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Research Papers

Titles: Cultural Diversity and Capital Structures of Multinational Firms

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Abstract:

This paper examines whether and how cultural diversity within multinational firms affects their capital structures. The result shows that the higher the cultural diversity, the lower the leverage ratio. The negative relation between cultural diversity and the leverage ratio holds after controlling for firm-level determinants and well-documented country-level factors. Further analyses suggest that cultural diversity affects the capital structures of multinational firms mainly through equity issuance rather than debt reduction. In addition, cultural distance negatively affects the subsidiary debt ratio. These findings indicate that national culture plays a significant role in determining the corporate capital structure in a multinational setting.

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