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The Impact of Multilistings on Returns: Evidence from the Finnish Market

This paper studies the impact of interna-tional multimarket trading on the returns of the Finnish stocks. The Finnish economy has been considered as a small but open economy characterised by few large export companies counting a large part of the total international trade. Until recent years the forest- and the steel industries have been overwhelmingly important but electronics and especially telecommunication have gained increased amount of the Finnish export. If we take into consideration the fact that all large export companies such as Enso, UPM-Kymmene, Nokia, Valmet among others are multilisted on foreign exchanges, we see that listing on foreign exchanges is not an ineligible issue. Therefore the impact of multilisting on returns is an interesting and even important phenomena to study because of it's practical implications on Finnish stock market and economy in general.

Multilisting is also an interesting question form the theoretical point of view because according to the financial theory, shareholders have assigned the management to maximise the shareholder value of the company. Therefore, an important task of the management is to determine which stock exchange or multilisting on several markets would serve the best interests of the shareholders. Listing to a market is a very crucial decision, because a successful listing will eventually reduce the cost of capital and the expected rate of return e.g. because of improved liquidity. The resource and the capital needs of the growing internationalising companies, that are large in the Finnish scale, but often small compared to foreign competitors, can often be larger than a small economy can provide. From the companies point of view the limitations of the home markets can therefore be considered as a trigger to expand to new international capital markets.

This paper is concerned to study whether the previous evidence suggesting that international listing will lead to a reduction in the expected return on a security if the capital markets are either completely or "mildly" segmented. The purpose of the paper is to find out, if there exists a short-term or a long-term trend, that would have a statistically significant influence on the market value of Finnish companies that have been listed on a new market. This is done by employing the market model and the residual analysis technique in order to estimate the CARs (Cumulative Abnormal Returns) for the internationally listed Finnish stocks. The purpose of residual analysis is to determine whether the event of multilisting stocks has caused a change in the expected returns on the stocks or whether abnormal returns have been occurred around the listing date.

We find that the mean returns of internationally listed unrestricted stocks do not change remarkably. The same conclusion is also made for restricted stocks when mean returns are compared on the pre- and the post-listing periods. The CARs turned out to be negative for the data reorganised by the order of listings. The only exception in the data is the fifth listing of Nokia. The CARs were also negative for the most of the listings organised by the foreign stock exchange. Only StSE reports positive CARs for the period from -25 weeks pre to +25 weeks post. We interpret results as additional support to the previous research stating that multilisting has either neutral or negative impact on shareholder value but this indication is very weak due to many statistically insignificant but overwhelmingly negative t-values.