

US investors shun Quebec firms

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A new study led by the UBC Sauder School of Business has found significant U.S. institutional investor bias against firms located in Quebec relative to firms located in the rest of Canada due to language differences.

"We found that investors are still sensitive to differences between their domestic language and the language used in the location of foreign investment," said Russell Lundholm, the study's lead author and UBC Sauder professor. "In the case of Quebec, this bias is surprising given that regulatory filings are prepared in both English and French, and that all Canadian provinces share the same nationality, federal law, [stock exchange](#) and accounting standards."

The researchers found that, on average, U.S. investment holdings in Quebec firms were a quarter lower than the holdings in the rest of Canada. Controlling for differences in firm characteristics (for instance, Quebec firms are, on average, larger than firms in the rest of Canada), the U.S. holdings of Quebec firms were on average 40 per cent lower than similar firms in the rest of Canada.

The researchers also found the amount of bias against investing in firms varied with how "French" they appeared to be. The bias was higher for Quebecois firms, which had a large ratio of French to English online documents.

The bias was smaller for Quebecois firms whose CEOs had U.S. work experience, or U.S.-based board members or financial analysts. The

study found that U.K. institutional investors exhibited a similar bias against Quebec firms while investors from France did not.

"Our results indicate that language differences pose a real deterrent for institutional investors," said Lundholm. "This could be a consequence of perceived costs associated with translating documents, a fear of being less informed than investors who speak the same language, or simply feeling less familiar with the firm."

The findings were based on data collected from the Toronto Stock Exchange and the Thomson Reuters Institutional Holdings database. The researchers examined all firms headquartered in Canada and listed on the TSX between the years 2000 and 2012, representing 2,094 companies, of which 233 were located in Quebec.

The study was published this week in the journal *Management Science*. It was co-authored by Nafis Rahman of The University of Hong Kong and Rafael Rogo of the UBC Sauder School of Business.

More information: Russell Lundholm et al, The Foreign Investor Bias and Its Linguistic Origins, *Management Science* (2017). [DOI: 10.1287/mnsc.2017.2812](https://doi.org/10.1287/mnsc.2017.2812)

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