Globalization of Capital Markets: Implications for Firm Strategies

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Abstract: The integration of international capital markets makes it easier for firms to access capital outside of their home countries. To date international business (IB) scholars have developed a rich tradition of research on how globalization of product markets may affect a firm's organizational form and business strategy. Unfortunately, there is a paucity of studies that explore the challenges firms face in capital markets beyond their domestic boundaries, be it equity, debt, or venture capital markets. The journal of International Management held a special issue to address these theoretical and empirical gaps in prior IB studies. This paper integrates the five empirical researches in this special issue, analyses and concludes the implications of capital markets globalization for firm strategies. We also try to outline promising avenues for future research.

1. Introduction

The increasing integration of global capital markets now makes it easier for firms to access capital outside of their home countries. Firms access international capital markets through a variety of means such as initial public offerings (IPO), seasoned equity offerings (SEO), cross-listings, special purpose acquisition companies (SPACS), private equity and other informal equity capital channels. Firms can also access debt resources outside their market through bank loans, and foreign bond issues. Meanwhile, Venture capital and private equity have truly become global phenomena and take many forms such as cross-border investment, foreign acquisitions, VC firms opening offices overseas, and influencing their portfolio firms to enter and exit international stock exchanges. Further, other global investors such as Sovereign Wealth Funds (SWFs) manage large portfolios that are diversified not only with regard to different asset classes but also across many nations and geographies.

However, related researches seem to fail to catch up with the integration of global capital markets. Research on the motivation, the processes, the supporting mechanisms, and the diverse range of outcomes that firms experience as a result of entering international capital markets is limited so far. Filatotchev et al. (2016) believe that such researches can draw from a variety of theoretical perspectives and research traditions in international business. The choice of whether and how to access financial resources outside of the firm's home market are all relevant questions that parallel prior international business (IB) research on market and entry mode choice.

To solve the theoretical and empirical gaps in prior IB studies, the journal of International Management held a special issue, which called" Globalization of Capital Markets: Implications for Firm Strategies", that includes five empirical articles studying firm strategies in international context. This paper means to conclude the findings and outlines promising avenues for future research.

2. Globalization of Capital Markets: Implications for Firm Strategies

2.1 Summary of researches about capital market globalization

This section tries to conclude the researches about capital market globalization in the special issue. We focus on the research questions, findings, theories and methods emphatically, summary can be seen in table 1.

Table1. Main content of the five articles

Literature	Research question	Theory	Research design	Findings
Lindorfer and d'Arcy (2016)	Location decisions and the liability of foreignness	The liability of foreignness; Institutional perspective	This article focuses on European companies that are incorporated in and listed on the largest stock markets within the European Union and investigates the spillover effects between factor market and capital market strategies	The number of prior subsidiaries in the host country increases the probability of a host-market equity listing. However, host-market size negatively moderates both spillover effects between equity listings and subsidiary formations.
Lindner et al. (2016)	Cost of capital and institutional distance, quality, and dynamics	Trade-off theory; Institutional theory	This article uses 2005-2013 FDI data to test the linkages between cost of capital and institutional perspective in international context.	Marginal cost of debt is contingent on the institutional contexts, as represented by institutional quality, distance, and dynamics.
Murtinu and Scalera's (2016)	Sovereign Wealth Funds and investment vehicles	Information asymmetry theory	Authors use the sample of 22 SWFs from 15 countries to analyze the determinants of the use of investment vehicles in SWF cross-border acquisitions.	The use of investment vehicles in SWF cross-border acquisitions are determined by multi-level settings, including SWF-specific (opacity and politicization), deal-specific (strategic industry, majority) and country-specific (bilateral trade agreement).
Temouri et al. (2016)	Cross-listing by emerging market firms	Information asymmetry theory; Signal theory	Based on a sample drawn from Indonesia, Mexico, Poland, and South Africa, they try to identify the characteristics of firms that cross-list and evaluate the benefits they derive from cross-listing.	The results demonstrate that cross-listing is beneficial, particularly for emerging market firms who are in countries with lower levels of investor protection, and those that are perceived to be informationally opaque.
Khavul and Deeds (2016)	Initial Co-investment Syndications in an Emerging Venture Capital Market	Agency theory	In the context of the emerging Israeli high-technology venture capital market between 1992 and 2002, authors try to answer how domestic and foreign venture capital syndicate partners select each other for their initial co-investment partnership.	Similarity of investment industry experience and status in an emerging VC market increases the likelihood of co-investment.

2.2 Analysis of the five articles

The five articles study different aspects of the implications of capital market globalization for firm strategies and draw lots of useful conclusions. Lindorfer and d'Arcy (2016) investigate the location decisions of MNCs based on the liability of foreignness and find the spillover effects between equity listings and subsidiary formations in the host country. Lindner et al. (2016) focus on the cost of debt of globalization, and they test the linkages between cost of capital and institutional perspective in international context. Murtinu and Scalera's (2016) inform that Sovereign Wealth Funds (SWFs) may use vehicles to indirectly enter the foreign country and avoid (or reduce) the hostility from the host country. Their analysis of SWFs is more fine-grained than prior studies because they distinguish between different types of investment vehicles and attempt to predict a firm's choice among them by examining deal specific, SWF-specific and country-specific antecedents. Temouri et al. (2016) study about cross-listing and figure out that the benefits of cross-listing are greater for informationally opaque firms and those that have incumbent foreign shareholders. Interestingly, it was found that the benefits from bonding decline with improvement in the quality of home institutions of the firms. Khavul and Deeds (2016) focus on the venture capital market, which is emerging rapidly. When invest into an Emerging Venture Capital Market, it brings a lot of risks. A good way to avoid/reduce these risks is to find a partner. They explore how domestic and foreign VC syndicate partners select each other for their initial co-investment by examining observable economic and social signals, captured as investor experience and conferred status.

When it comes to the theories and methods in the studies of capital market globalization, it is abundant. The theories involved in the special issue include trade-off theory, institutional theory, information asymmetry theory, signal theory, agency theory etc., which are common in the international business researches. Especially the agency theory and institutional theory, they are essential when study the entities in different countries. The five articles in the special issue all use empirical methods, including probit, logit or linear regression models. The samples are selected in the latest or the specific periods, according to the research purposes. The most important data processing is data matching which is very common in MNCs studies.

3. Future research directions

As we all know, the research hasn’t catch up with the development of capital market globalization. This special issue provides some new research directions and we can be inspired by these articles.

Lindorfer and d'Arcy (2016) find the spillover effects between factor market and capital market strategies. It can inspire us that whether the product and capital markets have similar spillover effects. A number of studies show that greater trade between two countries results in increased cross-border asset holdings. And Singh et al. (2005) found that trade has an important effect, in that firms that are relatively more familiar to foreign investors before the listing benefit more by the listing. Obviously, the product market and capital market are linked. Hence, it’s a good opportunity to investigate the product and capital markets.

In the aspect of cross-listing, the research opportunities are also very rich. Temouri et al. (2016) have shown that the advantages of cross-listing are a combination of signaling (access to finance) and the intangible benefits associated with bonding, further research can consider the relative importance of cross-listing for firms seeking debt and equity, and the importance of this in facilitating internationalization by emerging market firms. Does cross-listing for example lead to firms engaging in higher levels of exporting or FDI as bonding potentially reduces a firms' LOF? Equally, as they have shown that FSAs are important in explaining cross-listing, and its benefits, does cross-listing offer an additional location advantage, and in turn amplify the returns to further internationalisation through FDI? These questions are all deserved further discussion.

Venture capital (VC) is another important research field. Khavul and Deeds (2016) focus on initial co-investment, and a natural follow-on to the study would be to explore repeat co-investment ties and to ask whether initial co-investment partnerships create lasting investment relationships? Moreover, do the moderating effects of experience and status persist with follow-on investments? In addition, to what extent do the various initial and follow-on co-investment ties lead to successful exits? That is, are co-investment ties that bring together different types of investors more successful than others? This article can generate lots of research questions, and they are executable by following the methods that Khavul and Deeds (2016) proposed.

Another research idea is to apply other theories in international business to capital market. Theories such as transaction cost economics (TCE), resource dependency theory (RDT) and knowledge-based view are normally used to explain the phenomenon in product market or another situation. According to the interaction between product market and capital market, these theories may apply in the capital market, which is likely to give birth to new findings.

4. Conclusion

The studies about implications of capital market globalization for firm strategies are relative scarcity. This paper is based on a special issue of the journal of international management. We have summarized the findings of the papers presented in this special issue and outlined an agenda for further research on the globalization of capital markets and its implications. The spillover effects between other markets and capital market strategies; SWFs; cross-listing; capital debt; venture capital etc. are all new and worthy research aspects. Observing domestic research, it's rare about implications of capital market globalization for firm strategies. By concluding and drawing lessons from the research questions, theories, methods and findings of the five articles, we believe domestic research about capital market globalization can get a better development.

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