

# BILATERAL POLITICAL RELATIONS AND INTERNATIONAL CROSS-LISTINGS

EGOR KRIVOSHEYA, NRU HSE & SKOLKOVO, MOSCOW

MARIE-ANN BETSCHINGER, HEC MONTREAL

OLIVIER BERTRAND, EBAPE FGV, RIO DE JANEIRO

# Context: Big data AND Strategic Management

- My background is in **Corporate Strategy and International Strategy**.
- **What implications does Big Data have for the corporate and international strategy field? Three research areas**

- How to use big data to gain new theoretically (and practically) relevant insights in the field?
- How can firms acquire a big data competence and translate it into a competitive advantage? (Zeng and Glaister, 2018)
- What is the impact on strategic choices of firms?

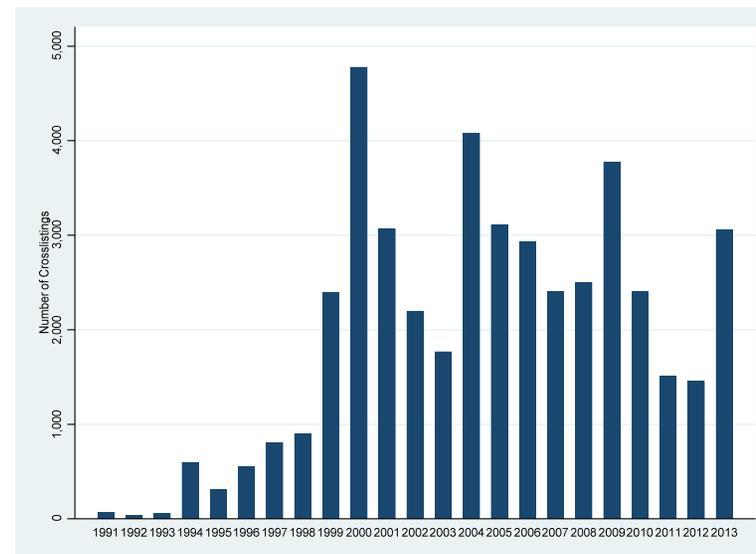
# Motivation: Bilateral political relations and international cross-listings

- Globalization and, at the same time, new tendencies for protectionism. Bilateral relations seem to become a bit more hostile.
- Sourcing equity abroad can now be more restrained. But cross listings have been a way for firms to reduce, among others, their cost of capital.

Do bilateral relations have an impact on where companies are crosslisted?

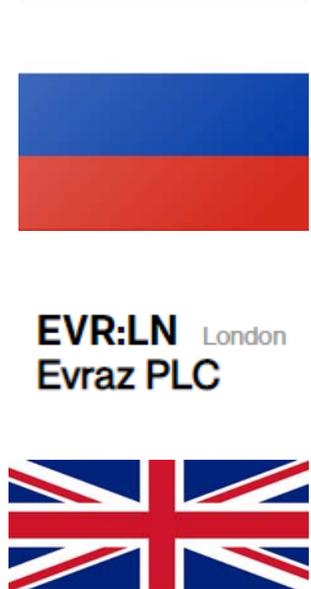
## What is an international crosslisting?

After having an equity listing already in one country, a firm's stocks are additionally traded in another country. <sup>3</sup>



# How about politics?

- Political actions are incorporated by investors and shape equity market outcomes (Wan & Wong, 2009). But not considered in the context of cross-listings.



Roman Abramovich has lost £250m in the past seven days as shares in Evraz plunged by 12.9%



Roman Abramovich

- One extreme example: 16% drop in the wake of Sanctions, even if not directly affected

# How about politics?

- Political actions are incorporated by investors and shape equity market outcomes (Wan & Wong, 2009). But not considered in the context of cross-listings.



And there are plenty of other firms with dual-listings in both Moscow and London, such as mobile phone operator Megafon, Rosneft and gas producer Novatek.

It's these firms that are expected to feel the heat most as tensions grow between the Cold War rivals.



Roman Abramovich has lost £250m in the past seven days as shares in Evraz plunged by 12.9%

## Our paper

### **Main contribution**

Investigate the effect of **bilateral political sentiments in two countries** on the cross-listing **geography**

### **Bilateral political relations**

**Degree of conflict or cooperation** in events **initiated by one country on a target country** as reported in the **media** (Grimmer & King, 2011; King & Lowe, 2003).

### **Main Finding**

- Locations are particularly attractive as cross-listing locations (i.e. UK) **when political sentiments towards the firm's home country (i.e. Russia) is positive.**
- A cross-listing location becomes more attractive with a **larger difference in bilateral political sentiments** between the two countries

# Conceptual background: Why do companies crosslist?

## Why do companies cross-list?

- Reduce cost of capital by overcoming market segmentation
  - Increase market liquidity
  - Raise new capital
  - Information disclosure and Investor Protection (“Bonding”)
- Product and Labor Market Considerations
- Foreign M&A Facilitation

Where to cross-list? Benefits vary with the location.  
There is a trade off:

### **Overcoming Market Segmentation**

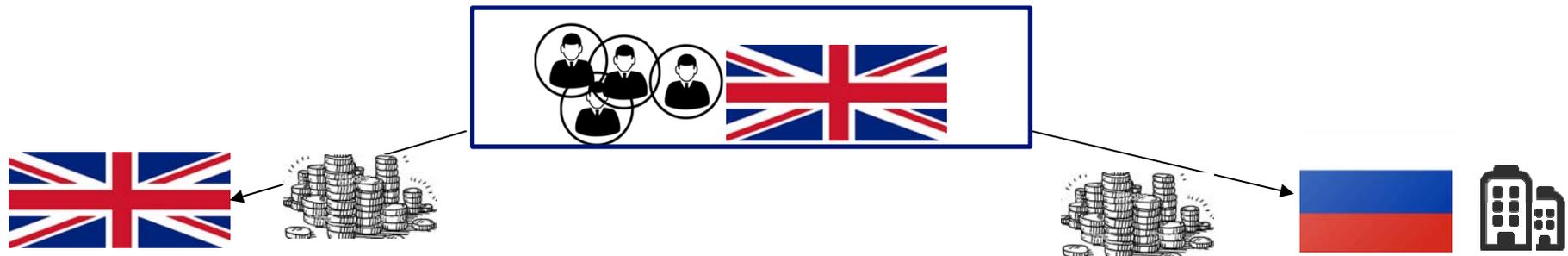
Attract new investors (i.e. UK) that did not invest in the original location (i.e. Russia) due to home bias.



### **Proximity preference**

If the home location (i.e. Russia) is **too different**, foreign (UK) investors might not trade a given company's shares.

# Bilateral political relations: Suggested effects on the crosslisting choice



## Bilateral political sentiments **in the crosslisting country**

- When **positive (negative)**, (U.K.) investors are expected to have a more positive (negative) view of securities of that country (Russia), discount them to a lower (higher) degree, and are more (less) likely to trade them.

+

## Bilateral political sentiments **in the firm's home country**

- When more **positive (negative)**, (U.K.) investors from the exchange country are more (less) likely to already be directly trading on the firm's home exchange (Russia), making the cross listing less (more) beneficial for the firm.

-

# Measurement of Bilateral Political Relations: GDELT Project (Global Database of Events, Language, and Tone)

- Step 1:** Events are monitored and recorded worldwide in over 100 languages; initiator and recipient are identified.
- Step 2:** Events are coded according to the Conflict and Mediation Event Observations (CAMEO) coding scheme.
- Step 3:** Each event is assigned a value from -10 to +10 according to Goldstein (1992) indicating the degree of conflict or cooperation (Grimmer & King, 2011; King & Lowe, 2003).

## *Examples*

### **CAMEO 1211 Reject economic cooperation (-4.0)**

Example: **Bangladesh** has once again outright **rejected** an **Indian proposal** for signing Free Trade Agreement (FTA) with her.

### **CAMEO 013 Make optimistic comment (0.4)**

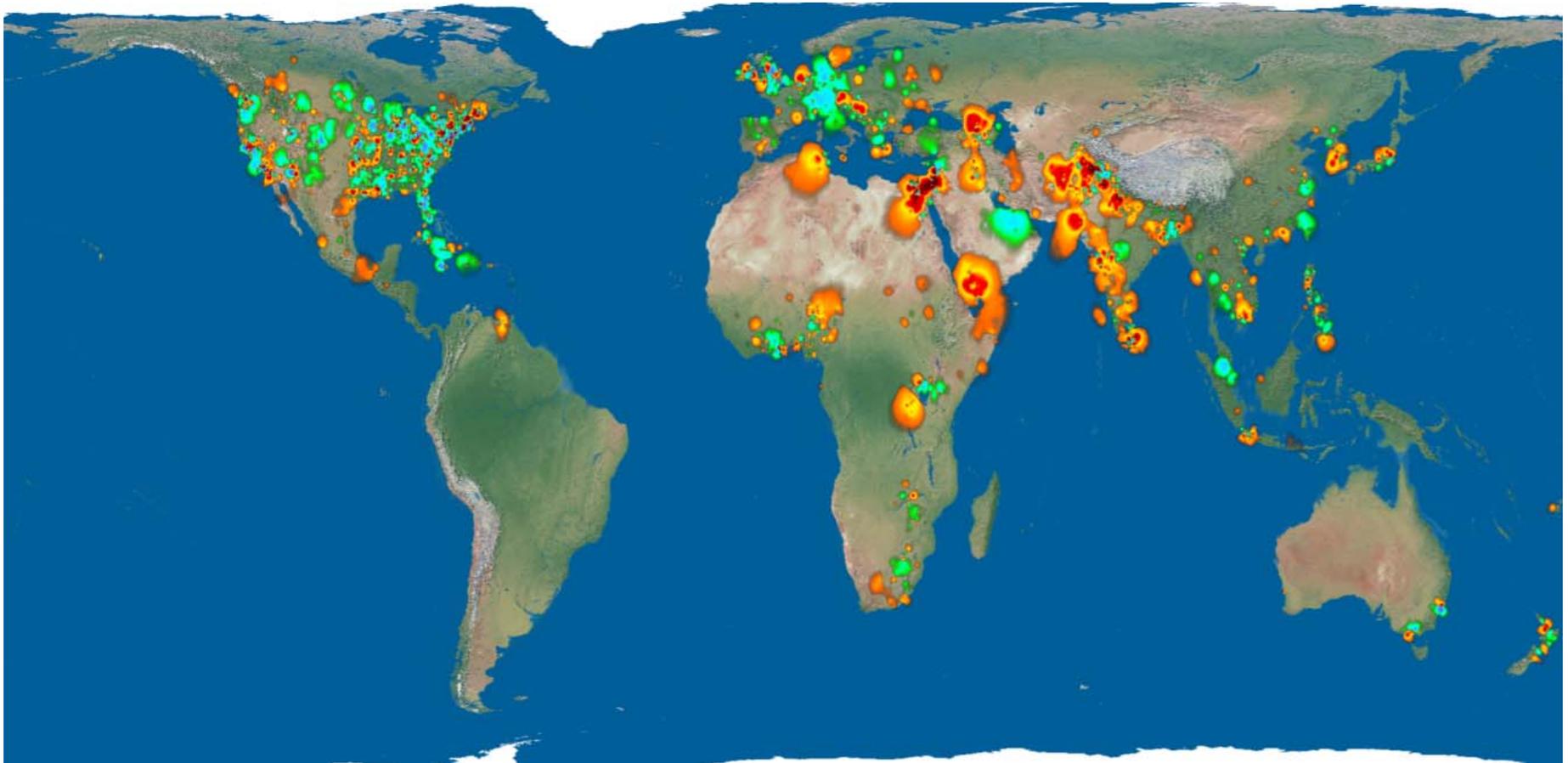
Example: **Turkish** President Turgut Ozal *said* on Wednesday he was **confident** that the **United States** would remove irritants damaging relations between the two NATO allies.

# Bilateral Political Relations: GDELT Project

- Step 1:** Events are monitored and recorded worldwide in over 100 languages (machine coded); initiator and recipient are identified.
- Step 2:** Events are coded according to the Conflict and Mediation Event Observations (CAMEO) coding scheme.
- Step 3:** Each event is assigned a value from -10 to +10 according to Goldstein (1992) indicating the degree of conflict or cooperation.
- Step 4:** a “one-a-day” filter, which eliminates any records that have exactly the same combination of date, source, target and event codes. (1.1GB)

## GDELT: Example

29 January 2011 based on number of events and Goldstein scores (positive and negative actions)



# GDELT: Example

29 January 2011 based on dyadic links and average Goldstein scores



# Bilateral Political Relations: GDELT

**Step 5:** We transform the variable to **-1, +1** (negative, neutral, positive actions).

**Step 6:** **Average** is calculated over **one year, number of events (and mention) weighted across dyad.**

**Notes:**

- The **direction** of event **matters** (it differs if country i is a receiver and j is an initiator in one event but vice versa in the other)

Degree of conflict or cooperation in bilateral political events initiated by one country on a target country in a given year as reported in the media (Grimmer & King, 2011; King & Lowe, 2003).

# Crosslistings data

**Data:** **All public companies** from Thomson Reuters DataStream with information on financials

**Key Facts:**

- **Dead securities** are included to account for **survivorship bias**
- Exchange traded, closed-end & investment funds are **excluded** to focus on corporate cross-listings
- **Only international** cross-listings are included

**Which cross-listing locations are included?**

- We do estimations with all possible destinations, with the **18 largest destinations (min of 50 transactions in the data), and the largest 6** (following Chung, et al (2015))

## Crosslistings data: Empirical set-up & Findings

- **All firms had the option to be cross-listed in a year in any of the countries** that had seen over 50 cross-listings in the database.
- **Discrete time logit specification of event history.** This econometric model allows for accounting for right censored observations (i.e., all those cases when firms are not cross-listed in a particular country in a given year) (Tuschke, Sanders, and Hernandez (2014)).
- **Model:** We control for country dyad and firm level explanatory variables + Industry and year indicator variables.
- **Our findings:**
  - **Political sentiments in the exchange country towards the firm's home country have a positive impact.**
  - The **difference in bilateral political sentiments** between the two countries **has a positive impact.**

# Robustness tests

## Sample

- All possible cross-listing choices
- Dropped Germany or United States

## Cross-listings

- Only (sponsored) depository receipts

## Bilateral Political Relations

- -10, 10 as a measure

## Method

- Alternative-specific conditional logit.

**More to come...**

## Conclusions and further research

- Conclusions:**
- Locations are particularly attractive as cross-listing locations **when political sentiments towards the firm's home country is positive.**
  - A cross-listing location becomes more attractive with a **larger difference in bilateral political sentiments** between the two countries

- Further research:**
- **Economic size**
  - **Robustness tests** for different samples and methods
  - Understand **differential effects across firms**