

Mobilizing Market Power: Evidence from stock exchange delisting

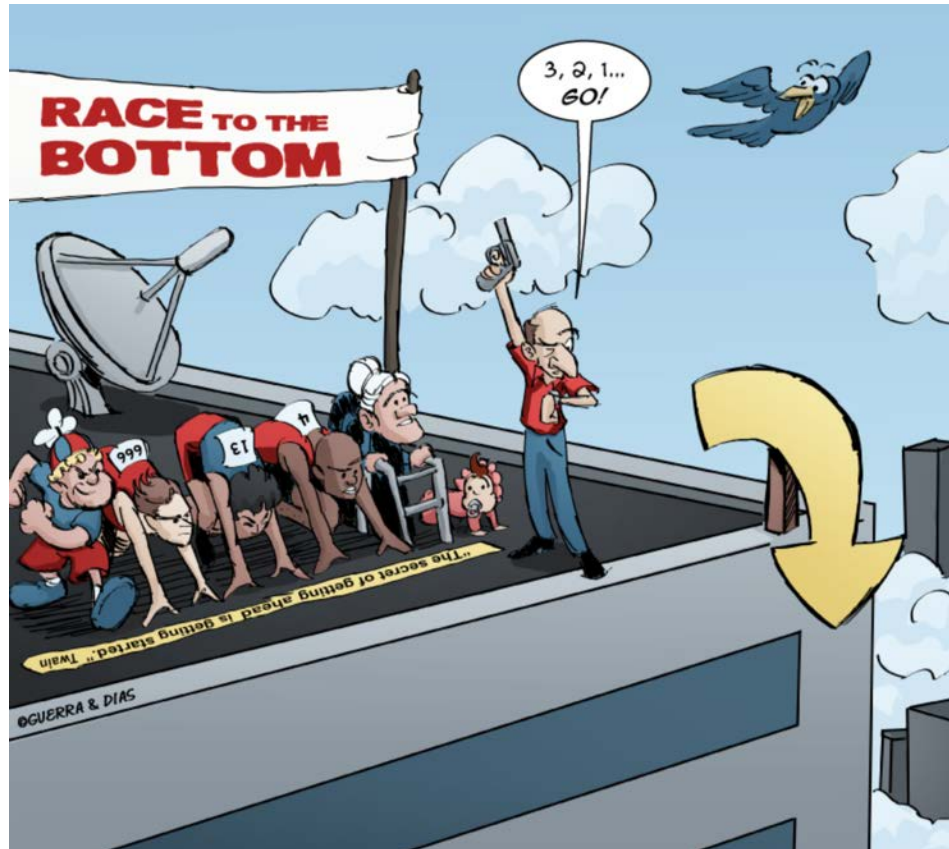
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The Politics of Global Regulation



Race to the Bottom?



Who adjusts? Market Power



Puzzles – Bipolarity

Puzzles – Firm Exit

Moving to the Level of the Firm

- Market opportunity not available in home jurisdiction
- Sunk costs of FDI in rival markets

Market Power as Aggregate Market Size



Institutions and Markets



Fragmented Institutions; Fragment Market Power

- Transaction costs across sub-units
- Need regulatory capacity to control market access
- No ability to steer international negotiations



Jurisdictional Expansion Increases Market Power

- Increases substitutability
- Reduces acceptance of higher compliance/adjustment costs in rival jurisdictions



Expectations

E1a: firms facing adjustment pressure will be less likely to exit a rival state when their home market lacks a harmonized governance structure.

E1b: firms are more likely to exit from, rather than adjust to, a rival market's pressure if their home government creates a more efficient market through jurisdictional expansion.

E2: firms with higher sunk costs will be less likely to exit the state's market when faced with adjustment pressure.

Empirics: EU Jurisdictional Expansion and Firm Delisting from the US

The EU's Financial Services Action Plan

- Started in 1990s to provide uniform governance structure
- 42 major changes including introduction of common accounting standards
- “FSAP is crucial if the Eurozone is ever to compete effectively with the US” – Peter Bodart, Bank of New York

US Adjustment Pressure – Sarbanes-Oxley (2002)

- Exogenous & extraterritorial
- Capital markets as major source of power
- Sox (2002) happens after EU governance reform



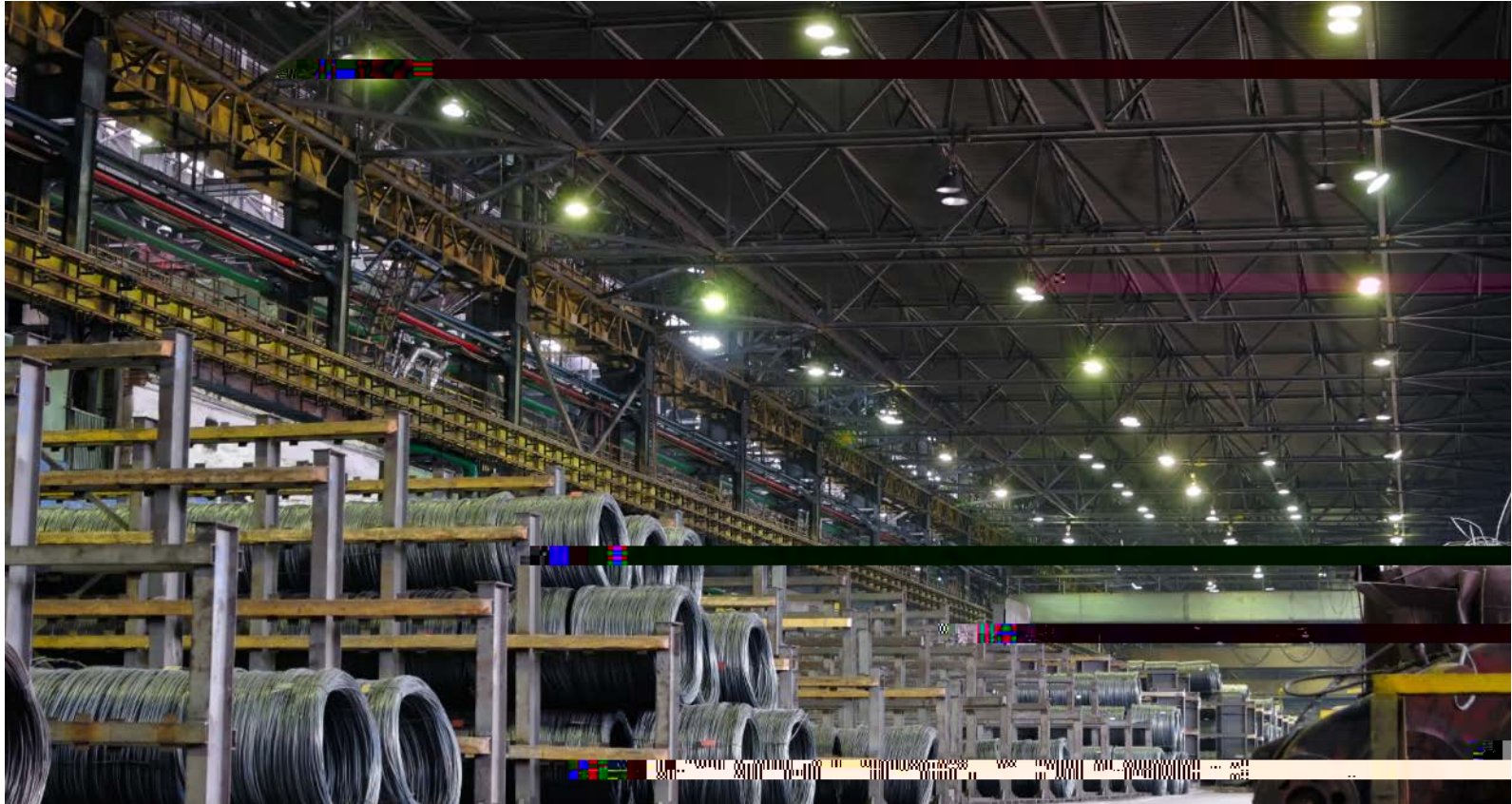
Data

- Firm-level data on all foreign firms traded on US stock markets (*Compustat*) prior to SOX
- Collected list of all voluntary firm delistings – *CRSP*, *LexisNexus*, *Factiva*, *GoogleNews*, SEC filings
- Unit of analysis is firm-year

E1 b: Firm Incorporation in EU



E2: Sunk Costs – State Taxes



EU Firms more likely to delist than non-EU firms
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	Cox-Hazard
Assets (nat. log)	0.792*** (0.0323)
Return on Assets	1.048 (0.0349)
Price-high (delta)	1.002 (0.00160)
State Taxes	0.760*** (0.0514)
EU	5.281*** (1.603)
Anti- Self Dealing Index	0.379 (0.278)
Home Stock Market Cap.	0.995 (0.00496)
Constant	
Observations	5,245

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

What about before Sox (1998-2001)?

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	Cox-Hazard
Assets (nat. log)	0.816*** (0.0519)
Return on Assets	1.009 (0.00786)
Price-high (delta)	0.999 (0.000876)
State Taxes	0.876*** (0.0394)
EU	0.660 (0.439)
Anti- Self Dealing Index	0.0965** (0.111)
Home Stock Market Cap.	1.002 (0.00569)
Constant	
Observations	4,514

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Japan/UK Post Sox

	Japan 2 2002-2005	UK 2 2002-2005
Assets (nat. log)	0.779*** (0.0346)	0.795*** (0.0333)
Return on Assets	1.051 (0.0362)	1.048 (0.0344)
Price-high (delta)	1.002 (0.00164)	1.002 (0.00162)
State Taxes	0.757*** (0.0530)	0.767*** (0.0521)
EU	5.752*** (1.798)	6.768*** (2.700)
Anti-Self Dealing Index	0.386 (0.283)	0.796 (0.890)
Home Stock Market Cap.	0.995 (0.00507)	0.996 (0.00512)
Japan	3.519 (2.770)	
United Kingdom		0.440 (0.366)
Observations	5,245	5,245

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Devolution and Market Power

Conclusions

- Institutional components of market power
- Firms as unit of analysis in regulatory politics
- Regulatory politics in multipolarity
- Policy implication – Deregulation vs state building and the influence of emerging and waning powers

Thank You
