market and host market on the impact of company valuation, this difference study can be applied as further research.

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