國際學碩士學位論文

Proximity Preference Still Matters in Overseas Listing Decision? :

With Evidence of Business Strategy

기업의 해외상장 요건: 근접성 선호 및
비즈니스 전략 중심으로

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國際學科 國際地域學專攻

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So-Young Cho

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Abstract

Proximity Preference Still Matters in Overseas Listing Decision? :

With Evidence of Business Strategy

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As the world has stepped into an era of globalization, free capital flows allow firms to raise their capital in international markets through overseas listings. Italy-based luxury brand Prada made its successful IPO debut in Hong Kong in June 2011 while a certain Chinese conglomerate, Ali-baba, is considering its IPO either in Hong Kong or New York. In this paper, three top exchanges- HKEx, NYSE Euronext & NASDAQ, and LSE– are chosen to see whether the proximity preference theory is still a mega trend in the field of recent overseas listings. The total number of foreign listed companies in the exchanges from 1990 to 2010 is collected and analyzed through the gravity model. The data only includes listed companies through initial public offering (IPO) and is analyzed

with geographic, cultural, economic, and industrial proximity perspectives. Consequently, firms do show a greater propensity to list overseas in a country with similar economic size. In relation to industrial proximity, foreign firms prefer to be listed in a foreign country that has competitiveness in that industry. However, when choosing a listing venue, geographic and cultural proximity are not major factors to be considered any more. Moreover, the European luxury brands companies listed in Hong Kong are seeking non-financial benefits. Those companies in particular list in Hong Kong for the corporate strategy, increasing brand exposure and investor awareness, and earning consumer proximity in the Asia-Pacific market, especially in the Chinese market, through the listing. For instance, 43% of Prada's total sales profits come from Asia-Pacific regions. Since China will account for one-fifth of demand for luxury goods, Prada, as an Asia-focused player, is more likely to attract more consumers in the Chinese Market. After Prada's successful IPO, similar retail brands including Samsonite (US) and L'Occitane (France) have followed the trend. Given these circumstances, Asian financial markets could become a leading IPO market, attracting more foreign firms to list for their business strategic purposes.

***Key Words**:* Overseas Listing, Hong Kong, China, Stock Exchange,
Proximity Preference, Business Strategy

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I. Introduction

"In the globalization system, where you are doesn't matter much anymore. And it also doesn't matter who you were," Thomas L. Friedman (2000, p. 246) argues as such in his well-known book, *The Lexus and the Olive Tree.* As he expected, globalization has changed the world rapidly. The liberalization of capital flows would be a good example demonstrating the phenomenon. Free capital flows have given opportunities to firms to raise their capital in international markets through overseas listings. For instance, Italy-based luxury powerhouse Prada made its successful IPO debut in Hong Kong in June 2011. Now then, why exactly are conglomerates now heading towards other markets across the world, not staying in their home countries?

From the late 1980's several hypotheses have attempted to explain the motives for overseas listings. Traditional theories including market segmentation theory, market liquidity theory, and the bonding hypothesis all have had an attempt to explain the phenomena of overseas listings.[1] Several additional theories have been made by scholars to analyze the current overseas listing trend. Proximity preference theory, Investor recognition, Information disclosure theory, and business Strategy theory are included in this category.

[1] See Dodd (2013) for more details.

According to Sarkissian and Schill (2004) and Dodd (2013), proximity preference theory works in developed countries. In this paper, I examine whether the proximity preference theory is still a mega trend in the field of overseas listing. I focus on the geographical, economic, cultural, and industrial proximity preferences of firms. Also, Cogman and Poon (2012, p.1) from McKinsey & Company argue that recently companies seek "non-financial benefits" from overseas listings. This can be explained by business strategy theory which asserts that the motives of foreign listings would be a result of companies' strategy to increase brand exposure, raise investor awareness, and generate consumption power in foreign markets. Although companies still put much credence in the financial benefits, they are more likely to gain non-profit benefits as well.

Therefore, the first part of this article introduces the current situation of listing markets, the big stock exchanges with the three highest domestic market capitalization and degrees of liquidity: Hong Kong, New York (NYSE Euronext and NASDAQ), and London Stock Exchanges. The second part reviews and deals with empirical evidence from the listing theories. The third part shows whether geographic, economic, cultural and industrial proximity preferences still have influence in the field of foreign listings by analyzing foreign listing data from the three big exchanges from 1990 to 2010. Then, case studies of Prada and L'Occitane are introduced in order to explain why European luxury brands are heading towards the Hong Kong Stock Exchange, supporting the idea of the business strategy theory. The final part concludes the paper and includes implications and limitations of research.

II. Literature Reviews and Analytical Framework

In this section, the first subsection introduces some academic literature in which several scholars have worked on figuring out the motives of overseas listing. The second subsection deals with a framework based on proximity preference theory and the business strategy theory is proposed.

2.1 Literature Reviews

The academic literature reviewed here is mostly in support of proximity preference theory whereas a small portion of the literature is related to business strategy theory. Since globalization has such a short history, business strategy theory seems very new.

Dodd (2013) summarizes theoretical studies as well as empirical evidence of theories for overseas listing. Traditional theories include market segmentation theory and liquidity theory. Unlike traditional theories, cross-listing theories explaining information-based motives postulate that cross-listing increases firm awareness, reduces information costs, and increases investor protection (Dodd, p.10). Proximity preference theory argues that "the level of proximity between the home and host countries determines the choice of host market for cross-listing" (Dodd, p.20) while business strategy argues that cross-listed firms do it for the corporate strategy, earning consumer proximity, and access to foreign capital markets.

Sarkissian and Schill (2004, p.769) argue that "geographic, economic, industrial proximity and cultural links play an important role in deciding the venue of overseas listing". Firms choose more proximate markets for which "diversification gains are relatively low" (Sarkissian and Schill, p.769). Traditionally, diversification, liquidity and tax advantages are some motives for overseas listing. However, the authors test for geographic, cultural and industrial forms of proximity biases when making the overseas listing decisions. For industrial proximity, the finding is that the more domestic firms in a given industry a country lists overseas, the more foreign firms in the industry that country hosts on its exchanges. Overall, countries with similar industrial structures share a greater cross-listing activity (Sarkissian and Schill, p.796).

Dodd, Frijns and Gilbert (2013) also examine in their article the role of culture in the choice of destination market for cross-listing. Culture plays a role in the cross-listing decision for companies from developed markets. However, this was not the case for companies from emerging markets.

According to Ernst & Young's report on Global IPO Trends (2012), several European companies take some or all of their IPOs to Asia or the US. The report explains that more foreign companies are using the Hong Kong market to reach Asian investors in 2012. Hong Kong has become an increasingly attractive destination for Western companies.

Cogman and Poon in McKinsey (2012, p.1) argue that companies considering an overseas listing now focus on "the non-financial benefits". In traditional theories,

valuation and liquidity were the main motives to list overseas. In this regard, the IPO market in the Hong Kong Stock Exchange ("HKEx") illustrates this trend. In truth, "companies listing in Hong Kong have not, on average, experienced a significant increase in their shares' liquidity" (Cogman and Poon, p.2). Nor were there high average valuations for most companies. Instead, what companies expect from the Hong Kong market is "the greatest concentration of investors knowledgeable about China and Asia of any major financial center" (Cogman and Poon, p.4). Therefore, companies are now seeking non-financial benefits including consumer proximity and exposure of the brand to potential consumers.

2.2 Analytical Framework

According to a survey conducted by Economist Intelligence Unit (EIU), the ranking of determinants in deciding foreign listings is as follows:

< Figure 2> Ranking of Determinants in Deciding Foreign Listings

(Source: EIU)

Unlike what the aforementioned literature has discussed, this survey indicates that liquidity is the main determinant of foreign listing venue whereas cultural or close proximity to the relevant country is not that important when compared with other factors. In this regard, I choose three top exchanges in terms of domestic market capitalization and degrees of liquidity.

Given these trends- assuming that liquidity is the main factor to consider when choosing foreign listing venue- I focus on the listing in terms of geographic, economic, cultural and industrial proximity and see whether business strategy theory is on its way to change the trend.

III. Overseas Listing and Listing Theories

3.1 Current Situation

Due to the recent financial crisis in 2008, there has been a huge decrease in the number of listed companies and the size of capitalization in the world. As a result, exchanges plan a global expansion, longing to find new markets. In this regard, Asia is likely to become one of the next global financial markets since the region shows high degrees of purchasing power and sound fundamentals with the manufacturing-based economy in recent years.

Given these trends, well-known global brands, such as Prada, L'occitane, and Samsonite, and Chinese state-owned companies, have listed in the HKEx. The HKEx has ranked first in the period of 2009-2011 in terms of size of domestic capitalization.

The New York Stock Exchange ("NYSE Euronext") in the United States still functions as a gateway to enter the global market in terms of the number of global listed companies although there was a slight decrease in its share of domestic capitalization. NASDAQ has also increased its share by the newly listed IT companies based in China.

The London Stock Exchange ("LSE") maintains a solid growth trend in respect to the number of newly listed domestic companies and rather enjoys a reflective effect from the fiscal crisis experienced in other European nations.

Therefore, HKEx, NYSE Euronext (US), NASDAQ, and LSE lead the recent global IPO market. In relation to an industry perspective, overseas listings including secondary listings happen more in the sectors of natural resources, banks, steel and IT. Particularly, NYSE is a leading secondary listing exchange with companies from China and other emerging countries. Recently, Chinese listed companies are accounting for 50% of the total IPO market in the world. For instance, Youku, Chinese's largest streaming company, chose NYSE for its listing. Also, London, the center of finance in Europe, attracts Russian and Kazakhstani financial and natural resources-related companies.

3.2 Introduction of Listing Theories

3.2.1 Earlier Listing Theories

Traditional listing theories are more likely to focus on the stock liquidity and market situation whether it is segmented or integrated. If the two markets are integrated, then there would be no difference in their stock valuations and liquidity. However, earlier researchers paid much attention to market segmentation in order to explain firms' motives to list overseas. Therefore, two main theories, market segmentation theory and liquidity theory, are introduced, suggesting that firms do list overseas to overcome investment barriers and to improve stock liquidity (Dodd, 2013, p.7).

3.2.1.1 Market Segmentation Theory

Many researchers have been interested in finding whether international capital markets are segmented or integrated. In other words, they have wanted to find whether market risk has been priced differently between the two markets. Therefore, if two markets are segmented, firms would reduce the effects of investment barriers and promote international diversification by cross-listing their shares on the other market. Consequently, the shares between the two segmented markets result in a higher equilibrium market price and a lower expected return.[2]

Foerster and Karolyi (1999; Mittoo, 2003; Dodd, 2013) conducted research on segmentation between Canadian and U.S markets and found that these two markets are segmented, which is consistent with other earlier findings. Thus, market segmentation theory is about the market imperfections causing less positively correlated stock prices. Another example of empirical evidence supporting the theory would be the changes in stock price around the announcement of cross-listing and around the cross-listing event (Dodd, 2013, p.5).

However, the degree of financial market segmentation has been steadily dropping as the international market has become more integrated over time. Mittoo (2003; Dodd, 2013,

p.6) investigates the price effects of cross-listing and finds that "the effects are smaller

[2] See Dodd (2013), p.4-8.

post-1990 compared to the pre-1990 period," supporting the evidence of reduction in abnormal returns.

3.2.1.2 Liquidity Theory

Improved stock liquidity is often regarded as one of the main considerations when deciding on overseas listing. Since "the listing increases trading hours and the number of traders, this leads to facilitate competition among traders and stimulate trading in the home market" (Dodd, 2013, p.8). Therefore, liquidity theory states that "cross-listing improves stock liquidity" (Dodd, 2013, p.8).

Unexpectedly, according to Dodd's article, the empirical evidence of the impact of cross-listing on stock liquidity is not consistent. A study examined by Foerster and Karolyi (1993; Dodd, 2013, p8) shows "an increase of 62% in total trading volume and an increase in domestic trading volume of 26%" after cross-listing. However, Silvia and Chavez (2008) find no evidence of the impact of cross-listing on lower trading costs when compared with cross-listed firms from Latin American countries and domestic firms in home countries.[3]

Overall, the previous studies indicate that shares from developed markets are experiencing improved liquidity in their home markets after listing their shares in the US market, while shares from emerging markets are showing no improvement or even

[3] Dodd (2013), p.8-9.

worsening in stock liquidity.[4]

3.2.2 New Listing Theories

These two traditional theories are able to explain the motives of firms' overseas listing with overcoming investment barriers and improving liquidity, assuming that information is immediately available to all investors. Unlike this, new overseas listing theories stress the importance of information which results in an increase in awareness of the firm among foreign investors and improvement of investor protection.[5] Moreover, these new theories can explain the motives of firms' overseas listing behavior with the evidence of home bias and firms' corporate strategy.

Dodd introduces five new cross-listing theories in her article including investor recognition theory, information disclosure theory, legal bonding theory, proximity preference theory, and business strategy theory. Due to the fact that this paper aims at examining the impact of home bias and global corporate strategy on overseas listing, I would like to introduce each theory with empirical evidence briefly and then go in-depth with proximity preference theory and business strategy theory in the next section.

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[4] Dodd (2013), p.9.

[5] *Ibid*, p.10.

3.2.2.1 Investor Recognition Theory

Investor recognition theory argues that cross-listing improves foreign investors' recognition of that firm. If foreign investors become aware of a firm, they tend to invest more for the stock. The facts indicate that investor awareness of the firm makes its stock more appealing to foreign investors. Also, these overseas listings attract much attention from financial analysts and media agencies in foreign countries, which increases foreign investors' awareness (Dodd, 2013, p.11).

Moreover, overseas listing later results in a higher market valuation of the firm. King and Segal (2009; Dodd, 2013, p.12) witness "a permanent increase in the valuation of Canadian firms cross-listed in the US for firms that attract investor recognition".

3.2.2.2 Information disclosure Theory

According to information disclosure theory, firms list overseas with the strictest disclosure requirements. Since investors want to minimize trading and monitoring costs and potential risks, they choose to buy stock that meets the strictest disclosure requirements.

Nonetheless, the previous studies contradict this prediction. Several researchers report that firms are less likely to list in overseas stock exchanges with higher disclosure levels

than in home stock exchanges due to the disclosure costs.[6]

Moreover, information disclosure theory implies that disclosing information tends to improve a stock's information environment, stock liquidity, and valuation.[7] Foreign firms listed in the US experience a significant "increase in stock return volatility and trade volumes" when changes occur in the level of disclosure (Dodd, 2013, p.14). Increased trade volumes may lead to an increase in stock liquidity and further result in higher market valuations.

3.2.2.3 Legal Bonding Theory

Legal bonding theory suggests that overseas listing "improves corporate governance and investors' protection" (Dodd, 2013, p.16). Several studies note that cross-listed companies are more likely to have more independent boards, the ability to terminate poorly performing CEOs, and lower voting premiums.[8] Moreover, if investor protection has been improved, it will boost investors' confidence, resulting in an increase in trading volume.

Furthermore, the theory suggests that improved investor protection leads to higher market valuation. Doidge, Karolyi, and Stulz (2009; Dodd, 2013) conduct research and

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[6] See Dodd (2013), p.12-15.

[7] *Ibid*, p.14.

[8] *Ibid*, p.15-19.

find that there was a valuation premium for US foreign listings, but not for those in the UK. Overall, these three theories mainly suggest that overseas listing improves stock's information environment, stock liquidity and generate higher market valuations.

IV. Proximity Preference Theory and Business Strategy Theory

The other two new listing theories, proximity preference theory and business strategy theory, explain that the overseas listing behavior of firms reveal their corporate global strategy and preference of familiarity.

Unlike the aforementioned theories, proximity preference theory describes overseas listing in closer geographic regions. For example, Canadian companies tend to list in the United States whereas New Zealand companies list in Australia. Therefore, the level of proximity between the home and host markets is important when deciding the overseas listing venue since the familiarity with the overseas listing firm would provide more information to investors and this would later encourage those investors to invest in the firm. As a result, companies experience higher valuation gains from overseas listing.

Sarkissian and Schill (2004) conducted research showing the importance of geographic, economic, cultural and industrial proximity between home and foreign countries when deciding the destination for overseas listing.[9] To sum up their research, Sarkissian and Schil "surveyed 44 world stock exchanges and collected a comprehensive database of

[9] See Sarkissian and Schill (2004) for more details.

foreign listings as of 1998" (Sarkissian and Schill, p.777). They eliminated inactive listings and investment funds and trusts from the database. As a result, there are 2251 listings from 44 home countries on 25 host countries.[10] For the dependent variable, $y_{ij} = NF_{ij} / ND_{ij}$ where NF_{ij} is the number of foreign listings from country *i* in country *j* and ND_{ij} is the total number of domestic listed firms in country *i.*[11]

Independent variables are GEOGRAPHIC $PROXIMITY_{ij}$, which indicates the distance between the capitals of countries *i* and *j*, ECONOMIC $PROXIMITY_{ij}$, the percentage of country *i*'s exports going to country *j*, D(CULTURAL $PROXIITY_{ij}$), which is to see whether countries *i* and *j* share a common language, and INDUSTRIAL $PROXIMITY_{ij}$, which is to examine the correlation of industrial rankings.

Regression results for the tests are as follows. The coefficient of the GEOGPRAHIC PROXIMITY variable is positive and significant at the 1 % level. This implies that firms prefer close-to-home markets when deciding listing destinations among foreign countries. Also, CULTURAL PROXIMITY dummy is positive and significant at the 1% level, implying that firms prefer foreign listings in a country with a similar language. The coefficient on ECONOMIC PROXIMITY suggests that firms list in countries they have more trade with. Lastly, the INDUSTRIAL PROXIMITY variable indicates that firms

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[10] Sarkissian and Schill (2004), p.777.

[11] *Ibid*, p.795.

decide to list overseas with a similar industrial structure to their home countries.

Based on their research, I designed my own model and conducted a study to see whether proximity preference still plays a role in the current overseas listing market. I did not use the same variable for my own model. Instead, I adjusted the variables to fit the model even though I took the names of the variables from the research of Sarkissian and Schill. The result will be shown in the following chapter.

Proximity preference theory does not explain why many companies are now heading towards Hong Kong, regardless of where they are located. These companies listed in Hong Kong, on average, have not experienced a significant increase in their shares' liquidity. Nor there were high average valuations for most companies (Cogman and Poon, 2012, p.1). Rather, these companies are seeking non-financial benefits.

According to business strategy theory, "firms' corporate strategies to gain access to foreign capital markets, to become a global player and to maintain the competitiveness in the industry are the reasons why firms decided to go overseas for their listings" (Saudagaran, 1998, Bancel and Mittoo, 2001, Pagano et al, 2002; Mitoo, 2003; Tolmunen and Torstila, 2005; Dodd, 2013, p21).

In this regard, the theory can be applied to explain the Hong Kong listed companies which seek brand exposure and purchasing power in the Asian Market, focusing on non-financial gains from overseas listings. Thus, the current phenomenon of Hong Kong listings will be explained based on the theory.

V. Proximity Preferences Tests

5.1 Gravity model

A total of 894 foreign listed companies in the three top Exchanges, HKEx, NYSE Euronext (US) & NASDAQ and LSE from 1990 to 2010 were collected analyzed through the gravity model. HKex has 20 foreign listings while NYSE Euronext (US) & NASDAQ have 341 listings. LSE has 533 foreign listings. Data is from foreign listings on the three stock exchanges' websites since data from the federation of world stock exchanges shows somewhat different numbers in total for overseas listings.[12] Also, the data only includes listed companies through initial public offering (IPO), excluding companies with deposit receipts (DR). In the aforementioned research on home bias, Sarkissian and Schill constructed a database of foreign listings as of 1998 by surveying 44 major world stock exchanges. However, due to time and resource limits, I only chose the top three stock exchanges that have raised large amount of capital and thus recently become the main listing locations in global IPO markets.

Through this model, I examine whether geographic, economic, cultural, and industrial proximity play a role in deciding the venue of overseas listing.

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[12] The data from World federation of Exchanges (WFE) gives the total number of overseas listings which include the number of investment funds and deposit receipts (DR). Since I wanted to exclude investment funds and DRs from the list, I used the data on the three stock exchanges' websites.

The regression equation is as follows:

$$\ln(y_{ij}) = b_0 + b_1 \ln(DIST_{ij}) + b_2 CULT_{ij} + b_3 \ln(INDUST_{ij}) + b_4 \ln\left(\frac{GDP_j}{GDP_i}\right) + e_{ij}$$

Here, the dependent Variable is $\ln(y_{ij}) = NFL_{ij}/NDL_i$ where NFL_{ij} is the number of foreign listings from home country *i* in foreign country *j* and NDL_i is the total number of domestic listed firms in country *i.* For independent variables, the geographic proximity preference variable is measured by $\ln(DIST_{ij})$, which is a measure of the distance between home country *i* and foreign country *j*. The cultural proximity preference variable is $CULT_{ij}$ and this dummy implies that there is more overseas listing activity across countries that share a similar language.

The economic preference variable is ln(GDP *j* / GDP *i*), comparing the size of both countries' economies. The industrial preference variable is $\ln(INDUST_{ij})$, used to examine whether a foreign company tends to list in a host country that has strength in that industry. For the calculation, the number of foreign listings in a host country in an industry is divided by the total number of foreign listings in industries combined. In addition to this, the number of domestic listings in a host country in that industry is also divided by the total number of domestic listings in those industries combined. Then, correlations between those numbers are examined for each country. Due to a shortage of related data posted on some stock exchanges' websites, I could only go through the stock exchanges in twenty two countries.

5.2 Results and Analysis

< Table 5-1 > Results

	Dependent Variable : ln(y_ij)		
Independent Variables	**Reg 1**	**Reg 2**	**Reg 3**
ln(DIST)	-0.0603	-0.1243	-0.0588
	(-0.6349)	(-1.6087)	(-0.7438)
CULT	0.2312	0.2281	-0.313
	(0.6834)	(-0.8334)	(-0.7464)
ln(GDP_J_GDPI)		0.4895	0.5752
		(7.5960)***	(7.0309)***
ln(INDUST)			0.4896
			(1.8645)*
No. of Observations	110	110	44
R^2	0.0088	0.3581	0.5661

* significant at 10% level

** significant at 5% level

*** significant at 1% level

From the results of data above, the coefficient on the GDP variable, ln(GDP *j* / GDP *i*), is positive and significant at the 1% level. This finding suggests that firms prefer to list in countries that have a similar economic size. For example, an Italian company would sooner list in the United Kingdom rather than in Kenya. Economic size may be the sign

of indicating that the host country has a similar market with a similar industrial background. Therefore, economic proximity is still considered when choosing a listing decision for foreign companies.

However, in the current listing market geographic proximity does not play a significant role for the venue of overseas listing. According to the study of Sarkissian and Schill, geographic preference is a major factor when deciding a listing location. From the regression results reported in < Table 5-1>, the distance between home and host countries is negatively related. However, the coefficient is not significant enough to indicate the importance of geographic proximity in the overseas listing decision. Therefore, geographic proximity is considered to be less important than before in deciding the venue of overseas listing.

As seen from the results, cultural proximity dummy is not significant either. Sharing a similar language does not seem to play a significant role when deciding a listing venue. This may be due to the fact that English is used commonly all over the world and also that this dummy is related to the geographic proximity variable. Since the geographic proximity variable is not significant, so is cultural proximity dummy.

< Table 5-2 > Industrial Proximity

Host	Country	Industrial Proximity
Hong Kong	Canada	0.994930753
Hong Kong	Germany	0.897393223
Hong Kong	Hong Kong	0.407628416
Hong Kong	Switzerland	0.68429409
Hong Kong	United Kingdom	0.88121867
Hong Kong	USA	0.662620967
United Kingdom	Australia	0.899448807
United Kingdom	Bahrain	0.966110695
United Kingdom	Bangladesh	0.099050351
United Kingdom	Barbados	0.46291005
United Kingdom	Belgium	0.896355495
United Kingdom	Bermuda	0.947575751
United Kingdom	Canada	0.994930753
United Kingdom	Colombia	0.091040622
United Kingdom	Finland	0.123880053
United Kingdom	France	0.56338942
United Kingdom	Germany	0.897393223
United Kingdom	Greece	0.470145895
United Kingdom	Hong Kong	0.407628416
United Kingdom	Japan	0.42272777
United Kingdom	Korea	0.080720746
United Kingdom	Netherlands	0.558484929
United Kingdom	Norway	0.601811235
United Kingdom	South Africa	0.762257012
United Kingdom	Sweden	0.135233326
United Kingdom	Switzerland	0.68429409
United Kingdom	United Kingdom	0.88121867
United Kingdom	USA	0.662620967
USA	Bahamas	0.987971671
USA	Bermuda	0.947575751
USA	Canada	0.994930753
USA	Colombia	0.091040622
USA	Finland	0.123880053
USA	France	0.56338942
USA	Greece	0.470145895
USA	Hong Kong	0.407628416
USA	Korea	0.080720746
USA	Mexico	0.593314837
USA	Netherlands	0.558484929
USA	Norway	0.601811235
USA	Portugal	0.198489932
USA	South Africa	0.762257012
USA	Switzerland	0.68429409
USA	United Kingdom	0.88121867
USA	USA	0.662620967

Industrial proximity is positive and significant at the 10% level. Due to the difficulty of finding overseas listing from home markets, I could only examine 44 observations. This finding suggests that companies prefer to list in overseas markets which have a particular strength in their own industry. Therefore, a foreign company is more likely to list in the country that has strength in that industry. For example, a foreign company in IT sector would list in the US, having many world-famous IT companies, instead of the UK, which does not have advantages in IT sector compared to the US.

5.3 Implications

The results indicate that geographic and cultural proximity do not play a key role while economic and industrial proximity are significant when deciding a listing venue in overseas.

The reason geographic and cultural proximity are considered to be less important may be due to the fact that companies have to only care about the costs for establishing and maintaining the listing when they do list in other countries since listing is not a concrete commodity. Therefore, the importance of geographic proximity would have been reduced. Also, the fact that Chinese companies list in New York while Russian companies go to London would play a role in reducing the importance of geographic and cultural proximity in the choice of listing venue since Chinese companies constitute a majority of the cross-border IPO market. From 2009 to 2011, Chinese companies comprised 53 % of the overseas IPO market.

Then, why are economic and industrial proximity still considered to be important when making overseas listing decisions? The GDP variable on economic proximity is the indication of a country's economic growth. It is known that countries in a similar economic size tend to trade more with each other. Most listed companies are more likely sell their commodities in a foreign market where they have more trade with. Listing in a foreign country in which there is already a strong relationship of trade should, in theory, increase the amount of trade for that company's stock. Therefore, this would increase the number of overseas listings between countries of similar economic size.

Moreover, countries with a higher GDP tend to host foreign listings and send their companies overseas. This means that mostly a higher GDP group has been included in the data and this has affected the result that economic size matters when deciding a venue of foreign listings.

This would be related to the significance of industrial proximity. Industrial proximity implies that firms consider a country with a strong industry as the listing destination. Having been listed in a country with a strong sector, the company would attract investors from that country, get more information, and compete with other companies that are in the same industry. China's biggest streaming company, Youku, decided to list on the NYSE since the U.S is known for its strength in IT sectors. Moreover, several Indian banks chose the United Kingdom as their listing venue since London is traditionally known as the global financial center.

Overall, the results suggest that companies list regardless of where the hosting country is located. They are more likely to consider the economic and industrial factors of host countries.

VI. Business Strategy Theory

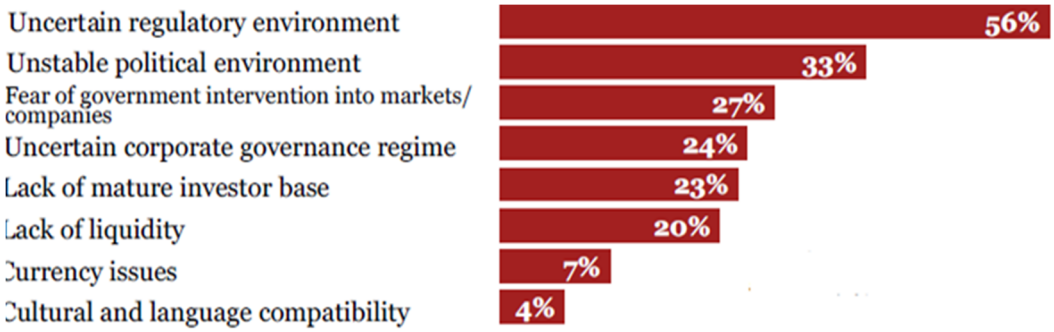
6.1 Case Study

The Italy-based luxury powerhouse, Salvatore Ferragamo, made its successful IPO debut on the Milan Stock Exchange and experienced a sharp increase in its shares. Also, the American luxury brand, Michael Kors, listed in its hometown, New York, and ranked as the best-performing initial public offering between 2008 and 2011. According to Spears and Wollman in Bloomberg, its revenue had surged 62 % as of 2012.[13]

Unlike these brands listed in their home countries, some luxury brands have taken very different and brave steps for their IPOs. Some are luxury brands from Europe and the US. Prada, L'Occitane and Samsonite IPOed and Coach listed through the issue Hong Kong depositary receipts (DR) in the HKEx.

[13] Spears and Wollman (2012).

< Figure 6-1 > Concerns over Emerging Markets When Deciding Overseas Listing



(Source: EIU)

According to the result of EIU survey, global conglomerates have concerns on predictability and consistency when listing in an emerging market. As an emerging market, Hong Kong faces the same problem, when considered as an overseas listing venue.

Moreover, the Hong Kong market is not as big as the US and some European nations, although the market is known for shopping in a tax-free environment. Also, they do not manufacture any luxury goods.

From the data of industrial proximity, Hong Kong (0.4076) shows a relatively lower level of correlations when compared with the United Kingdom (0.8812) and the United States (0.6626).[14] Furthermore, on average, companies listing in Hong Kong have not

[14] See Table <5-2>.

experienced a significant increase in their shares' liquidity. Nor were there high average valuations for most companies.

Given these circumstances, how can the Hong Kong Stock Exchange attract European luxury brands listed in Hong Kong?

Hong Kong now leads the IPO market in the world, followed by NYSE and LSE. What foreign companies expect from the Hong Kong market is "the greatest concentration of investors knowledgeable about China and Asia of any major financial center" (Cogman and Poon, 2012, p.4). The reason foreign companies list their shares in Hong Kong, instead of Shanghai is that foreign companies currently can't get listings in the domestic Chinese A-Share Market.

Therefore, European luxury brands particularly list in Hong Kong because "China will account for one-fifth of demand for luxury goods and for a considerable higher share of growth in demand" (Cogman and Poon, 2012, p.4). That is why Glencore, one of the world's largest natural resource companies, listed in both London and Hong Kong to raise its shares in the London market and to target the biggest demander in resources- China- in the Hong Kong market. In the following section, I will introduce the cases of Prada and L'Occitane to explain the phenomenon of European luxury brands listing in Hong Kong.

6.1.1 The Prada Group

Recently, the market for luxury goods is growing fast and making huge profits. According to Pinsel, Maandi, and Kulaots, people buy luxury goods with "external, social and interpersonal motivations" (2012, p.9). Consumers with external motivations of buying luxury goods are showing off their status by publicly displaying the goods while consumers with internal motivations are buying them for an individual self-perception (Pinsel, Maandi, and Kulaots, p.9). Thus, people buy luxury goods for different reasons and motivations.

Prada, which used to be a family-run business, had become a multi-national multi-segment business with a reputation as a leading influence upon fashion trends and consumer taste by the end of 1990's. The Prada Group owns international luxury brands including Prada, Miu Miu, Car Shoe and Church's.[15] As of 2013, the Group operates in more than 70 countries through 461 directly operated stores, 25 franchise operated stores and a network of selected high-end multi-brand stores and luxury department stores (Prada Group, Annual Report, 2012, p. 5). The tables below indicate that the number of stores in Asia-Pacific regions has increased from 83 to 130 in 2010-2013. After listing in Hong Kong, Prada opened an additional of about 50 stores in the region.

[15] See Prada Group's Website, Retrieved from http://www.pradagroup.com/en/group/group-profile

< Table 6-1> Number of Stores 2012-2013

	January 31, 2013		January 31, 2012	
	Owned	Franchises	Owned	Franchises
Prada	283	20	245	20
Miu Miu	126	5	94	6
Car Shoe	7	-	6	-
Church's	45	-	43	-
Total	461	25	388	26

	January 31, 2013		January 31, 2012	
	Owned	Franchises	Owned	Franchises
Italy	48	5	44	5
Europe	137	6	115	6
Americas	66	-	47	1
Asia Pacific	130	14	115	14
Japan	66	-	65	-
Middle East	11	-	2	-
Africa	3	-	-	-
Total	461	25	388	26

(Source: Prada Group Annual Report, 2012)

< Table 6-2 >Number of Stores 2010-2011

	January 31, 2011		January 31, 2010	
	Owned	Franchises	Owned	Franchises
Prada	207	27	177	29
Miu Miu	71	6	51	6
Car Shoe	5	-	3	-
Church's	36	-	34	-
Total	319	33	265	35

	January 31, 2011		January 31, 2010	
	Owned	Franchises	Owned	Franchises
Italy	37	5	31	5
Europe	88	13	73	13
North America	34	-	21	-
Asia Pacific	104	13	87	15
Japan	56	-	53	-
Middle East	-	2	-	2
Total	319	33	265	35

(Source: Prada Group Annual Report, 2010)

Combining fashion and fine arts, the company made a strategic brand alliance with companies from other sectors such as LG. Prada and LG co-produced mobile phones. In this regard, Prada has worked hard to become a global brand, adopting a global business strategy.

Due to the fact that Europe has suffered from a fiscal crisis and that China has shown a great increase in consumption of luxury fashion goods, Prada made a move and became the first Italian company to list in Hong Kong. This demonstrates the importance of the Asian markets to luxury brands in the present age. However, Prada's choice of Hong Kong as a listing venue was very controversial even at home in Italy, since the company had delayed its listing in the Milan Stock Exchange twice. Miuccia Prada, the owner, said that the listing was an easy decision for the company, given China's relevance as a major economy and its appetite for luxury products.[16]

China's consumption of luxury goods is expected to grow 18 percent annually to about $ 27.5 billion by 2015, from about $12.2 billion in 2010.[17]

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[16] Pinsel, Maandi, and Kulaots (2012).

[17] *Ibid*.

< Table 6-3 > Key Financial Information

Key income statement information (amounts in thousands of Euro)	twelve months ended January 31 2011	twelve months ended January 31 2012	twelve months ended January 31 2013	% chg on January 2012	CAGR %
Net revenues	2,046,651	2,555,606	3,297,219	29.0%	26.9%
EBITDA	535,930	759,252	1,052,469	38.6%	40.1%
EBIT	418,387	628,935	889,781	41.5%	45.8%
Income before tax	388,229	602,908	883,616	46.6%	50.9%
Net income of the Group	250,819	431,929	625,681	44.9%	57.9%
Earnings per share	0.10	0.17	0.24	41.2%	54.9%
Average headcount (persons)	7,199	8,067	9,427	16.9%	-
EBITDA %	26.2%	29.7%	31.9%	-	-
EBIT %	20.4%	24.6%	27.0%	-	-

(Source: Prada Group Annual Report, 2012)

If we look at the revenues, about 35.6% of the 3.3 billion euro total sale profits come from Asia- Pacific regions. As of 2013, Prada owns 130 directly operated stores in Asia-Pacific regions and opened 15 new stores in the region (Prada Group, 2012, p.38). From the IPO in June, 2011, Prada raised about $2.14 billion with a majority of shares coming from existing stock owned by Miuccia Prada and others in the company (Barreto, 2011).

< Table 6-4 > Net Sales Analysis

(amounts in thousands of Euro)	twelve months ended January 31 2013		twelve months ended January 31 2012		% change
Net sales by geographical area					
Italy	528,302	16.2%	445,611	17.6%	18.6%
Europe	739,634	22.7%	540,131	21.4%	36.9%
Americas	484,103	14.9%	392,677	15.6%	23.3%
Asia Pacific	1,160,166	35.6%	872,992	34.6%	32.9%
Japan	293,245	9.0%	256,693	10.2%	14.2%
Other countries	50,978	1.6%	15,226	0.6%	234.8%
Total	3,256,428	100.0%	2,523,330	100.0%	29.1%

(Source: Prada Group Annual Report, 2012)

Even though competitors such as Armani, Gucci and Louis Vuitton would have a stronger brand value, Prada is likely to succeed in earning a stronger brand value by taking an innovative approach and marketing strategy. Therefore, it was a good choice for Prada to list in Hong Kong in order to expand its brand value, earn consumer proximity and attract investors in the market.

6.1.2 L'Occitane International S.A.

Like Prada's case, the beauty product company, L'Occitane International S.A ("L'Occitane")'s choice for Hong Kong was to raise funds through Chinese investors to grow their business in Asia. "The IPO enhanced liquidity and trading volume offered by an exchange with a high number of trading partners, investors and a more sophisticated asset management infrastructure" (PWC, 2012, p.8). According to Finance Director Sebastien Guinchard, L'Occitane experienced a high demand among potential investors during pre-IPO road shows in Hong Kong.[18] He mentions that due to the fact that the majority of recent growth has been in Asia, the key objectives of L'Occitane's IPO were to extend the customer base and already strong brand awareness in the region.[19]

Also, L'Occitane chose to list in Hong Kong for raising its brand awareness. Again, the finance director said that "the decision to list in Hong Kong was driven in part by a desire to strengthen the brand's existing presence in the region" (PWC, 2012, p.19). Hong Kong was at the top of L'Occitane's IPO destinations list because the brand image there was already quite high and "they wanted to capitalize on that across Asia" (PWC, p.19). Investors know how well L'Occitane is positioned in China. Overall, L'Occitane chose Hong Kong over Paris for raising more capital and for strengthening its brand awareness.

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[18] PWC (2012), p.8.

[19] *Ibid*.

L'Occitane has five brands including L'OCCITANE en Provence, Melvita, Le Couvent des Minimes, Erborian and L'OCCITANE au Brésil and L'Occitane, owns 753 brand outlets in 27 countries, and shops in more than 8countries.[20] The company plans to open 650 new shops globally in the next five years, hoping for expansion in Asia and focusing on opening new shops and outlets in emerging markets.[21]

< Table 6-5> Number of Stores by Region

		Retail Stores		FY2013 compared to FY2012	% contribution to Overall Growth[6][8]			
	31 Mar 2013	Net openings FY2013	31 Mar 2012	Net openings FY2012	Non-comparable Stores	Comparable stores	Total Stores	Same Store Sales Growth[8]
Japan[3]	100	10	90	7	6.9	(6.9)	(0.0)	(4.9)
Hong Kong[4]	31	2	29	7	6.6	1.2	7.8	5.1
China	119	26	93	22	7.9	3.1	11.0	9.1
Taiwan[5]	61	(1)	62	10	1.8	(1.1)	0.7	(4.8)
France[6]	70	4	66	–	1.3	2.2	3.5	6.1
United Kingdom[7]	62	5	57	9	2.6	2.3	5.0	7.7
United States[8]	186	16	170	3	5.3	6.5	11.9	8.4
Brazil	70	7	63	17	3.7	(2.3)	1.4	(7.0)
Russia[9]	99	23	76	19	7.3	2.9	10.2	9.4
Other countries[10]	400	53	347	64	21.5	4.2	25.7	3.8
All countries	**1,198**	**145**	**1,053**	**158**	**64.8**	**12.2**	**77.0**	**2.3**

(Source: L'Occitane Group Annual Report, FY2013)

[20] L'Occitane Group Official Website, Retrieved from : http://www.loccitane.com/group/home.aspx?l=en

[21] L'Occitane Group Annual Report (2013).

Since Chinese consumers consider foreign brands better than their domestic brands, the beauty brand is doing well in China. According to Chairman and CEO Reinold Geiger, Asia is bigger than all of Europe and US combined in terms of L'Occitane's overall sales.[22]. In 2013, Hong Kong's net sales saw an increase of 20.4% while China's net sales saw an increase of 33.0% as compared to 2012.[23] China is one of the fastest growing markets for the company.

< Table 6-6 > Financial Summary, 2009-2013

Year ended 31 March	2013 € '000	2012 € '000	2011 € '000	2010 € '000	2009 € '000
Net sales	1,043,363	913,448	772,294	612,245	537,335
Gross profit	855,461	755,488	636,962	497,263	431,785
Gross profit margin	*82.0%*	*82.7%*	*82.5%*	*81.2%*	*80.4%*
Operating profit	158,284	152,273	132,084	110,193	80,490
Operating profit margin	*15.2%*	*16.7%*	*17.1%*	*18.0%*	*15.0%*
Profit for the year	125,608	124,191	102,700	84,559	59,384
attributable to:					
equity owners of the Company	122,702	121,159	99,501	81,626	58,383
minority interests	2,906	3,032	3,199	2,933	1,001
Total assets	1,033,032	910,997	785,860	436,580	407,163
Total liabilities	298,723	255,730	220,596	275,312	219,904
Equity attributable to the equity owners of the Company	729,335	650,192	560,266	157,290	185,255
Minority interests in equity	4,974	5,075	4,998	3,988	2,004

(Source: L'Occitane Group Annual Report, FY2013)

[22] Cheng (2010).

[23] L'Occitane Group Annual Report (2013).

In this regard, L'Occitane's decision to list in Hong Kong, where the company's future growth is expected, was the smart decision From the Hong Kong IPO, the company raised $707 million and became the first-ever French and Western Europe company to IPO in Hong Kong. The company has used the money raised to expand in Asia where the demand is high. Thus, L'Occitane has successfully raised capital and investor awareness, and increased its brand power.

< Figure 6-2 > Sales by Region

(Source: L'Occitane Group Official Website)

VII. Conclusions and Implications

Since the world is moving toward a more integrated, global economy, the companies have to get ready for rapid changes. The good thing is that barriers are going down and this gives new opportunities to firms to play in the international field whereas the bad thing is that there are always risks involved as markets become competitive.

From the results of data, geographic and cultural proximity are not major considerations for overseas listings. This may be due to the fact that firms only consider the costs for establishing and maintaining the listing when listing overseas. Therefore, the distance and a similar language to home countries do not really affect the overseas listing decision like they did in previous years.

Nonetheless, economic and industrial proximity are still important in the overseas listing decision. Firms prefer to list in countries that have similar economic sizes with their home countries. Also, foreign firms prefer to be listed in a foreign country that has competitiveness in that industry. Since countries with similar economic sizes tend to trade more, overseas listing would help increase the trade between the two countries. Likewise, firms list in a country with a strong sector so that they get more information, exposure to consumers and compete with rival companies in the same sector.

When running the multiple regressions, this study has some limitations. The sample was small and hard to get from world exchanges' websites. When I asked for the overseas listing information, some exchanges replied and said that some information is classified. It would be more accurate if I could have more samples and information from more stock exchanges.

Business strategy theory explains the firms listed in Hong Kong, regardless of these proximity preferences. European premium brands, Prada and L'Occitane would be the representative case of applying their corporate strategies to overseas listings in Hong Kong. Expectedly, Prada and L'Occitane have succeeded in raising investor and brand awareness, and generating consumption power by taking an innovative approach to IPO in Hong Kong. Both companies make large profits, and open more stores in the Asia-Pacific region.

Many companies are eager to find a new market where future growth can be expected. Since China often fits these needs and thanks to Hong Kong, with a very international city environment, this trend of listing in Hong Kong should continue. This is a win-win game for China and for firms from foreign countries. Globalization really changes the world and firms that do not follow this trend are unlikely to survive in the future.

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국문초록

세계화의 거센 물결은 자본시장의 글로벌화에도 이바지한 바, 세계 유수기업들이 해외상장을 통한 새로운 시장으로의 진출을 모색하고 있다. 본 논문에서는 홍콩, 뉴욕 및 런던 증권거래소에서 현재 이루어 지고 있는 해외상장을 근접성 선호이론 중 지리적 경제적, 문화적 및 산업 근접성을 토대로 분석하고, 더 나아가 최근의 산업별 해외상장의 추이를 비즈니스 전략이론으로 고찰한다. 1990년부터 2010년까지의 증권거래소 세 곳의 해외상장을 분석한 결과, 해외 기업들은 경제적 규모가 비슷하거나 강세 산업을 지닌 국가의 거래소에 상장하는 경향을 보였고, 더 이상 지리적 또는 문화적으로 근접성에 대한 선호를 보이지 않았다. 또한 유럽의 명품 브랜드들이 홍콩에 상장하는 이유를 살펴 본 결과, 해외기업의 시장확대 전략을 반영하여, 브랜드 인지도를 제고하고 잠재 소비자와 투자자들을 유치하기 위한 경영 전략이었다. 예를 들자면, 프라다의 홍콩 증권거래소 상장은 매출액의 43%를 차지하는 아시아 태평양 지역을 겨냥한 것이었다. 특히, 향후 세계 명품 시장의 20%를 차지 할 중국 시장을 선점 할 목적이었는 바, 상해가 아닌 홍콩을 택한 이유는 현재 해외기업은 중국 본토의 상해 증권거래소에 상장 할 수 없기 때문이다. 이후, 같은 목적을 염두에 둔 코치, 록시땅과 같은 소비재 기업들이 홍콩상장의 뒤를 이었다. 이러한 추세로 예측하건대, 선진 영·미 시장을 중심으로 이루어 지던 IPO는 점차 새로운 시장으로의 진출을 목적으로 하는 해외 기업들로 인하여 중국을 포함한 아시아 시장으로 그 축이 점차 이동할 것으로 보인다.

주요어: **해외상장, 홍콩, 중국, 증권거래소, 근접성 선호, 비즈니스 전략**

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