Voluntary Disclosure, Legal Institutions, and Firm Valuation: Evidence from U.S. Cross-Listed Foreign Firms

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Abstract:

Building on the bonding hypothesis, this paper examines the economic consequences of voluntary management earnings forecasts (MFs) made by foreign firms cross-listed in the U.S. market. Our work reveals the following. First, cross-listed firms that voluntarily issue MFs exhibit higher firm valuation (Tobin's Q) than those that do not issue MFs, with forecast precision and frequency further enhancing valuation premiums. Additionally, the valuation premium of MFs is more pronounced for cross-listed firms than for a matched sample of U.S. domestic firms. Second, cross-listed firms from countries with weaker legal regimes are valued more for their voluntary forecasts relative to those from stronger legal regimes. Third, further sensitivity analyses suggest that valuation implications from MFs are more consistent with reputational bonding than with a signaling perspective. Finally, our mediation analysis suggests that voluntary disclosures of MFs are an important channel through which the information environment positively influences firm valuation. Overall, our study contributes to both the voluntary disclosure and cross-listing literatures.