

Private Benefits of State Ownership: The Role of Media and National Culture

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This study contributes to a better understanding of private benefits that may be extracted when the state is a firm's major shareholder. The private benefits of state ownership are the political, social, or personal advantages that controlling politicians may be able to extract from the state-owned enterprise (SOE). We predict that institution-level factors (such as the effectiveness of the nation's media and the characteristics of the nation's culture) may affect the size of the private benefits of ownership for different SOEs. Consistent with our hypothesis, we identify that media and national culture significantly affect the private benefits of state ownership.

INTRODUCTION

This study contributes to our knowledge of the private benefits of control (particularly when the state is the dominant shareholder). Shleifer and Vishny (1998) and Shleifer and Vishny (1994) hold that state-owned enterprises (SOEs) are inefficient because the controlling politicians may deploy the firm's resources to pursue political, social, or personal goals. Accordingly, we define the private benefits of state ownership as the political, social, or personal advantages that the controlling politician may be able to extract from the SOE. To identify factors potentially related to the specific amounts of the private benefits of state ownership, we consider both firm-level and country-level (institutional) characteristics. Furthermore, to provide evidence of the "value" of the private benefits of state ownership, we consider the share-issue privatization (SIP) cross-listing decision.

Since cross-listings frequently require the firm to adhere to stricter disclosure standards and provide more stringent legal protection of investor rights, the act of cross-listing should reduce the expected value of future opportunities for the state to capture the private benefits of state ownership. That is, cross-listing should cause the politicians and bureaucrats to incur an opportunity cost (resulting from the forgone private benefits of state ownership that could have been extracted from the government's remaining stake in the partially-privatized firm). Our expectation is that cross-listings in share-issue privatizations will be more likely when the private benefits of state ownership are lower.

We examine cross-listing decisions in 822 privatizing share offerings from 78 countries during 1985-2007. The data indicate that both firm-level and institution-level factors are significantly related to the cross-listing decisions of SOEs. Of the firm-level characteristics, we find that the SOE's size and industry significantly shape the privatizing government's cross-listing choices. Furthermore, from an institutional perspective, our analysis reveals that cross-listings occur more frequently in developed economies (where

institutions are more likely to be more effective). We find strong evidence that several extra-legal institutions are significantly related to the cross-listing decision. Specifically, we identify a strong association between the probability of cross-listing and the effectiveness of the country's media, the tolerance for the exercise of power, and the level of trust evidenced by the nation's culture.

Our paper is important because it explores the relatively unexplored agency problems stemming from the conflict of interest between the state (as majority owner) and the minority shareholder. We know that insiders extract private benefits of control from minority investors. However, a preponderance of the analysis of this agency issue focuses on the conflict between a private majority owner and a private minority shareholder (e.g., see Jensen and Meckling (1976), Johnson et al. (2000)). There is much less empirical documentation of the private benefits of ownership when the state is the controlling shareholder.

Our study also provides interesting insights regarding the effect of the institutional environment on contracting decisions. Recently, the most widely studied institutional factors have been the nation's legal environment and the legal protection of investor rights (e.g., LaPorta et al. 1997, 1998). However, we also know that in many countries the functioning of the legal system is impacted by, if not controlled by, the state. For example, Hall and Jones (1999) recognize that the state, while charged with erecting barriers against expropriation by controlling parties, is frequently itself a primary agent of diversion. Kahan and Rock (2011) and Frye and Shleifer (1997) note how the state's expropriation of minority investors may be impervious to legal challenge. As a result, when considering how institutions affect the agency problems of state ownership, we must also focus on other, extra-legal institutions (such as the nation's media and its cultural environment).

Additionally, our study contributes to a better understanding of the cross-listing process by providing evidence as to how the size of the private benefits of state ownership may be related to the cross-listing decisions by privatizing governments. A greater investigation of the cross-listing process in share-issue privatizations is valuable due to the significance of these transactions. Bortolotti and Faccio (2009) and Boutchkova and Megginson (2000) report that SIPs are the largest equity offerings in almost all national markets. Furthermore, Bortolotti et al. (2002) note that, of the world's 21 largest equity offerings (all privatizations), 15 of these SIPs involved listing shares on more than one exchange. Thus, since SIPs frequently involve cross-listings, an understanding of cross-listings during SIPs is critical to understanding cross-listing in general.

The remainder of this paper is organized as follows. Section 2 outlines the theoretical foundation for identifying and understanding the potential private benefits of state ownership. In Section 3, we consider means of measuring the private benefits of ownership and the complications that arise when attempting to measure the private benefits of state control. Section 4 specifies our hypotheses regarding the factors potentially relating to the private benefits of state ownership. Section 5 describes our data and methodology. In section 6, we present our results. Section 7 concludes.

IDENTIFYING AND UNDERSTANDING THE PRIVATE BENEFITS OF STATE OWNERSHIP

There are many ways the state may consume private benefits from the ownership of SOEs. First, similar to the tunneling undertaken by majority shareholders within private firms (Johnson et al. (2000)), politicians and bureaucrats may exploit their power as majority owners in SOEs to extract private gains through related party transactions, favorable pricing, or outright theft. Fan et al. (2007), Hellman et al. (2000), and Shleifer and Vishny (1994) describe how politicians controlling SOEs may undertake rent-seeking in the pursuit of personal benefits (to the detriment of firm value). Therefore, tunneling by the majority shareholder may be exacerbated when the state is the controlling shareholder.

Second, the patronage hypothesis (Dinc and Gupta (2011)) holds that politicians may use SOE resources to reward supporters and otherwise garner favor with potential voters. For example, Claessens et al. (2008) and Shleifer and Vishny (1994) note that politicians may exploit SOEs to channel financing to preferred industries or to loyal constituents. Faccio (2010), Dinc (2005), and Khwaja and Mian (2005)

also describe how politicians divert funds from SOEs to bankroll politically-connected but frequently uncreditworthy firms.

Third, private benefits of state ownership may additionally include the politician's use of SOEs to reward constituents by maximizing employment and providing jobs to favored supporters and potential allies. Specifically, Dinc and Gupta (2011), Sapienza (2004), Perrson and Tabellini (2002), and Cox and McCubbins (1986) describe how politicians may co-opt the hiring decisions of SOEs to create jobs for friends and family. Gupta (2005) further notes that SOEs are frequently overstaffed, with workers who are frequently overpaid.

We next document the empirical attempts to measure the private benefits of ownership and consider the application of these methodologies to the measurement of the private benefits of state ownership.

MEASURING THE PRIVATE BENEFITS OF OWNERSHIP: PRIVATELY-OWNED VS. STATE-OWNED FIRMS

Dyck and Zingales (2004) proclaim definitely that private benefits are "difficult to observe and even more difficult to quantify in a reliable way" (pp.537-538). Nevertheless, despite the challenges and the empirical imprecisions, there have been two primary approaches to providing quantitative approximations of the private benefits of ownership for privately-owned firms. Drawing from Dyck and Zingales (2004), we summarize below.

To estimate the value of private benefits of control, Dyck and Zingales (2004) and Barclay and Holderness (1989) examine block trades in which an acquirer purchases a controlling ownership interest through a privately-negotiated transaction. Dyck and Zingales (2004) and Barclay and Holderness (1989) argue that the premium paid for a control block (i.e., the difference between the price per share of the control block of shares and the stock price on the exchange for a minority share) represents the market value of the benefits that accrue exclusively to the controlling shareholder. Providing economic justification for this approach, Dyck and Zingales (2004) contend that acquirers would only be willing to pay this premium for control if that control granted private benefits (that would not be shared with the other stockholders).

An alternative empirical approach to measure the private benefits of control is to consider the difference in prices of shares in dual-class firms. Barclay and Holderness (1989) and Grossman and Hart (1988) note that firms may establish ownership structures with dual-class shares in order to perpetuate the control of private benefits. Within a dual-class firm, the two tiers of stock typically convey different voting rights. Shareholders with more powerful voting rights hold much greater sway over the firm's decision-making and thus secure greater dominion over the private benefits of ownership. Accordingly, to estimate the value of private benefits of control, Nenova (2003) and Zingales (1994, 1995) identify the price premium reflected in the value of the shares granting the more powerful voting rights. Researchers using this methodology, similarly utilized by Grossman and Hart (1988) and Lease et al. (1983, 1984), interpret the price differential as reflecting the market's valuation of the private benefits that may be extracted by the owner of the higher-vote shares.

In each of the above described methodologies, it is assumed that the private benefits of control can be bought and sold (and can thus be transferred intact from one owner to another). Accordingly, the voting-rights price differentials or the bid premia reflect the value of control that is transferable to outside investors. However, we contend that the lion's share of the private benefits of state control are generally non-transferable. As we noted in the previous section, many of the private benefits of state ownership are idiosyncratic to the state as controlling shareholder. For example, controlling politicians frequently deploy SOE resources for political advantage (such as through creating jobs for voters or providing economic subsidies to constituents). Since only politicians care about courting voters or appeasing constituents, these political benefits are only valuable to politicians.

Given the difficulties of providing a direct measure of the private benefits of state control, we attempt to do the next best thing and seek indirect measures of the value of control of a SOE. Dyck and Zingales (2004) concede that we must frequently rely on "indirect" evidence to value the private benefits of

control. Citing the most compelling precedent regarding the reliance on “indirect” evidence to evaluate the private benefits of control, Dyck and Zingales (2004) note that a cornerstone of the law and finance literature is quarried from “indirect” evidence of a causal relation between the private benefits of control and the development of financial markets (LaPorta et al. (1998)). That is, in nations characterized by higher private benefits of control, financial market development is thwarted since minority investors are hesitant to participate as investors (due to fears of expropriation by majority owners). Dyck and Zingales (2004) contend that this evidence is “indirect” in that this major tenant of the law and finance literature is predicated on the assumption that stronger protection of minority investors is correlated with greater financial development because more effective legal protection mitigates private benefits of control. Therefore, the lack of development in a nation’s financial markets provides “indirect” evidence of the magnitude of the private benefits of control in that nation.

To provide similar “indirect” evidence regarding the private benefits of control, we follow LaPorta et al. (1997, 1998). In seminal “law and finance” studies, LaPorta et al. (1997, 1998) identify institutional factors (i.e., legal system characteristics) and hypothesize a relation to the private benefits of control. Similarly, when contemplating the private benefits of state ownership, we identify institutional factors (i.e., legal and extra-legal characteristics) and hypothesize a relation to the private benefits of state ownership.

FACTORS POTENTIALLY RELATING TO THE PRIVATE BENEFITS OF STATE OWNERSHIP

To identify factors potentially related to the specific amounts of the private benefits of state control, we consider both firm-level and country-level (institutional) characteristics. Our expectation is that governments should be less likely to cross-list if the proxy suggests that the private benefits of state ownership are greater. This is consistent with Piotroski and Srinivasan (2008) and Doidge et al. (2004), who predict that firms will avoid cross-listings (especially cross-listing in strong-protection markets) in order to preserve private benefits of ownership.

Firm-Level Characteristics and the Private Benefits of State Ownership

We first describe firm-level characteristics which may be related to the amount of private benefits of state ownership and thus may impact the actions of privatizing governments when making cross-listing decisions.

Firm’s Size

Of the firm-level factors, the size of the SOE may have one of the most direct relations to the potential magnitude of private benefits of state control. Hellman et al. (2000) contend that smaller firms may present a more appealing target for the “grabbing hands” of the state. Hellman et al. (2000) argue that a lower level and intensity of monitoring of smaller firms contributes to this greater vulnerability to expropriation by the state. For example, Durnev and Kim (2005), Dyck and Zingales (2002), and Watts and Zimmerman (1986) recognize that public visibility typically increases with firm size, and larger firms are more likely to attract attention by the media. As we will explore further in this paper, oversight by the public generally and by the media specifically can be powerful deterrents to state interference and exploitation. Our proxy for firm size is the dollar amount of each equity offering. We expect a positive relation between a SIP’s offering size and the probability of cross-listing.

Firm’s Industry

The industry of the to-be-privatized firm may affect the state’s cross-listing choices because different industries may present different opportunities for states to extract value from SOEs. Accordingly, we seek to identify how industry-specific characteristics may be related to the private benefits of state ownership. We include industry-specific indicator variables. Our industry indicator variables are: High Tech (1 if

firm is from a high-tech industry; as defined by Pagano et al. (2002)), Telecom (1 if firm is a telecom), and Financial (1 if firm is a financial institution).

First, Durnev and Kim (2005), Dyck and Zingales (2004), and Claessens and Laeven (2003) suggest that diversion by controlling shareholders (i.e., tunneling, or in our case, private benefits of state ownership) will be lower if the firm is primarily comprised of tangible assets. These authors argue that fixed assets may be more effectively monitored which should increase the cost of diversion and thus reduce its likelihood. As a result, we contend that SOEs with significant holdings of fixed assets should be less appealing targets for state intervention. Since there should be lower private benefits of state control, we expect that high-fixed asset firms will be more likely to be cross-listed. Of the industries that we designate with indicator variables (high-tech, financial, and telecom), we expect that the telecom firms should have the largest holdings of fixed assets and thus should be more likely to be cross-listed.

Also, certain stock exchanges have the reputation and infrastructure to better handle listings from specific industries. Pagano et al. (2002) and Blass and Yafeh (2001) argue that U.S. exchanges are better suited for the trading of high-tech firms. These studies conclude that high-tech firms gravitate towards listing in New York because the prevalence of knowledgeable analysts and sophisticated investors contributes to a more efficient flow of information and a deeper understanding of the nuances of the industry. Furthermore, Pagano et al. (2002) and Saudagaran (1988) document a “follow the leader” effect whereby firms are compelled to cross-list in the same markets as their competitors. This industry clustering facilitates comparisons between peers and allows for a better assessment of risk and relative valuation. Providing evidence of this effect, Pagano et al. (2002) find that a firm’s cross-listing decision is positively related to the number of companies in the same industry that are already listed on a specific exchange. As we will further contend in this section, an environment of more intensive monitoring and more extensive information disclosure should reduce the value of the private benefits of state ownership. Therefore, since the more effective monitoring that results from trading on a more knowledgeable market should reduce the private benefits of state ownership, we expect that high-tech firms should be cross-listed more frequently.

Furthermore, Claessens et al. (2008) note that state ownership and control of financial institutions may be especially valuable to politicians because deployment of bank financing provides a potentially lucrative mechanism for supplying political patronage and for cultivating political connections. Faccio (2010), Cull and Xu (2005), Dinc (2005), Khwaja and Mian (2005), Sapienza (2004), and Johnson and Mitton (2003) also document that politically-connected firms are the beneficiaries of larger amounts of lending from state-owned banks (SOBs). This preferential access to financing, frequently granted to firms of dubious credit quality and provided at lower interest rates, represents a powerful mechanism for politicians to channel resources to favored constituents and to reward political supporters. Therefore, state-owned banks may have a special place in the hearts of politicians. Willie Sutton, the Depression-era American bank robber, purportedly said that he robbed banks “because that’s where the money is”. Governments may also choose to own and control banks “because that’s where the political power is”. We investigate whether the state ownership of banks appears to offer higher private benefits of state control. If state-owned banks provide greater private benefits of state ownership, SOEs in the financial sector should be less likely to be cross-listed.

Based on this industry-specific analysis, we expect that telecoms (lower private benefits of state control due to more fixed assets) and high-tech firms (lower private benefits of state control due to more effective monitoring) should be more likely to cross-list while financial firms (higher private benefits of state control because of more opportunities to preferentially deploy financial resources) should be less likely to cross-list.

Firm’s Product Market

The degree of product market competition may also be related to the magnitude of the private benefits of state ownership. Dyck et al. (2008), Dyck and Zingales (2004), Haw et al. (2004), and Shleifer and Vishny (1997) suggest that the private benefits of state ownership should be lower for SOEs in more competitive markets. That is, if operating in highly competitive environments, firms may not be able to

survive if further hindered by the “grabbing hands” of the state. Similarly, Shleifer and Vishny (1994) note that the control of firms in monopolistic environments (the opposite of firms in competitive industries) can be especially valuable to politicians. Immune from competitive pressure, monopolistic SOEs can better support bloated employment (e.g., provide jobs for political allies) and can better absorb the manipulation of pricing that may be engineered by the government in the pursuit of political objectives. We contend that firms that produce tradable goods (i.e., goods that can be sold in multiple, international markets) should generally face more product market competition. Therefore, since the private benefits of state ownership should be lower in more competitive environments, we expect a greater likelihood of cross-listing if a SOE produces tradable goods.

In our subsequent empirical analysis, we follow the methodology of Sarkissian and Schill (2004) to identify the firms that produce tradable goods and thus operate in more competitive markets. We designate these firms with an indicator variable (1 if the firm produces tradable goods).

Institution-Level Characteristics and the Private Benefits of State Ownership

Our initial proxy for the institutional environment is a dummy variable indicating whether the country is a member of the OECD. Although a rather crude measure, OECD membership reflects a nation’s overall level of economic development and correspondingly the potential level of development of its institutions. Specifically, Ball et al. (2000), Lang et al. (2003), Boehmer et al. (2005), and D’Souza et al. (2005) find that there are substantial institutional differences between developing and developed markets. Furthermore, Bailey et al. (2006), Sarkissian and Schill (2004), and Foerster and Karolyi (1999) identify that the impact of cross-listing appears to differ between firms from developed and developing markets. Accordingly, we include an indicator variable (1 if from an OECD nation) to assess whether the factors associated with cross-listing decisions differ according to the level of economic and institutional development.

While the country’s general level of development (i.e., OECD vs. non-OECD) may provide a broad perspective of the relation between institutional infrastructure and the private benefits of state control, we seek to develop a more nuanced understanding of potential cross-sectional variation in the private benefits of state ownership. To wit, we next consider how both legal and extra-legal institutions may affect the private benefits of state control and thus may also influence the likelihood of cross-listing. We first examine the impact of specific legal institutions (such as the level of protection of minority shareholders). We then investigate the effect of specific extra-legal institutions (such as the media and the national culture).

Legal Environment, the Private Benefits of State Ownership, and the Cross-Listing Decision

Dyck and Zingales (2004) and Johnson et al. (2000) note that in some countries, particularly those with civil law systems, it is easier for controlling shareholders to exploit private benefits of ownership because of lower levels of legal protection and lower amounts of accounting transparency. We measure legal environment with the Anti-Self Dealing Index (from Djankov et al. (2008)). The Anti Self-Dealing Index focuses on shareholder protection against expropriation by insiders and takes on a higher value as the legal protection of stockholder rights increases. As described by Djankov et al. (2008) and Johnson et al. (2000), insider self-dealing (i.e., expropriation by majority owners or “tunneling”) is a major concern to minority shareholders in most countries. The Anti Self-Dealing Index directly targets the level of legal protection against this risk and has been used extensively in recent studies of the intersection of law and finance. Furthermore, the quality of each nation’s law enforcement may also affect the private benefits of state ownership. We measure the effectiveness of law enforcement in each country using the Rule of Law Index from LaPorta et al. (1997). This variable takes on a higher value for nations with a stronger tradition of law and order.

In addition to considering each nation’s legal environment, we follow Dyck and Zingales (2004) and Haw et al. (2004) and examine how other, extra-legal institutions may relate to the private benefits of state ownership. We next describe the extra-legal variables that we consider.

Media, the Private Benefits of State Ownership, and the Cross-Listing Decision

Drawing attention to an often overlooked institutional factor affecting corporate governance, Dyck et al. (2008), Djankov et al. (2002), and Dyck and Zingales (2002) focus on how the media may potentially be associated with the private benefits of control. In the following section, we describe how an active and effective media may reduce the private benefits of state ownership and thus increase the likelihood of cross-listings in SIPs.

Bushman et al. (2004) and LaPorta et al. (2002) note that expropriating states frequently attempt to suppress information to mask the predatory behavior of politicians. However, an active and effective media is more likely to disclose diversion by the state and inform voters regarding a politician's use of SOE resources for political or personal advantage. Specifically, Dinc and Gupta (2011), Haw et al. (2004), and Hellman et al. (2000) contend that media oversight decreases patronage opportunities and increases the politician's public accountability for any private consumption of corporate resources. Therefore, an effective and independent media, by exposing if not restraining the "grabbing hands" of the state, should reduce the private benefits of state ownership.

The privatization process is an insightful venue for specifically understanding how the activities of the media may be related to the private benefits of state control. First, Dyck and Zingales (2002) note that the disciplining power of the media is most pronounced when large groups of citizens are personally impacted by an event. In a private-firm setting, the media may be more likely to investigate and report an expropriation of minority investors if more stockholders are affected. For a state-owned firm, the number of people affected is very high because an SOE is "owned" by all citizens of the country. Since everyone in the country is a "shareholder", SOEs (and the potential expropriation of SOEs by politicians) may attract a greater level of attention from the media. Second, more so than private-sector managers, politicians overseeing SOEs will be cognizant of reputational capital and will be focused on maintaining public image and appeal to voters. Djankov et al. (2010), Durnev and Kim (2005), Haw et al. (2004), Brunetti and Weder (2003), and Dyck and Zingales (2002) note that an independent and inquisitive media will draw attention to the extraction of private benefits of control. Informed voters will thus be better able to hold politicians accountable for misconduct (such as politically-motivated expropriation of corporate resources or other financial trespasses). The media's public dissemination of information about such transgressions will raise the costs of diversion and lower the value of the private benefits of state ownership.

In our empirical analysis, we use three proxies to measure the independence and the veracity of the media within each country. First, we follow Brunetti and Weder (2003) and Dyck and Zingales (2002) and utilize the Press Freedom Index from Freedom House. Comprised of indicators of press freedom (especially freedom from political influence), this index ranges from 0 to 100, with higher scores reflecting lower freedom of the press.

For our second and third measures of media efficacy, we consider the prevalence of government ownership of the press and the television outlets, respectively. Dyck and Zingales (2004) and Djankov et al. (2003) note that state control may weaken the media's willingness to expose government-initiated diversion or financial malfeasance. These findings suggest that a state-owned media, perhaps reluctant to bite the hand that feeds it, is a less effective watchdog and is less likely to alert the public of misappropriation within SOEs. Accordingly, our second proxy for media effectiveness focuses on government control of the press (i.e., market share of state-owned newspapers as a percentage of the aggregate market share of the country's five largest daily newspapers). Our third proxy indicates the amount of state control of television (i.e., market share of state-owned television stations as a percentage of the aggregate market share of the country's five largest television stations). Higher values of each of these metrics reflect a media that is less effective at identifying state corruption or misappropriation (which will thus suggest greater values of the private benefits of state control). Therefore, due to the elevated values of the private benefits of state ownership, we expect a negative relation between the measures of media effectiveness and the likelihood of cross-listing.

National Culture, the Private Benefits of State Ownership, and the Cross-Listing Decision

Especially regarding privatization decisions, we contend that national culture is an important but often overlooked country-level characteristic. Coffee (2001) observes that social norms may have a more powerful impact on corporate behavior than legal rules or other more formal institutions and that the study of culture helps broaden our thinking beyond the more pervasive “nexus of contracts” perspective. Licht (2001) argues that focusing only on firm-level factors and the country’s formal legal environment often provides an incomplete and sometimes misleading perception of financial policies. To complement and enrich the analysis of financial decisions, Licht (2001) concludes that we must consider differences in national culture. Additionally, after controlling for a multitude of firm-specific and institutional factors, Aggarwal et al. (2009) recognize that national culture may also be a major influence on corporate governance policies, and cultural attributes may sometimes substitute for explicit corporate governance mechanisms. More broadly, Branson (2001) contends that cultural differences are a primary factor contributing to the lack of global convergence in corporate financial policies. In arguing as to why American-style corporate governance is not universally embraced, Branson (2001) notes that “cultural diversity militates against convergence”. These studies all suggest that national culture is another potentially influential extra-legal institution, and we should consider cultural context in empirical models of financial decision-making.

National Culture: Tolerance for the Exercise of Power

To examine how national culture may impact the private benefits of state ownership, we must first be able to accurately measure culture (and more importantly, assess cross-country cultural differences). The Dutch sociologist Geert Hofstede (1980) developed a taxonomy of cultural value dimensions that we may use to better understand cultural differences. One of Hofstede’s measures of national culture (Individualism vs. Collectivism) focuses on the relation between the individual and the group. In a society that Hofstede ranks high regarding Individualism, the interests of the individual are more likely to prevail over the interests of the group. Conversely, in societies that score lower on Hofstede’s Individualism scale (and thus rank higher regarding Collectivism), the general interests of the collective prevail over those of the individual.

When considering a relation between national culture and the private benefits of state ownership, we first focus on Hofstede’s measure of Individualism and hypothesize that the private benefits of state control should be lower in a society that is more Individualistic (i.e., in a country that has a higher score on Hofstede’s Individualism metric). Eun et al. (2015) note that investors in highly individualistic cultures will more aggressively gather and process financial information (contributing to an information environment of greater transparency in countries scoring higher on Hofstede’s Individualism spectrum). This greater transparency should decrease the incidence of expropriation and thus should reduce the private benefits of ownership. Further, Gorodnichenko and Roland (2015) and Roland (2004) argue that highly individualistic societies are more likely to demand procedural safeguards against authoritarian exploitation (such as constraints on the state’s executive powers). Similarly suggesting that the power of the state is limited in a more individualistic society, Husted (1999) and Hofstede (1997) identify a negative relation between Individualism and the size of government (i.e., government consumption as a percentage of GDP). Furthermore, observing how a nation’s culture may impact a state’s economic authority, House et al. (2002) find that, in highly individualistic cultures, the state plays a much less prominent role in resource allocation. Hence, by affecting a society’s tolerance of government power, the nation’s level of individualism should affect the magnitude of private benefits of state control.

Furthermore, Griffin et al. (2013), Licht et al. (2007), and Licht et al. (2005) describe how national culture may influence corporate governance practices around the world. Licht et al. (2007) conclude that culture helps establish the informal institutional infrastructure for corporate governance by defining preferences regarding transparency and by setting parameters regarding the exercise of authority. More specifically, Griffin et al. (2013) confirm a positive relation between Individualism and the quality and effectiveness of corporate governance systems. Since good governance restrains possibilities for exploiting economic authority (Licht et al. (2007)), the private benefits of state ownership should be

lower in countries scoring higher on Hofstede's Individualism metric. Therefore, due to the potentially lower private benefits of state ownership in a more individualistic society, we expect a positive relation between a nation's Individualism score and the likelihood of cross-listing during share-issue privatizations.

The Power Distance Index (PDI) is another of Hofstede's cultural value dimensions that may be related to the magnitude of the private benefits of state control. The Power Distance Index (PDI) reflects each society's solution to problems resulting from social inequality. Accordingly, Hofstede's PDI indicates the extent to which the less powerful members of a society accept the legitimacy of an unequal distribution of authority. A high value of PDI is indicative of a society in which authority is distributed unequally. If a nation's PDI is lower, social and authoritative status are less well-defined and power is more decentralized.

The private benefits of state control should be more valuable in a society characterized by higher degrees of power distance. For example, a classic manifestation of a private benefit of state control, politically-motivated patronage (i.e., the politician's use of SOE resources to reward supporters and associates) should be more likely in a country that is more tolerant of the unequal distribution of authority. Khatri et al. (2006) and Husted (1999) find that patronage (such as cronyism, favoritism, nepotism, paternalism, etc.) is more rampant in high PDI countries. Furthermore, in a high PDI society, the use of power to extort personal gains would be accepted (Hofstede (1980)); in a low PDI society, a similar extraction of private benefits would be detested (Khatri et al. (2006)).

Drawing a further connection between power distance and the private benefits of state control, Licht et al. (2001) report that, for nations with a higher value of PDI, a greater degree of inequality is expected by followers and leaders. If we define "followers" as the country's citizens (a.k.a. the voters and the "minority shareholders" of the SOEs) and if we define "leaders" as the politicians or government officials controlling the state-owned firms, it is reasonable to contend that this inequality between followers and leaders may contribute to a greater propensity for the leaders to feel empowered to extract a higher level of private benefits of control. Additionally, Coffee (2001) contends that a nation's PDI serves as an indicator of its social cohesion (i.e., reflects the extent to which a society is "divided"). Coffee (2001) argues that a "divided" society is more likely to condone predatory actions by those in positions of power. This would also suggest that higher levels of PDI should correspond to larger values of private benefits of state ownership. Accordingly, we expect that privatizing governments in countries with higher levels of PDI should be less willing to cross-list.

As described by Licht et al. (2007), the Schwartz measure of Egalitarianism is another cultural dimension that may be significantly related to the value of the private benefits of state ownership. The Egalitarianism metric represents how a society is organized to preserve the social fabric. The degree of Egalitarianism reflects a society's commitment to equality for all citizens and mirrors a society's orientation regarding the legitimacy of power asymmetries. At one end of the spectrum, a low Egalitarianism culture stresses strict observation of role obligations. Members of a low Egalitarianism culture are more likely to defer to those of a higher social status. Conversely, high Egalitarianism societies emphasize equality and selfless commitment to promoting the welfare of others. Members of a culture that Schwartz ranks as high in terms of Egalitarianism are more likely to treat each other as moral equals. There is little tolerance for the abuse of power, and social justice is a higher priority. As such, the Schwartz (2006) measure of Egalitarianism should also reflect a nation's willingness to accept the exercise and potential abuse of authority. Because a culture reflecting low degrees of Egalitarianism should legitimize the use of authority for private advantage, we expect a negative relation between Egalitarianism and the value of private benefits of state control. Thus, the likelihood of cross-listing should be greater when a country's Egalitarianism score is higher.

National Culture: Trust

Sapienza et al. (2013) note that trust is another cultural factor that is becoming more widely studied. Since measures of trust may provide alternative means of assessing cultural differences, we also include trust variables in our attempts to identify which cultural factors are potentially related to the private

benefits of state ownership. Specifically, Putnam et al. (2006) and House et al. (2004) argue that government actions are reflections of cultural norms. Therefore, in a society plagued by distrust, predatory or opportunistic expropriation of SOEs by politicians should be more prevalent (which would suggest a higher level of private benefits of state ownership).

We first focus on the distrust of politicians because it is a lack of trust within the political system that may be most directly associated with the magnitude of the private benefits of state control. The “Trust in Politicians” variable from the Global Competitiveness Report provides an indication of a country’s perception of the honesty of its elected officials. Scored on a range of 1-7, higher values of this metric reflect a greater level of trust of politicians. If a higher value of trust is rewarded by (or has been earned by) more faithful stewardship of SOEs, we should expect lower private benefits of state control (and thus a higher likelihood of cross-listings when conducting share-issue privatizations).

The Societal Cynicism measure (from Leung et al. (2002)) provides another unique perspective of the potential association between trust and the private benefits of state control. Leung et al. (2002) contend that their measure of Societal Cynicism contributes to a better understanding of cultural differences by identifying features of national culture that are distinct from the other major cultural dimensions. Specifically, Societal Cynicism gauges the prevalence of “maleficence” or the amount of negative perception of human nature and/or degree of pervasive mistrust of social institutions. Especially germane to our assessment of the magnitude of the private benefits of state control, the Societal Cynicism metric reflects a society’s underlying predisposition as to whether people are easily corrupted by power. Higher scores of the Societal Cynicism score indicate a less trusting and more cynical culture (and thus suggest an environment where the private benefits of state ownership should be greater). That is, we contend that those more readily corrupted by power should be more likely to consume private benefits of state ownership. Accordingly, we expect that the cross-listing of SIPs should be more likely in a country with a low Societal Cynicism score.

Finally, the Personal Autonomy statistic (from the Freedom of the World Report) provides intriguing insights regarding the potential relation between trust and the private benefits of state control. The Personal Autonomy statistic reflects how well a society trusts its government as a manager of SOE resources. The developers of the metric canvass the country’s citizens as to whether the people believe that the economic benefits from SOEs are accruing to the broad population or are being captured by a privileged few. Perhaps more so than the other proxies, this statistic explicitly assesses the nation’s perception of its government’s appetite for the consumption of private benefits of state ownership. Lower values of the Personal Autonomy metric indicate a greater perceived amount of state-facilitated misdirection of SOE resources. Therefore, due to its negative relation to the private benefits of state control, the Personal Autonomy score should be positively associated with the likelihood of cross-listing during SIPs.

DATA AND METHODOLOGY

Our empirical analysis focuses on whether or not the privatizing government chooses to cross-list, which we define as a government choosing to conduct all or part of the share-issue privatization on a stock market other than that of its home country. Our general premise is that cross-listings will be more likely when the private benefits of ownership should be lower.

Data on share-issue privatizations are from the Securities Data Corporation (SDC) – Thomson One Banker database. Transaction-specific data provide details regarding the issuer (firm name, country, industry, etc.) and the offering (amount, terms, markets, etc.). We verify and supplement with data from other sources, such as Privatization Barometer, Privatization International, and the World Bank Privatization database. Our data are from 1985-2007 and cover 822 privatizing transactions (SIPs) from 78 countries.

Our primary variable of interest is whether a privatizing share offering is cross-listed. Table 1 provides issue details for each of the countries in the sample. In Table 2, we summarize our primary explanatory variables. These variables represent the extra-legal institutional characteristics that we

hypothesize are related to the private benefits of state ownership. We array our extra-legal factors into three categories: media, national culture (tolerance for power), and national culture (trust). See Table 2 for the specific sources of data for each of the extra-legal variables.

Table 3 presents summary statistics and univariate analysis of our primary explanatory variables. Having identified institutional characteristics potentially associated with the private benefits of state ownership, we next conduct univariate tests to provide initial evidence as to whether each variable is individually related to the cross-listing decision. If the variable suggests an institutional environment conducive to higher private benefits of state control, we expect cross-listing to be less likely. Our univariate analysis supports this contention.

From Table 3, we see that each of our media statistics has a significantly lower mean value (reflecting a more effective media) in countries that cross-list more frequently. Similarly, the differences in the means of each of our cultural variables also suggest that countries where cross-listings occur more frequently are significantly different from those that do not typically cross-list. Specifically, cross-listing is more likely in countries characterized by lower levels of Power Distance and by greater levels of Individualism, Egalitarianism, and Trust. Each of these differences is consistent with our expectations regarding how each extra-legal characteristic should be related to the private benefits of state ownership (and thus also related to the cross-listing decision).

EMPIRICAL RESULTS

To provide evidence as to the economic impact of the private benefits of state ownership, our empirical analysis focuses on cross-listing decisions of privatizing governments. We seek to understand how firm-level and institution-level factors may be related to the private benefits of state ownership.

Firm-Level Characteristics – Firm’s Size

Model 1 (of Table 4) focuses on the relation between the offering size and the state’s cross-listing decision. The data indicate a positive, significant association between the offering size and the likelihood of cross-listing. This result supports our contention regarding the relation between the private benefits of state control and the cross-listing decision. Specifically, extant research suggests that the private benefits of state ownership may be lower for larger firms (due to greater visibility and more effective corporate governance of larger SOEs). By indicating that governments are more willing to cross-list larger SOEs, the findings are consistent with our expectation that cross-listings are more likely when the private benefits of state ownership should be lower.

Firm-Level Characteristics – Firm’s Industry

Boehmer et al. (2005), Bortolotti et al. (2002), and Jones et al. (1999) note that governments consider an SOE’s industry when structuring privatizing share offerings. Specifically, Bortolotti et al. (2002) contend that the political benefits of state control are stronger in certain industries. Therefore, the industry-specific factors that influence the private benefits of state ownership should also be associated with the likelihood of cross-listing.

High-Tech Industry

Building upon the results of Blass and Yafeh (2001), we document that privatizing governments more frequently cross-list high-tech firms during SIPs. While Blass and Yafeh (2001) focus on IPOs of private companies, our study examines only privatizations. Nevertheless, regardless of the ownership structure (private or state owners), it appears that high-tech firms are well-suited for cross-listings. This cross-listing may occur because of the prevalence of analysts and peer firms on certain markets (such as in the U.S. equity markets). This industry clustering (documented by Pagano et al. (2002) and Saudagaran (1988)) results in high-tech firms generally gravitating towards listing on the same exchange (which facilitates valuation and risk assessment and contributes to more effective monitoring). This environment of more intensive scrutiny by knowledgeable analysts and investors should reduce opportunities for

misappropriation by controlling shareholders and should thus decrease the private benefits of state ownership. As a result, the lower private benefits of state control should contribute to a greater likelihood of cross-listing. The findings presented in Model 3 support this contention.

Telecom Industry

The type of asset that the SOE holds may affect its susceptibility to expropriation by controlling shareholders. Specifically, Durnev and Kim (2005) and Claessens and Laeven (2003) note that firms comprised predominantly of fixed assets are less vulnerable to diversion by insiders because tangible assets are more easily monitored. Accordingly, since the private benefits of state control should be lower, SOEs with larger amounts of fixed assets should be more frequently cross-listed. Providing evidence consistent with this prediction, Model 4 indicates that high fixed asset firms (such as telecoms) are more likely to be cross-listed by privatizing governments.

Financial Industry

Boehmer et al. (2005) find that the privatization of state-owned banks is heavily influenced by political factors. State-owned banks are especially valuable to governments both because of their important role in economic development and because of the political leverage provided by control over lending decisions. Therefore, since the state's private benefits of control (especially the political benefits) may be greater in banks, privatizing governments may be less likely to cross-list SIPs in that industry. The data confirm this. Model 5 of Table 4 indicates that SIPs of financial firms (e.g., banks) are significantly less likely to be cross-listed. This is additional evidence of how political considerations may contribute to the private benefits of state ownership and may be related to the state's cross-listing decisions.

Firm-Level Characteristics – Firm's Product Market

In Table 4, we also consider whether SOEs that produce tradable goods (essentially physical products that can be sold on foreign markets) are significantly more likely to cross-list. Since SOEs that produce tradable goods should be subject to greater product market competition, the private benefits of state control should be lower (which should contribute to a greater likelihood of cross-listing). Our findings do not strongly support this conjecture. There is only marginal evidence (Model 4) of the expected positive relation.

Institutional Characteristics – Level of Economic Development

In addition to identifying the impact of these firm-level variables, Models 2-5 begin to specify how institutional factors may be related to the private benefits of state ownership and thus may be related to the SIP cross-listing decision. First, the data indicate that the country's level of economic development is significantly associated with cross-listing activity. In Table 4, we identify a greater likelihood of cross-listing by firms from OECD nations. As we noted earlier, the extant literature suggests that cross-listing firms face a trade-off between the advantages from bonding and the advantages from the private benefits of control. It may be that private benefits of ownership are more highly valued by governments in certain institutional environments (such as those of developing economies). For example, given the less effective institutional environment in many developing countries (as documented by World Bank (2002)), governments may be better able to exploit the political advantages of state-ownership in emerging economies and thus may be less likely to voluntarily curtail those private benefits of state control by cross-listing in a more protective market. Therefore, our finding that OECD nations are significantly more likely to cross-list during SIPs is consistent with our general contention that governments should cross-list more frequently when the private benefits of state ownership are lower.

In the following analysis, we seek to identify the specific institutions that should be most significantly associated with the private benefits of state control.

Institutional Characteristics – Legal Environment

The results in Table 4 suggest that the legal variables are not significantly related to the privatizing government's cross-listing decision. We measure the legal environment with the anti-self dealing index (Djankov et al. (2008)). The data indicate that the protection of shareholder rights, commonly recognized as an important factor in cross-listings by private firms, generally plays no consistently significant role in the decision to cross-list in privatizations. We also obtain similarly insignificant results when we include measures of the effectiveness of law enforcement (i.e., the Rule of Law Index from La Porta et al. (1997)). Therefore, regardless of how assessed, legal environment has no consistently significant impact on cross-listing decisions in our sample of share-issue privatizations.

We next consider how other, extra-legal institutions may affect the private benefits of state ownership and thus may also affect the likelihood of cross-listing by privatizing governments.

Institutional Characteristics – Media

By drawing attention to the potential exploitation of SOEs by government officials, a more effective media should reduce the potential value of the private benefits of state ownership. The resultant lower private benefits of state control should be associated with a greater likelihood of cross-listing during share-issue privatizations. The data presented in Table 5 strongly support our prediction. In models 1-3 of Table 5, the Press Freedom index is significantly and negatively related to the likelihood of cross-listing. This indicates that cross-listings are more frequent in nations where the media is more effective. The remaining models of Table 5 further confirm the significant relation between expected media effectiveness and the propensity for cross-listing. Specifically, models 4-6 show that cross-listings are significantly more likely when the press is not state-owned. Models 7-9 report a similar negative and significant relation between state-ownership of TV and the likelihood of cross-listing. Building upon the findings of Dyck and Zingales (2004) and Djankov et al. (2003), we contend that a state-owned media may be reluctant to report governmental transgressions or other instances of diversion. Therefore, greater state-ownership may weaken media efficacy. Overall, the highly-significant results from Table 5 are consistent with our prediction that a more effective media, by lowering the private benefits of state ownership, is associated with a greater likelihood of cross-listing by governments during share-issue privatizations.

Institutional Characteristics – National Culture

Following Stulz and Williamson (2004), we recognize that informal institutions (such as national culture) may also be associated with the potential magnitude of the private benefits of state control. Specifically, the opportunities for politicians to exploit SOEs for personal or political advantage should be greater in a society that is more tolerant of the discretionary exercise of authority by those in positions of power. In Table 6, we use three cultural variables to measure the country's potential degree of tolerance for the exercise of power.

In models 1-3, we measure national culture with Hofstede's Individualism statistic. Since Gorodnichenko and Roland (2015) and Licht et al. (2007) show that a more individualistic society should have a lower tolerance for the exercise of power, each nation's Individualism score should be negatively related to the private benefits of state control (and thus positively related to the likelihood of cross-listing). The data strongly support our hypothesis. Models 1-3 indicate that cross-listings are significantly more likely in countries that are more individualistic.

Another cultural variable which may correlate with the private benefits of state control, the Egalitarianism metric (from Schwartz (2006)) reflects the proclivity of a society to defer to those of higher social status. Siegel et al. (2013) and Licht et al. (2007) contend that the Egalitarianism variable indicates the degree to which a society legitimizes the utilization of power for personal gain. A low Egalitarianism culture is more likely to provide an enabling environment for the opportunistic politician by sanctioning the use of authority for private advantage. Accordingly, in a culture designated as low in Egalitarianism, the private benefits of state control should be larger. Thus, we expect that the likelihood

of cross-listing should be smaller. The data confirm this prediction. The results from models 4-6 indicate a strong and significant relation between Egalitarianism and the likelihood of cross-listing during SIPs.

Models 7-9 of Table 6 include the Power Distance Index (PDI). We expect that a more autocratic and centralized government (i.e., high PDI) may be more apt to exert its authority and extract greater amounts of private benefits of state control. Since higher PDI should suggest greater amounts of private benefits of state ownership, PDI should be negatively associated with the frequency of cross-listing. While the results in models 7-9 indicate the anticipated inverse relation between PDI and the likelihood of cross-listing, the PDI coefficients are not significant at conventional levels.

Since the Power Distance Index and the Egalitarianism statistic may appear to measure similar cultural traits, it is initially interesting that Egalitarianism has the expected significant relation to the likelihood of cross-listing while PDI is not statistically significant in our models. However, as articulated by Schwartz (2006), these two cultural value dimensions are conceptually distinct. PDI reflects “fear of authority” and is derived from the preferences and perceptions of subordinates regarding the leadership style of those in power. Egalitarianism represents societal attitudes towards equality, social justice, and fairness. As such, Egalitarianism may more directly reflect the degree to which a society tolerates abuse of power by those of a higher status and may be more reflective of the private benefits of state ownership. The difference in the levels of statistical significance of Egalitarianism and PDI may be driven by these conceptual differences.

Finally, the degree of trust within a society may also provide insights regarding the actions of governmental authorities and offer guidance regarding the magnitude of the private benefits of state control. In Table 7, we first consider the level of trust of politicians, which we measure in models 1-3 with the trust in politicians metric (from the Global Competitiveness Report). Higher values indicate a greater public belief in the integrity of political officials. Since Putnam et al. (2006) and House et al. (2004) conclude that cultural norms shape governmental behavior, we contend that politicians considered to be more trustworthy should be less likely to exploit the private benefits of state ownership and thus should be more likely to cross-list during share-issue privatizations. The results in models 1-3 do not support this prediction. The data indicate that the trust in politicians variable is never statistically significant.

Our next measure of trust, the Societal Cynicism metric from Leung et al. (2002), reflects a culture’s general level of mistrust of social institutions. The citizens of nations with higher scores on the Societal Cynicism scale are less trusting and more cynical. Central to this maleficent predisposition is the underlying belief that people are readily corrupted by power (and thus more likely to exploit that power for personal advantage). In our context regarding the political control of SOEs, a higher level of societal cynicism suggests larger private benefits of state control and therefore a lower probability of cross-listing. The data support this prediction. In models 4-6, the Societal Cynicism variable is strongly significant, identifying that cross-listings are less likely in low trust societies.

Our final indicator of the public’s trust of its government, the Personal Autonomy statistic (from the Freedom of the World Report), is also significantly related to the cross-listing decision. Perhaps the most direct reflection of the government’s trustworthiness as a steward of state-owned resources, this measure explicitly considers whether politically-appointed managers of SOEs seek to add value for the general citizenry or instead choose to expropriate value for insiders and the political elite. Lower ratings of the Personal Autonomy metric indicate a more kleptocratic government (and thus suggest a larger amount of private benefits of state ownership). Accordingly, because of its inverse relation to the private benefits of state ownership, we expect that the decision to cross-list should be positively associated with the nation’s Personal Autonomy score. The results of models 7-9 of Table 7 are consistent with our prediction.

SUMMARY AND CONCLUSIONS

State-owned enterprises (SOEs) represent some of the world’s largest and most important firms. While we know that agency costs result because the state may exploit its ownership position to consume resources of the SOE, we know relatively little about the factors affecting the magnitude of these private

benefits of state ownership. To offer evidence of the private benefits of state ownership, we examine the cross-listing decision in share-issue privatizations. If one of a government's major deterrents to cross-listing is the forfeited opportunity to further extract private benefits of state ownership, a government should be more likely to cross-list in circumstances in which a better institutional environment suggests lower private benefits of state control. By primarily considering extra-legal factors that should affect the amount of private benefits of state ownership, we present evidence that cross-listings are more likely when the private benefits of state control are lower.

Overall, our results are consistent with our hypothesis that cross-listing in share-issue privatizations should be more likely if a nation's institutional infrastructure reduces the private benefits of state ownership. Specifically, we offer evidence of extra-legal factors (media and national culture) that appear to contribute to the size of the private benefits of state ownership. As such, we provide some indication of the economic significance of the generally underexplored agency costs that result when the state is a majority shareholder.

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TABLE 1
SUMMARY DETAILS OF SHARE-ISSUE PRIVATIZATIONS: 1985-2007

This table presents issue details for each country in our sample of share-issue privatizations (SIPs). Data regarding share-issue privatizations are from the Securities Data Corporation (SDC) – Thomson One Database and include 822 privatizing share offerings from 78 countries during 1985-2007. A share-issue privatization is cross-listed if the privatizing government conducts all or part of the share offering on a stock market other than that of the home country.

| Country | Average issue size (\$ mn) | # of issues | % cross-listed | % cross-listed in U.S. | % cross-listed in U.K | % cross-listed in other countries |
|---------------|----------------------------|-------------|----------------|------------------------|-----------------------|-----------------------------------|
| Argentina | 689 | 7 | 100% | 86% | 14% | 0% |
| Australia | 4,217 | 11 | 64% | 86% | 0% | 14% |
| Austria | 279 | 29 | 31% | 56% | 56% | 33% |
| Bahrain | 124 | 3 | 33% | 0% | 0% | 100% |
| Belgium | 394 | 2 | 50% | 0% | 0% | 100% |
| Brazil | 2,236 | 5 | 80% | 75% | 0% | 25% |
| Canada | 542 | 11 | 64% | 86% | 0% | 14% |
| China | 185 | 56 | 18% | 80% | 30% | 0% |
| Croatia | 724 | 2 | 100% | 0% | 100% | 0% |
| Czech Rep | 76 | 2 | 0% | 0% | 0% | 0% |
| Denmark | 697 | 5 | 20% | 100% | 100% | 0% |
| Dominican Rep | 127 | 2 | 0% | 0% | 0% | 0% |
| Egypt | 48 | 49 | 8% | 75% | 75% | 0% |
| Estonia | 221 | 1 | 100% | 0% | 100% | 0% |
| Finland | 493 | 23 | 57% | 54% | 62% | 0% |
| France | 1,921 | 40 | 60% | 63% | 17% | 54% |
| Gabon | 12 | 1 | 0% | 0% | 0% | 0% |
| Georgia | 130 | 1 | 0% | 0% | 0% | 0% |
| Germany | 2,473 | 18 | 28% | 80% | 20% | 80% |
| Ghana | 488 | 1 | 100% | 100% | 100% | 0% |
| Greece | 551 | 29 | 48% | 79% | 64% | 21% |
| Hong Kong | 1,201 | 6 | 17% | 100% | 0% | 0% |
| Hungary | 146 | 26 | 46% | 42% | 83% | 58% |
| Iceland | 53 | 1 | 0% | 0% | 0% | 0% |
| India | 355 | 8 | 38% | 67% | 67% | 0% |
| Indonesia | 395 | 20 | 15% | 100% | 0% | 0% |
| Ireland | 1,184 | 4 | 75% | 33% | 100% | 0% |
| Israel | 122 | 26 | 12% | 33% | 100% | 0% |
| Italy | 2,261 | 46 | 50% | 74% | 43% | 4% |
| Ivory Coast | 21 | 1 | 0% | 0% | 0% | 0% |
| Japan | 13,109 | 8 | 63% | 100% | 60% | 0% |
| Jordan | 174 | 2 | 0% | 0% | 0% | 0% |
| Kenya | 13 | 6 | 0% | 0% | 0% | 0% |
| Kuwait | 180 | 7 | 14% | 0% | 0% | 100% |
| Latvia | 43 | 3 | 33% | 0% | 100% | 0% |
| Lithuania | 180 | 1 | 100% | 0% | 100% | 0% |
| Luxembourg | 77 | 1 | 100% | 100% | 100% | 100% |
| Malaysia | 314 | 8 | 25% | 50% | 0% | 50% |

| Country | Average issue size (\$ mn) | # of issues | % cross-listed | % cross-listed in U.S. | % cross-listed in U.K. | % cross-listed in other countries |
|----------------|----------------------------|-------------|----------------|------------------------|------------------------|-----------------------------------|
| Mexico | 1,244 | 3 | 100% | 100% | 0% | 0% |
| Mongolia | 0.2 | 2 | 0% | 0% | 0% | 0% |
| Morocco | 156 | 14 | 14% | 100% | 50% | 50% |
| Netherlands | 1,146 | 12 | 50% | 100% | 17% | 17% |
| New Zealand | 245 | 2 | 100% | 0% | 0% | 50% |
| Nigeria | 31 | 19 | 0% | 0% | 0% | 0% |
| Norway | 708 | 12 | 67% | 50% | 50% | 0% |
| Oman | 392 | 2 | 0% | 0% | 0% | 0% |
| Pakistan | 169 | 7 | 14% | 100% | 0% | 0% |
| Papua N Guinea | 235 | 1 | 100% | 0% | 0% | 0% |
| Peru | 469 | 3 | 100% | 100% | 33% | 0% |
| Philippines | 117 | 6 | 33% | 0% | 0% | 100% |
| Poland | 146 | 57 | 14% | 38% | 63% | 38% |
| Portugal | 538 | 37 | 41% | 73% | 40% | 20% |
| Qatar | 681 | 2 | 0% | 0% | 0% | 0% |
| Romania | 0.6 | 4 | 0% | 0% | 0% | 0% |
| Russian Fed | 337 | 4 | 50% | 50% | 100% | 0% |
| Saudi Arabia | 4,079 | 1 | 0% | 0% | 0% | 0% |
| Senegal | 60 | 2 | 0% | 0% | 0% | 0% |
| Singapore | 373 | 10 | 10% | 100% | 0% | 0% |
| Slovak Rep | 113 | 1 | 0% | 0% | 0% | 0% |
| Slovenia | 448 | 1 | 100% | 100% | 0% | 0% |
| South Africa | 332 | 4 | 25% | 100% | 0% | 0% |
| South Korea | 634 | 18 | 33% | 100% | 33% | 0% |
| Spain | 1,373 | 24 | 67% | 100% | 50% | 13% |
| Sri Lanka | 20 | 5 | 0% | 0% | 0% | 0% |
| St Lucia | 20 | 1 | 0% | 0% | 0% | 0% |
| Sweden | 1,656 | 11 | 45% | 80% | 40% | 0% |
| Switzerland | 2,649 | 5 | 40% | 50% | 0% | 50% |
| Taiwan | 445 | 22 | 9% | 100% | 50% | 0% |
| Tanzania | 9.31 | 4 | 0% | 0% | 0% | 0% |
| Thailand | 130 | 9 | 11% | 100% | 0% | 0% |
| Tunisia | 3.6 | 2 | 0% | 0% | 0% | 0% |
| Turkey | 447 | 9 | 67% | 50% | 33% | 33% |
| Uganda | 1.18 | 1 | 0% | 0% | 0% | 0% |
| United Arab Em | 298 | 2 | 0% | 0% | 0% | 0% |
| United Kingdom | 3,372 | 19 | 42% | 100% | | 50% |
| United States | 1,793 | 4 | 75% | | 0% | 0% |
| Zambia | 2.2 | 3 | 0% | 0% | 0% | 0% |
| Zimbabwe | 28 | 5 | 0% | 0% | 0% | 0% |

TABLE 2
POTENTIAL EXPLANATORY VARIABLES: DEFINITIONS AND DATA SOURCES

This table presents the definitions and data sources for the primary explanatory variables that we use in our empirical analysis.

Media – variables to measure the independence and veracity of the media within each country

Press Freedom – indicators of press freedom (especially freedom from political influence). The index ranges from 0 to 100, with higher scores reflecting lower freedom of the press.

Source: Freedom House – Press Freedom Index

Govt Press – measure of government control of the press (i.e., market share of state-owned newspapers as a percentage of the aggregate market share of the country's five largest daily newspapers).

Source: Djankov et al. (2010)

Govt TV – measure of the amount of state control of television (i.e., market share of state-owned television stations as a percentage of the aggregate market share of the country's five largest television stations).

Source: Djankov et al. (2010)

Culture (Tolerance for Exercise of Power) – variables to assess the nation's cultural environment regarding the tolerance for the exercise of power

Individualism – reflects the relation between the individual and the group. Higher scores indicate a national culture in which individual interests are more likely to prevail over collective interests.

Source: Hofstede (2001)

Power Distance Index (PDI) – indicates the extent to which the less powerful members of a society accept the legitimacy of an unequal distribution of authority. Higher scores reflect a national culture that recognizes and accepts a more unequal distribution of power.

Source: Hofstede (2001)

Egalitarianism – represents how a society is organized to preserve the social fabric. A national culture scoring low on Egalitarianism stresses strict observation of role obligations and greater likelihood of deference to those of a higher social status.

Source: Schwartz (2006)

Culture (Trust) – variables to assess the nation's cultural environment regarding the degree of trust (focusing on the level of trust of governments and government officials)

Trust in Politicians – indicates a country's perception of the honesty of its elected officials. Larger values indicate a higher level of trust.

Source: Global Competitiveness Report (various years)

Societal Cynicism – gauges the amount of negative perception of human nature, the degree of pervasive mistrust of social institutions, and the expectation that people are easily corrupted by power. Higher scores indicate a less trusting and more cynical culture.

Source: Leung et al. (2002)

Personal Autonomy – reflects a society's level of trust of its government as a steward of SOE resources. Lower values of the Personal Autonomy metric indicate a greater perceived degree of state-facilitated misdirection of SOE resources.

Source: Freedom in the World, 2006 (2007)

TABLE 3
SUMMARY STATISTICS FOR PRIMARY EXPLANATORY VARIABLES

This table presents mean values for our primary explanatory variables. Table 2 provides definitions and data sources for each explanatory variable. We array the data based on whether each privatizing share-offering involved a cross-listing. We test for differences in the means of the subsamples (cross-listed vs. not cross-listed) using the two-sample t-test. The table provides p-values for each test statistic.

| Variable | Category | Cross Listed | Not Cross Listed | Diff Test |
|----------------------------|-------------------------------|--------------|------------------|-----------|
| | | Mean | Mean | P value |
| | | | | |
| Press Freedom | Media | 28.636 | 43.262 | 0.001 |
| Govt Press | Media | 0.064 | 0.204 | 0.001 |
| Govt TV | Media | 0.467 | 0.621 | 0.001 |
| | | | | |
| | | | | |
| Individualism | Culture (Tolerance for Power) | 55.839 | 47.374 | 0.001 |
| Power Distance Index (PDI) | Culture (Tolerance for Power) | 53.034 | 58.663 | 0.001 |
| Egalitarianism | Culture (Tolerance for Power) | 4.970 | 4.790 | 0.001 |
| | | | | |
| | | | | |
| Trust in Politicians | Culture (Trust) | 3.280 | 3.120 | 0.019 |
| Societal Cynicism | Culture (Trust) | 55.65 | 56.54 | 0.045 |
| Personal Autonomy | Culture (Trust) | 13.45 | 11.12 | 0.001 |

TABLE 4
REGRESSIONS TESTING FOR FACTORS RELATED TO CROSS-LISTING DECISIONS
IN SHARE-ISSUE PRIVATIZATIONS

The dependent variable for each model is an indicator (1 if the offering involves a cross-listing, 0 otherwise). The independent variables are: Size (U.S. \$ of offering), Tradable Goods (indicator variable of 1 if firm produces tradable goods; as defined by Sarkissian and Schill (2004)), Anti Self-Deal Index (higher values indicate greater legal protection), Rule of Law (higher values indicate stronger tradition of law enforcement), OECD Nation (1 if firm is from an OECD nation), and Industry indicator variables. Industry indicator variables are: High Tech (1 if firm is from a high-tech industry; as defined by Pagano et al. (2002)), Telecom (1 if firm is a telecom), and Financial (1 if a financial institution). First row presents the coefficients; second row provides the standard error. *** denotes significance at the 1 percent level; ** denotes significance at the 5 percent level, and * denotes significance at the 10 percent level.

| Independent Variables | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 |
|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Intercept | -1.075*** (0.091) | -1.703*** (0.374) | -2.014*** (0.389) | -2.068*** (0.393) | -1.498*** (0.383) |
| Size | 0.001*** (0.000) | 0.001*** (0.000) | 0.001*** (0.000) | 0.001*** (0.000) | 0.001*** (0.000) |
| Tradable Goods | | 0.118 (0.178) | 0.203 (0.182) | 0.344* (0.186) | -0.057 (0.191) |
| Anti Self-Deal Index | | 0.060 (0.450) | 0.181 (0.456) | 0.148 (0.457) | 0.040 (0.451) |
| Rule of Law | | -0.008 (0.055) | -0.001 (0.056) | 0.009 (0.056) | -0.014 (0.055) |
| OECD Nation | | 1.071*** (0.279) | 1.127*** (0.286) | 1.088*** (0.285) | 1.122*** (0.280) |
| Industry: High Tech | | | 1.104*** (0.230) | | |
| Industry: Telecom | | | | 1.254*** (0.269) | |
| Industry: Financial | | | | | -0.546** (0.229) |
| Sample Size | 730 | 656 | 619 | 628 | 640 |

TABLE 5
REGRESSIONS TESTING FOR RELATIONS BETWEEN MEDIA AND THE CROSS-LISTING DECISIONS IN SHARE-ISSUE PRIVATIZATIONS

The dependent variable for each model is an indicator (1 if the offering involves a cross-listing, 0 otherwise). This analysis includes variables to investigate whether a country's level of media effectiveness is associated with the likelihood of cross-listing. Our analysis includes three proxies to measure the independence and veracity of the media within each country. Panel A presents the results using the Press Freedom Index. The Press Freedom Index (Press Freedom) is comprised of indicators of press freedom (especially freedom from political influence). The index ranges from 0 to 100, with higher scores reflecting lower freedom of the press. Panel B presents the results using the Govt Press variable. Govt Press indicates the degree of government control of the press (i.e., market share of state-owned newspapers as a percentage of the aggregate market share of the country's five largest daily newspapers). Panel C presents the results using the Govt TV variable. Govt TV represents the amount of state control of television (i.e., market share of state-owned television stations as a percentage of the aggregate market share of the country's five largest television stations). The other independent variables are: Size (U.S. \$ of offering), Tradable Goods (indicator variable of 1 if firm produces tradable goods; as defined by Sarkissian and Schill (2004)), Anti Self-Deal Index (higher values indicate greater legal protection), Rule of Law (higher values indicate stronger tradition of law enforcement), and Industry indicator variables. Industry indicator variables are: High Tech (1 if firm is from a high-tech industry; as defined by Pagano et al. (2002)), Telecom (1 if firm is a telecom), and Financial (1 if a financial institution). First row presents the coefficients; second row provides the standard error. *** denotes significance at the 1 percent level; ** denotes significance at the 5 percent level, and * denotes significance at the 10 percent level.

| Panel A | Media: Press Freedom | | |
|----------------------|----------------------|----------------------|----------------------|
| Model | 1 | 2 | 3 |
| Intercept | -0.556 (0.512) | -0.666 (0.514) | -0.008 (0.511) |
| Size | 0.001*** (0.000) | 0.001*** (0.000) | 0.001*** (0.000) |
| Tradable Goods | 0.233 (0.183) | 0.375** (0.188) | -0.045 (0.193) |
| Anti Self-Deal Index | -0.228 (0.408) | -0.237 (0.410) | -0.350 (0.404) |
| Rule of Law | 0.027 (0.050) | 0.037 (0.050) | 0.013 (0.049) |
| Industry: High Tech | 1.113*** (0.229) | | |
| Industry: Telecom | | 1.260*** (0.268) | |
| Industry: Financial | | | -0.596*** (0.229) |
| Media | -0.022*** (0.005) | -0.021*** (0.005) | -0.022*** (0.005) |
| Observations | 751 | 751 | 751 |

| Panel B | Media: Govt Press | | |
|----------------------|----------------------|----------------------|----------------------|
| Model | 4 | 5 | 6 |
| Intercept | -1.784*** (0.403) | -1.831*** (0.405) | -1.192 (0.397) |
| Size | 0.001*** (0.000) | 0.001*** (0.000) | 0.001*** (0.000) |
| Tradable Goods | 0.242 (0.183) | 0.368** (0.187) | -0.034 (0.192) |
| Anti Self-Deal Index | -0.434 (0.407) | -0.460 (0.407) | -0.607 (0.401) |
| Rule of Law | 0.117*** (0.042) | 0.123*** (0.042) | 0.099** (0.041) |
| Industry: High Tech | 1.128*** (0.233) | | |
| Industry: Telecom | | 1.247*** (0.269) | |
| Industry: Financial | | | -0.580** (0.229) |
| Media | -0.947*** (0.325) | -0.915*** (0.323) | -1.031*** (0.322) |
| Observations | 743 | 743 | 743 |

| Panel C | Media: Govt TV | | |
|----------------------|----------------------|----------------------|----------------------|
| Model | 7 | 8 | 9 |
| Intercept | -1.413*** (0.412) | -1.443*** (0.415) | -0.789* (0.409) |
| Size | 0.001*** (0.000) | 0.001*** (0.000) | 0.001*** (0.000) |
| Tradable Goods | 0.261 (0.186) | 0.394** (0.190) | -0.063 (0.196) |
| Anti Self-Deal Index | -0.028 (0.427) | -0.072 (0.428) | -0.212 (0.421) |
| Rule of Law | 0.166*** (0.043) | 0.170*** (0.043) | 0.152*** (0.042) |
| Industry: High Tech | 1.223*** (0.241) | | |
| Industry: Telecom | | 1.342*** (0.277) | |
| Industry: Financial | | | -0.685*** (0.234) |
| Media | -2.006*** (0.344) | -1.981*** (0.343) | -2.033*** (0.341) |
| Observations | 743 | 743 | 743 |

TABLE 6
REGRESSIONS TESTING FOR RELATIONS BETWEEN NATIONAL CULTURE
(TOLERANCE FOR EXERCISE OF POWER) AND THE CROSS-LISTING
DECISIONS IN SHARE-ISSUE PRIVATIZATIONS

The dependent variable for each model is an indicator (1 if the offering involves a cross-listing, 0 otherwise). This analysis includes variables to test for an association between the nation's cultural environment and the cross-listing decision. In this table, we focus on the national culture's tolerance for the exercise of power. Panel A presents the results using the Individualism variable. Individualism (Hofstede (2001)) reflects the relation between the individual and the group. Higher scores indicate a culture in which individual interests are more likely to prevail over collective interests. Panel B presents the results using the Egalitarianism variable. Egalitarianism (Schwartz (2006)) represents how a society is organized to preserve the social fabric. A low Egalitarianism culture stresses strict observation of role obligations and greater likelihood of deference to those of a higher social status. Panel C presents the results using the Power Distance Index. The Power Distance Index (Hofstede (2001)) indicates the extent to which the less powerful members of a society accept the legitimacy of an unequal distribution of authority. Higher scores reflect a society that recognizes and accepts a more unequal distribution of power. The other independent variables are: Size (U.S. \$ of offering), Tradable Goods (indicator variable of 1 if firm produces tradable goods; as defined by Sarkissian and Schill (2004)), Anti Self-Deal Index (higher values indicate greater legal protection), Rule of Law (higher values indicate stronger tradition of law enforcement), and Industry indicator variables. Industry indicator variables are: High Tech (1 if firm is from a high-tech industry; as defined by Pagano et al. (2002)), Telecom (1 if firm is a telecom), and Financial (1 if a financial institution). First row presents the coefficients; second row provides the standard error. *** denotes significance at the 1 percent level; ** denotes significance at the 5 percent level, and * denotes significance at the 10 percent level.

| Panel A | Culture (Tolerance for Exercise of Power): Individualism | | |
|---|---|----------------------|----------------------|
| | 1 | 2 | 3 |
| Model | | | |
| Intercept | -0.581 (0.471) | -0.662 (0.476) | -0.051 (0.469) |
| Size | 0.001*** (0.000) | 0.001*** (0.000) | 0.001*** (0.000) |
| Tradable Goods | 0.238 (0.196) | 0.356* (0.200) | -0.042 (0.206) |
| Anti Self-Deal Index | -1.196*** (0.442) | -1.156*** (0.445) | -1.299*** (0.438) |
| Rule of Law | -0.059 (0.056) | -0.054 (0.057) | -0.069 (0.056) |
| Industry: High Tech | 1.059*** (0.246) | | |
| Industry: Telecom | | 1.170*** (0.280) | |
| Industry: Financial | | | -0.607** (0.241) |
| Culture (Tolerance for Exercise of Power) | 0.011** (0.005) | 0.012** (0.005) | 0.011** (0.005) |
| Observations | 616 | 616 | 616 |

| Panel B | Culture (Tolerance for Exercise of Power): Egalitarianism | | |
|---|--|----------------------|----------------------|
| | 4 | 5 | 6 |
| Model | | | |
| Intercept | -8.089*** (1.459) | -8.171*** (1.462) | -7.453*** (1.427) |
| Size | 0.001*** (0.000) | 0.001*** (0.000) | 0.001*** (0.000) |
| Tradable Goods | 0.324* (0.187) | 0.481** (0.193) | 0.090 (0.197) |
| Anti Self-Deal Index | -0.292 (0.423) | -0.283 (0.425) | -0.397 (0.418) |
| Rule of Law | 0.030 (0.046) | 0.033 (0.047) | 0.018 (0.046) |
| Industry: High Tech | 1.046*** (0.234) | | |
| Industry: Telecom | | 1.246*** (0.277) | |
| Industry: Financial | | | -0.513** (0.238) |
| Culture (Tolerance for Exercise of Power) | 1.401*** (0.297) | 1.406*** (0.297) | 1.366*** (0.294) |
| Observations | 694 | 694 | 694 |

| Panel C | Culture (Tolerance for Exercise of Power): Power Distance Index | | |
|---|---|---------------------|----------------------|
| | 7 | 8 | 9 |
| Model | | | |
| Intercept | -1.089* (0.581) | -1.225** (0.589) | -0.611 (0.577) |
| Size | 0.001*** (0.000) | 0.001*** (0.000) | 0.001*** (0.000) |
| Tradable Goods | 0.185 (0.182) | 0.329* (0.186) | -0.009 (0.192) |
| Anti Self-Deal Index | -0.920** (0.393) | -0.931** (0.394) | -1.018*** (0.388) |
| Rule of Law | 0.079 (0.049) | 0.088* (0.049) | 0.062 (0.048) |
| Industry: High Tech | 1.032*** (0.227) | | |
| Industry: Telecom | | 1.212*** (0.268) | |
| Industry: Financial | | | -0.400* (0.228) |
| Culture (Tolerance for Exercise of Power) | -0.005 (0.005) | -0.004 (0.005) | -0.005 (0.005) |
| Observations | 715 | 715 | 715 |

TABLE 7
REGRESSIONS TESTING FOR RELATIONS BETWEEN NATIONAL CULTURE (TRUST)
AND THE CROSS-LISTING DECISIONS IN SHARE-ISSUE PRIVATIZATIONS

The dependent variable for each model is an indicator (1 if the offering involves a cross-listing, 0 otherwise). This analysis includes variables to test for an association between the nation's cultural environment and the cross-listing decision. In this table, we focus on the national culture's degree of trust (especially regarding the level of trust of governments and government officials). Panel A presents the results using the Trust in Politicians variable. Trust in Politicians (from the Global Competitiveness Report) provides an indication of a country's perception of the honesty of its elected officials, with larger values indicating a higher level of trust. Panel B presents the results using the Societal Cynicism variable. Societal Cynicism (from Leung et al. (2002)) gauges the amount of negative perception of human nature, the degree of pervasive mistrust of social institutions, and the expectation that people are easily corrupted by power. Higher scores indicate a less trusting and more cynical culture. Panel C presents the results using the Personal Autonomy variable. Personal Autonomy (from the Freedom of the World Report) reflects a society's level of trust of its government as a steward of SOE resources. Lower values indicate a greater perceived degree of state-facilitated misdirection of SOE resources. The other independent variables are: Size (U.S. \$ of offering), Tradable Goods (indicator variable of 1 if firm produces tradable goods; as defined by Sarkissian and Schill (2004)), Anti Self-Deal Index (higher values indicate greater legal protection), Rule of Law (higher values indicate stronger tradition of law enforcement), and Industry indicator variables. Industry indicator variables are: High Tech (1 if firm is from a high-tech industry; as defined by Pagano et al. (2002)), Telecom (1 if firm is a telecom), and Financial (1 if a financial institution). First row presents the coefficients; second row provides the standard error. *** denotes significance at the 1 percent level; ** denotes significance at the 5 percent level, and * denotes significance at the 10 percent level.

| Panel A | Culture (Trust): Trust in Politicians | | |
|----------------------|---------------------------------------|----------------------|----------------------|
| | 1 | 2 | 3 |
| Model | | | |
| Intercept | -1.979*** (0.381) | -2.047*** (0.385) | -1.504*** (0.375) |
| Size | 0.001*** (0.000) | 0.001*** (0.000) | 0.001*** (0.000) |
| Tradable Goods | 0.122 (0.179) | 0.272 (0.184) | -0.102 (0.189) |
| Anti Self-Deal Index | -0.572 (0.422) | -0.600 (0.422) | -0.766* (0.414) |
| Rule of Law | 0.180*** (0.052) | 0.181*** (0.052) | 0.156*** (0.050) |
| Industry: High Tech | 1.089*** (0.228) | | |
| Industry: Telecom | | 1.261*** (0.268) | |
| Industry: Financial | | | -0.476** (0.227) |
| Culture (Trust) | -0.099 (0.107) | -0.082 (0.107) | -0.062 (0.104) |
| Observations | 751 | 751 | 751 |

| Panel B | Culture (Trust): Societal Cynicism | | |
|----------------------|------------------------------------|----------------------|----------------------|
| Model | 4 | 5 | 6 |
| Intercept | 3.643** (1.546) | 3.513** (1.543) | 4.871*** (1.600) |
| Size | 0.001*** (0.000) | 0.001*** (0.000) | 0.001*** (0.000) |
| Tradable Goods | 0.490** (0.229) | 0.582** (0.232) | 0.098 (0.238) |
| Anti Self-Deal Index | -2.612*** (0.534) | -2.561*** (0.534) | -2.777*** (0.530) |
| Rule of Law | 0.048 (0.056) | 0.052 (0.056) | 0.024 (0.056) |
| Industry: High Tech | 1.154*** (0.283) | | |
| Industry: Telecom | | 1.122*** (0.314) | |
| Industry: Financial | | | -0.960*** (0.281) |
| Culture (Trust) | -0.066*** (0.024) | -0.064*** (0.024) | -0.074*** (0.024) |
| Observations | 484 | 484 | 484 |

| Panel C | Culture (Trust): Personal Autonomy | | |
|----------------------|------------------------------------|----------------------|----------------------|
| Model | 7 | 8 | 9 |
| Intercept | -3.511*** (0.507) | -3.515*** (0.507) | -2.958*** (0.489) |
| Size | 0.001*** (0.000) | 0.001*** (0.000) | 0.001*** (0.000) |
| Tradable Goods | 0.302 (0.186) | 0.434** (0.190) | 0.013 (0.195) |
| Anti Self-Deal Index | -0.070 (0.419) | -0.102 (0.419) | -0.235 (0.414) |
| Rule of Law | -0.120* (0.071) | -0.111 (0.070) | -0.139** (0.069) |
| Industry: High Tech | 1.149*** (0.234) | | |
| Industry: Telecom | | 1.270*** (0.271) | |
| Industry: Financial | | | -0.598*** (0.229) |
| Culture (Trust) | 0.258*** (0.056) | 0.253*** (0.055) | 0.261*** (0.054) |
| Observations | 745 | 745 | 745 |