Institutional Distance and Subsidiary Debt: The Spillover Effect of Home Country Institutional Quality

Yan Du[1]
University of Antwerp

Milos Vulanovic[2]*
EDHEC Business School

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Abstract

This study examines the spillover effects of home country institutional and cultural characteristics on the subsidiaries operating in France while they are in the process of making capital structure choices and debt maturity choices. We document that while subsidiaries financing choices are partially explained by standard determinants, at the same time, these choices are impacted by cultural distance factors such as economic, financial, and political distance. Namely, cultural distance is one of the essential determinants of the long-term debt proportion in the total amount of debt used for the financing of foreign subsidiaries in France.

Keywords: Capital structure, Debt maturity, Institutional distance, Liability of foreignness, Subsidiaries financing

JEL Codes: G15, G30, G32

[1] Department of Accountancy and Finance at University of Antwerp, Stadscampus Prinsstraat 13 S.B.329 2000 Antwerpen België Contact phone : + 32 (0)32 65 41 54 Email: yan.du@uantwerpen.be
[2] Department of Data Science, Economics and Finance at EDHEC Business School 24 avenue Gustave Delory, 59057 Roubaix Cedex 1 - France Contact phone : + 33 (0)3 20 15 45 00 Email: milos.vulanovic@edhec.edu
*Corresponding author

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1. Introduction

Multinational companies (MNCs)' foreign subsidiaries are separate legal entities and can directly access debt resources through local banks and financial institutions. This ability gives MNCs the advantage of raising debt abroad via foreign subsidiaries, which could potentially reduce the agency costs of monitoring and ensure their financial flexibility. However, foreign subsidiaries tend to be at a disadvantage when accessing local debt. Because of the differences in the institutional environment and cultural values, local lenders may feel not familiar with the foreign subsidiary's brand and products, and thus exhibit less trust in foreign subsidiaries (Bell et al., 2012; Gu et al., 2017). As a result, they often prefer to grant a loan to local firms rather than foreign subsidiaries. While prior research suggests that country-level institutional environment (e.g., De Jong et al., 2008; Joeveer, 2013; Simintzi et al. 2014; Alves and Francisco, 2015; McNamara, Murro and O'Donohoe, 2017) and cultural values (Ramirez and Tadesse, 2009; Gao, Ng and Wang, 2011) could explain standalone firms' financial structure, less is known regarding whether the differences in institutional environment and cultural values between home and host countries matter for foreign subsidiaries' financing decisions. This study investigates the effects of the home country institutional environment and cultural distance on subsidiary level financing choices.

Research on the corporate financial structure in standalone firms suggests that a firm's financial structure is a trade-off between the benefits of debt and the expected costs of financial

distress (Kraus and Litzenberger, 1973). In addition, the pecking order theory suggests that a firm seeking external funding is inclined to debt financing before raising new capital (Myers and Majluf, 1984). A firm's financial structure is also inherently determined by the agency conflicts between managers, shareholders, and lenders (Jensen, 1993).

Financing choices of domestic subsidiaries are examined in: Mehrotra, Mikkelson, and Partch (2003) who document substantial differences in the leverage ratios among both parents and subsidiaries, with variation arising from three factors: asset tangibility, and the level and variability of cash operating profits; Ditmar (2004) who reports that average leverage levels of subsidiaries are significantly lower than of their corporate parents; and Mehrotra et al. (2005) who state that financing of subsidiaries is better explained by trade-off theory than pecking order theory as they find positive correlation among profitability and leverage and negative correlation among leverage and volatility of cash flow.

Despite relevant insights into the determinants of financial structure in standalone firms and domestic subsidiaries, there are only scarce insights into the factors that may explain the financial structure of foreign subsidiaries. A notable exceptions are: Desai, Foley, and Hines (2004) and Foley, Hartzell, Titman, and Twite (2007) where the host country tax rate and the accessibility to host country financing and tax costs associated with repatriation of the foreign income are considered necessary in explaining MNCs' financial structure policy in their subsidiaries; Desai, Foley, and Hines (2008) where leverage choices are function of political risk and consequently report that an increase in the political risk in a host country by one standard deviation reduces leverage of subsidiaries by 3.5%; and Huizinga, Laeven, and Nicodeme (2008) where subsidiaries capital structure is a function of a weighted average of national tax rates and differences between national and foreign tax rates. Notwithstanding the valuable insights, we know

relatively little about other factors explaining the heterogeneity among foreign subsidiaries' capital structure.

The international business research has long recognized that firms face liabilities of foreignness when doing business overseas (Bell et al., 2012; Filatotchev et al., 2016). An essential source of the liability of foreignness is the differences in cultural values between home and host countries, which Reus and Lamont (2009) label as a double-sword. To date, numerous studies have examined the effect of cultural distance on MNCs' product market strategies such as location choices when doing business abroad (Kim and Kwang, 1992; Berry et al. 2010), cross-border acquisition performance (e.g., Dikova, Sahib, and Van Witteloostuijn, 2010; Dikova and Sahib, 2013), entry mode (Kogut and Singh, 1988; Tihanyi, Griffith and Russell, 2005) and subsidiary control issues (Roth and O'Donnell, 1996; Gong, 2003; Wilkinson et al., 2008). However, very few studies examine the impact of cultural distance on MNCs' financing policies.

This study attempts to complement the two streams of research by examining the impact of cultural distance on both short-term and long-term debt of foreign subsidiaries. Whereas managers or riskier firms may prefer long-term debt (Diamond, 1991) or prefer to avoid frequent monitoring by lenders (Datta et al., 2005), short-term debt helps to mitigate the agency cost of managerial discretion (Rajan and Winton, 1995). Drawing upon agency theory, the cultural distance increases agency problems between subsidiary managers and headquarters, making it more difficult for headquarters to control the behavior of the subsidiary (Eisenhardt, 1989; Jensen and Meckling, 1976). Consequently, headquarters may not be willing to provide internal debt to distant foreign subsidiaries. According to the pecking order theory (Myers and Majluf, 1984), foreign subsidiaries that do not have enough internal funding have to finance their activities by external debt. However, local lenders are less familiar with the work-related values and business

norms of foreign subsidiaries, which reduces the level of trust in the creditworthiness of foreign subsidiaries. To compensate for the increasing agency costs of debt and protect themselves against risks of financial distress, local banks are more likely to grant short-term debt instead of long-term debt to institutionally/culturally distant foreign subsidiaries.

Furthermore, we argue that the home country environment with a strong rule of law and proper legal protection for creditors could be essential signals for trustworthiness, which may mitigate the liability of foreignness associated with institutional/cultural distance and facilitate foreign firms to achieve legitimacy in the host country. Thus, good institutional quality of the home country is expected to have a spillover impact on the relationship between institutional/culture distance and foreign subsidiaries' local debt.

To tackle our research question, it is crucial to observe a setting where the debt market is well-developed. France provides an appropriate potential setting for three reasons. First, France is one of the leading FDI destinations in the world where many MNCs are making strategic decisions (The Economist, 2014).[3] Second, France is a typical civil law country where the capital market is less developed compared to Anglo-Saxon countries, and where the financial system is strongly creditor-oriented (La-Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998; Djankov et al., 2007). Thus, firms operating in France finance mainly through internally generated resources and private debt such as bank debt. Given the private nature of foreign subsidiaries and their limits on financing alternatives, bank debt is the primary external financing resource for foreign subsidiaries. Third, the institutional environment in France is characterized by concentrated ownership structures and relatedly inadequate legal protection of creditor rights (LLSV, 1998; Djankov et al., 2007). France ranks only 82nd in the world for the ease of getting credit in 2017

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[3] https://www.economist.com/news/2014/10/24/the-big-chill

(Doing Business, 2017), highlighting the high level of the liability of foreignness faced by MNCs in the local capital market. We focus on subsidiaries from a single host country (France). This identification strategy allows us to hold constant the host country-level institutional and cultural factors, and single out the effects of the home country institutional environment and cultural distance on subsidiary debt decisions.

In contrast to standalone firms, foreign subsidiaries can be financed by the internal debt of MNCs. A considerable body of research in finance has examined the trade-offs between costs and benefits of using external versus internal debt by foreign subsidiaries of MNCs (Desai, et al., 2004; Aggarwal and Kyaw, 2008) as well as subsidiaries of business groups (Bianco and Nicodano, 2006; Verschueren and Deloof, 2006; Dewaelheyns and Van Hulle 2010). However, less is known regarding the impact of LOF on foreign subsidiaries' financing choices.

Using data from 3139 foreign subsidiaries operating in France and headquartered in 45 different countries (13372 firm-year observations) during the period of 2008-2014, we find that foreign subsidiaries financing choices are both explained by standard capital structure determinants, and also by cultural distance factors such as economic, financial and political distance. Importantly, cultural distance is one of the essential determinants of the maturity choices by foreign subsidiaries in France.

This study attempts to contribute to the literature in three ways. First, the finance literature has shown the importance of the institutional setting within which a firm operates in explaining firm-level capital structure decisions in both publicly listed firms (see, e.g., De Jong et al., 2008; Acharya et al., 2011; Alves and Francisco, 2015) and privately held firms (e.g., Hall et al., 2004; Matsa et al., 2010; Joeveer, 2013; Simintzi et al. 2014; McNamara, Murro and O'Donohoe, 2017). However, less is known regarding the impact of country-level institutional background on foreign

subsidiaries' capital structure decisions. Our study complements this research by showing that both the country-level institutional environment and the institutional distance play a role in explaining the foreign subsidiary's capital structure. As such, we extend the burgeoning literature on subsidiary-level capital structure (Desai et al., 2004) by identifying non-tax reasons that explain the level of local bank debt obtained by foreign subsidiaries.

Second, the international corporate governance literature suggests that corporate governance may spill over across borders and impact the governance practices of overseas firms (Oxelheim and Randøy, 2005; Bris and Cabolis, 2008; Martynova and Renneboog, 2008; Aggarwal et al., 2011). Oxelheim and Randøy (2005) find that non-Anglo-American firms which are exposed to the Anglo-American system (via cross-listing and board membership) are associated with higher CEO compensation. Bris and Cabolis (2008) report that acquirers from countries with high levels of governance obtain higher value in cross-border acquisitions. Martynova and Renneboog (2008) report that differences between the acquirer and target corporate governance have an impact on returns and value. Similarly, Aggarwal et al. (2011) find that US institutional investors taking on foreign equity stakes play a role in promoting governance improvements outside of the US. We add to this literature by illustrating that the spillover effects also exist in MNCs, which have an impact on foreign subsidiaries' capital structure.

Finally, we extend the domain of LOF research to foreign subsidiary financing decisions and addresses the question of whether foreign subsidiaries incur LOF when attempting to seek bank debt in host countries.

In the next section, we review the literature on capital structure choices and LOF. We then develop possible hypotheses before going on to describe our research method. Finally, we conclude with this study's potential implications, limitations, and directions for future research.

2. Literature review

Capital structure choices

The seminal work of Modigliani and Miller (1958) proposes that the capital structure is irrelevant in a "perfect" world, which provides a starting point for later studies on a firm's capital structure choice. According to the static trade-off theory, a firm's capital structure is a balance between the tax benefits of debt and the expected costs of financial distress and bankruptcy (Kraus and Litzenberger, 1973). Related literature has focused on the agency conflicts between managers, shareholders, and debtholders and examined the impact of asymmetric information and governance problems on the firm's capital structure choice (Jensen, 1993). According to the pecking order model of Myers and Majluf (1984), a firm prefers using its internal funds, and if external funding is required, it is inclined to debt finance before seeking to raise new capital.

More recently, scholars have incorporated the institutional setting of the country where a firm operates to explain its capital structure decision. Studies have shown that there are significant differences in country-level institutional background, such as the bankruptcy law, legal origin, creditor rights protection, employment protection and financial development which could explain firms' capital structure choices (see, e.g., De Jong et al., 2008; Acharya et al., 2011; Alves and Francisco, 2015). This is especially the case in small privately held firms (Hall et al., 2004; Beck et al., 2008; Matsa et al., 2010; Joeveer, 2013; Simintzi et al. 2014; McNamara, Murro and O'Donohoe, 2017;) as these firms face more capital constraints (Holmstrom and Tirole, 1997).

Concerning subsidiary-level debt, the finance literature has focused mainly on domestic subsidiaries of multi-divisional firms and business groups. Studies have examined the trade-off

between costs and benefits of external and internal debt. For example, Kolasinski (2009) shows that subsidiaries are more likely to use external debt when they have fewer growth opportunities and higher cash flow than the rest of the firm. Moreover, studies suggest that internal debt is a substitute of external debt (Verschueren and Deloof, 2006) and the optimization of group-wide financing costs is an essential driver of domestic subsidiaries' financing choices (Dewaelheyns & Van Hulle 2010).

Very few studies have examined the capital structure choice of foreign subsidiaries of MNCs. A notable exception comes from international taxation area (e.g., Desai, Foley and Hines, 2004). These studies suggest that MNCs set the capital structure of individual subsidiaries by taking into account the tax rate of local countries. Despite these valuable insights about tax motives of MNCs' financing strategy, tax rate differences alone could not explain the heterogeneity among foreign subsidiaries' capital structure. In addition to the tax regulation, Desai et al. (2004) find that foreign subsidiaries of US MNCs use parent debt as a substitute for external debt, especially in countries where access to external financing is limited or expensive. In this study, we extend Desai et al. (2004) by taking into account the institutional distance between foreign subsidiaries and the headquarters and the institutional quality of the home country.

Liability of Foreignness

Zaheer (1995: 343) defines LOF as "all additional costs a firm operating in a market overseas incurs that a local firm would not incur." The focus of LOF is on the "social costs of access and acceptance" (Zaheer, 2002: 352). The LOF is central to MNCs when expanding its products, services, and operations abroad (Zaheer, 1995). To date, a considerable body of international business research has investigated the sources of LOF that foreign firms face and how to overcome LOF (Caves, 1971; Hymer, 1976; Luo, Shenkar & Nyaw, 2002). However, most

studies focus only on product markets, while less attention has been paid to LOF faced by firms when raising capitals abroad. Recently, Bell et al. (2012) extends the LOF literature from product markets to capital markets and discuss conceptually LOF faced by firms attempting to secure capital resources overseas. Rooted in this strand of research, Gu et al. (2017) examine whether firms incur LOF when attempting to issue foreign bonds. Lindorfer, d'Arcy, and Puck (2016) study the spillover effects between the factor market and capital market strategies on foreign listing by European firms. Although these studies provide new insights on challenges firms face in the capital market beyond their domestic boundaries, less is known regarding the implications of LOF for foreign subsidiaries' financing decisions.

3. Hypotheses development

Institutional distance and foreign subsidiaries' capital structure

Institutional distance is defined as the extent to which institutions between countries are different (Xu and Shenkar, 2002). Scott (1995: 33) defines institutions as "cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior." From an agency theory perspective, the headquarters-foreign subsidiary relationship is characterized by a principal-agent structure (Roth and O'Donnell, 1996). When institutions between home and host countries are very different, headquarters become less familiar with local rules, markets, and customers. Thus, it becomes more difficult and expensive for headquarters to access complete and accurate information when monitoring foreign subsidiaries and to evaluate their performance. This information asymmetry increases the agency problem in the headquarters-subsidiary relationship, and headquarters may not be willing to shift funds via the internal capital given the difficulty to

monitor and control these subsidiaries (Gertner et al., 1994; Stein, 1997). This indicates that foreign subsidiaries are unlikely to receive internal debt if there are a high institutional distance between home and host countries. According to the pecking order theory of Myers and Majluf (1984), firms that do not have enough internal finding will finance their activities by external resources. By direct contracting of bank debt at the subsidiary level, headquarters mitigate agency costs of monitoring and reduce the risk of financial distress (Dewaelheyns & Van Hulle 2010).

However, substantial institutional differences create difficulties for foreign firms attempting to achieve legitimacy in a host country (Kostova & Zaheer, 1999), and thus increase the LOF foreign subsidiaries face when attempting to access local bank debt. Because local banks are not familiar with the institutional setting of foreign subsidiaries' home countries, they may perceive higher uncertainty and risks when considering the probability of default and how much can be recovered in case of default. In addition, comparative corporate governance research suggests that governance practices are "embedded" within the broader context of formal and informal institutions, such as laws, regulations, and cognitive expectations of the governance participants (Bell et al., 2012; Cumming, Filatotchev, Knill, Reeb, and Senbet, 2017). It can be therefore expected that local banks may perceive higher monitoring costs for foreign subsidiaries, especially when foreign subsidiaries' headquarters are located in institutionally distant countries. To compensate for the increasing agency costs of debt, local banks may prefer short-term debt in order to be able to monitor loan conditions more frequently. This leads to the following hypothesis:

Hypothesis 1. Institutional distance between home and host countries reduces foreign subsidiaries' bank debt maturity.

The spillover effect of home country institutional quality

Although LOF increases the risks and perceived monitoring costs, foreign subsidiaries attempt to overcome this "home bias" when raising finance in the host countries. International business research suggests different ways of reducing the degree of LOF when MNCs operate in host countries (Peterson and Pedersen, 2002), and when firms raise capital in foreign capital markets (Bell et al., 2012), one of which is signaling. Bell et al. (2012) suggest that firms' characteristics that indicate good corporate governance quality could be useful in reducing the level of LOF experienced by a firm seeking cross-listing. In addition to firm characteristics, the institutional quality of the country where the firm operates could be another signal for good corporate governance quality. The international corporate governance literature suggests that corporate governance may spill over across borders. For example,

Aggarwal et al. (2011) find that US institutional investors taking on foreign equity stakes play a role in promoting governance improvements outside of the US. Similarly, Oxelheim and Randøy (2005) find that non-Anglo-American firms which are exposed to the Anglo-American system (via cross-listing and board membership) are associated with higher CEO compensation. Accordingly, we argue that the institutional quality of headquarters country is likely to influence host country lenders' perception about the foreign subsidiary's LOF, which in turn impact their decision of granting debt. When foreign subsidiaries are headquartered in countries with the strong rule of law and proper legal protection for lenders and borrowers, host country lenders will perceive less monitoring costs associated with bank debt, and thus are more likely to provide long-term debt to foreign subsidiaries. This leads to the following hypothesis:

Hypothesis 2. The negative relationship between institutional distance and debt maturity is mitigated by home country institutional quality.

4. Empirical analysis

Data

Our research population consists of foreign subsidiaries operating in France. France provides an appropriate setting for this study because the European financial system is strongly creditor-oriented, where banks are better monitors of debt, and external capital markets are relatively underdeveloped compared to the Anglo-Saxon world. Thus, for private foreign subsidiaries operating in France, the most important external financing resource is likely to be bank debt.

We collect data on foreign subsidiaries operating in France using the *Orbis* database, supplied by Bureau van Dijk. This dataset provides a comprehensive financial statement and ownership data on MNCs and foreign subsidiaries. We first retrieve all foreign subsidiaries located in France with an ultimate global owner. We follow the Orbis classification of ultimate owners and define an ultimate owner as an independent parent firm in which no single corporate shareholder holds more than 25% of the firm's shares. This criterion limits our attention to majority-owned and wholly-owned foreign subsidiaries operating in France. Second, we exclude micro-firms (firms with revenue less than 2 million EUR according to the European Commission's definition), because these firms disclose very limited financial information on Orbis and are often not qualified for external finance. Third, we exclude firms operating in financial industries. Finally, we exclude firms for which Orbis only has limited financial data and firms with missing industry (SIC) classification codes. All financial variables that we use in the empirical analysis are scaled

by the total assets, and they are winsorized at one percentile and ninety-nine percentile of the distribution.

Country-specific variables on macroeconomic conditions and corporate governance characteristics are retrieved from Financial Development and Structure Dataset at World Bank and the World Bank Economic Indicators. Finally, all institutional distance variables are constructed following Gui et al. (2017). Table 1 provides a full description on the names, definition, and sources of the variables used in the study.

Summary statistics

Our final sample summary statistics are reported in Table 2. The final sample consists of 13372 firm-year observations based on the performance of 3139 foreign subsidiaries operating in France and headquartered in 45 different countries from 2008 to 2014. Reported firm-related characteristics such as the profitability, tangibility, and sales growth are at similar levels as in the literature on subsidiaries except that we report slightly lower average leverage level of 11.00% compared to the level 24.70% reported in a recent study of Faulkender and Smith (2016). Saying that the level of the debt is exactly the same as reported in Rajan and Zingales (1995). Our reported cultural distance measures are comparable to Gu et al. (2017) except the statistics for the demography distance, which is relatively higher in our sample 1.257 vs. 0.044 in their studies. To better understand the nature of the relationship between variables used in the study in Table 3, we report Pearson correlations and report significance at one percent.

To test our hypotheses, we will use a pooled ordinary least square regressions.

Baseline empirical results

To set up the baseline for the further empirical analysis, we apply basic regression with country effects where the independent variables are dummies representing the country

headquarters (global ultimate owners) of subsidiaries. Column 1 in Table 4 reports results where scaled leverage of French subsidiaries is a dependent variable and reports R-square statistics of 14.00%. Column 2 in Table 4 reports results where scaled debt maturity is a dependent variable and obtained R-square is 13.00%.

Subsidiaries leverage regressions

After setting up a baseline and reporting the impact of general country characteristics on leverage and debt maturity, we extend the analysis by utilizing standard leverage regressions while adding to the set of the most often used capital structure determinants a set of explanatory variables that represent: global ultimate owner characteristics, global ultimate owner institutional quality and institutional distance variables. In all reported regressions, we control for year fixed effects and cluster for countries of the global ultimate owner. Table 5 in Column 1 reports regression results where independent variables are seven standard firm characteristics determining leverage choices and four firms' characteristics of the global ultimate owner. There are 13,372 firm-year observations over the 2008-2014 period. The reported results are interesting, most of the determinants exhibit the statistical significance of the coefficients, and they are in line with the theories of capital structure choices.

Coefficients on profitability, age, size, and tax rate are negative and statistically significant, suggesting that these characteristics of the French subsidiaries on average have a negative impact on leverage choices. Negative coefficient of profitability on leverage is a standard result in the vast empirical literature on capital structure choices (Titman and Wessels,1988; Rajan and Zingales, 1995) and has theoretical foundation in Myers and Majluf (1984) where managers are better informed about their firms' value than outside investors and therefore are inclined to use available cash flow to lower debt levels. For our sample of French subsidiaries, this may be interpreted along

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with this asymmetric information story where managers of subsidiaries are lowering debt levels when cash flows are adequate.

The reported coefficient on the size impact on leverage in Table 5 Column 1, although economically small, is statistically significant. The finding is very similar to Titman and Wessels (1998) that finds a positive but weak relationship between the size and leverage levels. Theoretically, larger firms find the fixed costs of refinancing more affordable and therefore, could take higher debt levels. For our settings, this may mean that managers of French subsidiaries are willing to take higher levels of the debt as they perceive their size and market share more viable.

The longer they are operating in France, the lower is the leverage of subsidiaries in our sample. This result goes along the interpretation that younger firms are more inclined to have higher leverage levels Robb and Robinson (2014), although in our setting it would be hard for these young intermediaries to quickly establish favorable relations with debt providers. Our growth proxy variable shows a positive relation with the leverage level. Lang, Ofek, and Stulz (1996) predict a general negative relationship between future growth and leverage, but not at every range of distribution. Similarly, Billett, King, and Mauer (2007) confirm negative relation among growth and leverage and suggest an introduction of covenants to mitigate potential agency costs. Notwithstanding, firms with good investment opportunities, or covenants may have positive relation between the growth and leverage. Accordingly, we conclude that these subsidiaries in France are on average firms with better than the average investment opportunities and therefore more likely to undertake additional debt financing to fund these opportunities.

The positive impact of tangibility on leverage is well documented in the capital structure literature (e.g., Titman and Wessels, 1988; Rajan and Zingales, 1995; and Frank and Goyal, 2004), with theoretical underpinning where firms with a higher level of tangible assets have higher

recovery value in a case of bankruptcy. In our specification, the increase in tangibility of assets of French subsidiaries increases their debt level. A potential explanation for this could be that French bank lenders see these subsidiaries of companies with the higher level of tangible assets as more grounded in the local settings and therefore more likely as long term-lower risk customers. Consequently, this enables them to undertake more debt financing.

Reported impact of the tax rate on the leverage of French subsidiaries is negative, statistically significant, but economically very small. This result is very similar to findings in the standard capital structure literature (Titman and Wessels,1998). Simply, tax benefits are not of the primary concern for managers of French subsidiaries while determining leverage levels.

Finally, Table 5 in Column 1 reports although economically weak, statistically significant impact on coefficients for the size of global ultimate owner, the profitability of global ultimate owner and level of the debt of global ultimate owner. Coefficient on the size of the global ultimate owner is negative and opposite to the coefficient of the size of the subsidiary. We also report the opposite sign of the coefficient on profitability among the subsidiary and global ultimate owner. Finally, the leverage of the global ultimate owner positively impacts the leverage of subsidiary in France, and it could be the consequence of managerial style or industry.

Table 5 in Column 2 reports results of the similar regression as in Column 1 but instead of the characteristics of the global ultimate owner, we use cultural distance factors variables. Presented results for firm characteristics are very similar, while only one set of factors; namely a factor that includes economic, financial and political distance has slightly positive and statistically significant impact on leverage levels of French subsidiaries. This result may be interpreted as that managers of French subsidiaries coming from the countries more culturally distant than the host country are willing to undertake more risk. In Column 3, we alternate regression from the first

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specification and add to it two independent variables: a nation of the manager and board size. Reported results are almost identical to our priors while only profitability has a slightly larger negative sign. To sum up the set of these initial leverage regressions, obtained results report that subsidiaries operating in France make standard capital structure choices, while at the same time these choices may be impacted by cultural distance factors such as economic, financial and political distance.

To further examine the possible impact of the institutional attributes of global ultimate owners and cultural distance factors on leverage choices of French subsidiaries, we present a set of regressions in Table 6. The baseline setup for regressions presented in Table 6 is Column 1. While leverage is dependent variable standard regressors are seven firm characteristics and eight regressors that control for global ultimate owner characteristics and cultural distance. Then in the rest of the columns of the table, we modify regression from Column 1, adding additional cultural distance variable for each of them. As standard firm leverage determinants show the same sign as in prior specifications, therefore we discuss only statistically significant coefficients of institutional characteristics of global ultimate owner and cultural distance.

All specifications document that wholly owned subsidiary status has a negative statistically significant relation with leverage levels. An interpretation of this sign could be explained by the fact that literature recognizes wholly owned subsidiaries as more profitable than their counterparts (e.g., Chang, Chung, and Moon 2013). Consequently, the wholly owned subsidiary status could be a proxy for profitability, or et least that lenders in France are more willing to provide debt financing to these types of subsidiaries at the higher level than their counterparts. We report statistically significant coefficient for variables proxying for when the subsidiary is a member of the group and for innovation activity. Both of these proxies show negative signs, but do not show

any economic significance on leverage choices of subsidiaries in France. In most of the specifications, the level of leverage of global ultimate owner is positively related to leverage choices of subsidiaries in France.

Cultural distance variables are showing significance in specification 4 when cultural distance variable labeled as a credit of global ultimate owner is introduced. The regression has 9,365 observations and reports that broad cultural distance has a negative relation with leverage levels. The similar direction is reported for the credit of the global ultimate owner. To further examine the financing choices of foreign subsidiaries located in France, we analyze debt maturity choices.

Debt maturity determinants

Financing of foreign subsidiaries and especially maturity choices of the financing securities depends on the institutional relationship with hosts countries banks and their financial markets. Given that financing of subsidiaries in France is most frequently done by the local banks, their perception of the risk of borrowers is of the utmost importance. Consequently, local banks may perceive higher monitoring costs for foreign subsidiaries, primarily when foreign subsidiaries' headquarters are located in institutionally distant countries. To compensate for the increasing agency costs of debt, local banks may prefer short-term debt instead of long-term debt to be able to monitor loan conditions more frequently.

Table 7 reports the results of regressions where the dependent variable is the debt maturity, which is measured by the proportion of long-term debt out of the total debt. For the set of independent variables, we use firm characteristics, global ultimate owner institutional quality characteristics, and cultural distance variables from the leverage regression. We add to the set of regressors the firm-average leverage level. Most of the reported regressions have 13,372 firm-year

observations in period 2008-2014 and in each of them we control for year fixed effects and cluster for the subsidiary county of origin.

In all reported specifications we report statistically significant positive sign on the coefficient that relates debt maturity with leverage levels. Therefore, foreign subsidiaries in France use long term debt more frequently when they are increasing their level of leverage. These results are consistent with contracting-cost hypothesis in Barclay and Smith (1995) and Guedes and Opler (1996) where firms that are large, with fewer growth options have a larger proportion of the long term debt in their capital structure. Another possible interpretation can stem from the finding by Fan, Titman, and Twite (2012) who report that a firm in countries with explicit bankruptcy codes and existence of deposit insurance exhibit higher leverage and the higher proportion of long-term debt.

Across the regressions in Table 7, we report strongly statistically significant coefficients for profitability, size, and tax rate. More profitable foreign subsidiaries in France tend to finance their investment opportunities with long term debt which could testify to their intention to stay in the country for a long time. The larger the foreign subsidiaries in France are the higher proportion of their liabilities is the long-term debt. This result is well documented in general debt maturity determinants literature (see, e.g., Goswami, Noe, and Rebello (1995); Stohs and Mauer 1996) and Ozkan (2000) in European settings.

What is of the outmost interest for our study is how global ultimate owner characteristics and cultural distance are determining debt maturity choices. In all specifications the size of the global ultimate owner has negative impact on the maturity choices and suggests that the large foreign companies tend to advise their subsidiaries in France to rely more on the short-term financing. Most important result of our analysis is that we document that cultural distance

economically large and statistically significant and negative impact on debt maturity choices. We offer the asymmetric information explanation for this findings, as French local banks are more likely to perceive foreign subsidiaries with large cultural distance as risky and therefore to lower their monitoring costs finance them with the short-term debt.

Cash flow determinants

To further explain financing choices of foreign subsidiaries operating in France we examine the determinant of their cash levels. The cash holding literature is abundant and recent literature emphasize that one of the major reasons for cash hoarding are repatriation issues. Table 8 reports the results where the dependent variable is a cash level of subsidiaries and explanatory variables are: firm characteristics, global ultimate owner characteristics, global ultimate owner institutional quality and institutional distance variables. As we include additional explanatory variables, some observations drop out and the range of the observations used in obtaining results is between 4,760 firm-years to 12,731 firm years.

The main takeout from these regressions is that foreign subsidiaries operating in France exhibit similar cash flow determinants as the general literature reports. More profitable subsidiaries hold higher levels of cash. Aside of these standard results, our interest is in interpreting the impact of the ultimate global owner characteristics on this financial policy. In Table 8 column 1 we report that the size, profitability and leverage levels of the mother company all have negative relations with the level of cash held on the accounts of their subsidiaries in France. We do not establish relation among legal characteristics of the global ultimate owners and cash levels. But in overall, we report that aside firm characteristics in France, there is a spillover on some dimension from the characteristics of the global ultimate owner and institutions in their countries.

5. Conclusion

It is well-known that country-level institutional background adds additional explanatory power for firm-level capital structure decisions in both publicly listed firms (see, e.g., De Jong et al., 2008; Acharya et al., 2011; Alves and Francisco, 2015) and privately held firms (e.g., Hall et al., 2004; Matsa et al., 2010; Joeveer, 2013; Simintzi et al. 2014; McNamara, Murro and O'Donohoe, 2017). However, less is known regarding whether country-level institutional background also explains foreign subsidiaries' financing policy. In particular, foreign subsidiaries are embedded in both the institutional setting of home countries and host countries.

Drawing upon international business research, this study introduces the concept of LOF into foreign subsidiaries' capital structure choices and identifies an important source of LOF-the institutional distance between the home country and host country. Further, this study examines whether MNCs can overcome LOF by signaling good corporate governance quality. A large data set of foreign subsidiaries operating in France is used to study the impact of LOF on foreign subsidiaries' capital structure choices. While this study sheds light on the impact of formal institutions, future research could examine the impact of informal institutions such as culture on foreign subsidiaries' capital structure choices.

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Table 1: Variables description

Variable	Definition	Source
Firm related		
Log(cash)	Natural log of (cash and cash equivalents / net(or total)) assets)	Orbis Bureau Van Dijk
Ebit	Ebit / net (or total) assets	Orbis Bureau Van Dijk
Volatility	Standard deviation of (ebit / net (or total)) assets)	Orbis Bureau Van Dijk
Log(size)	Natural log of net (or total) assets	Orbis Bureau Van Dijk
Log(age)	Natural log of firm age	Orbis Bureau Van Dijk
Sales growth	(Sales in year t / sales in year t-1) – 1	Orbis Bureau Van Dijk
Debt	Debt (excluding trade credit) / net (or total) assets	Orbis Bureau Van Dijk
Net working capital	(inventories + receivables – payables) / (or total)net assets	Orbis Bureau Van Dijk
Intangibility	Intangible assets / or total) net assets	Orbis Bureau Van Dijk
Tax rate	1 – (profit after tax / profit before tax)	Orbis Bureau Van Dijk
Country variables		
Private credit	Private credit by deposit money banks / GDP	Financial Development and Structure Dataset World Bank
Rule of law	Perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence	World Governance Indicators World Bank
Legal rights	Degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending	World Development Indicators World Bank
GDP growth	Growth of annual GDP	World Development Indicators World Bank
Economic distance	Difference in economic development and macroeconomics characteristics	World Development Indicators World Bank
Financial distance	Differences in financial sector developments	World Development Indicators World Bank
Connectedness distance	Difference in tourism levels and internet uses	World Development Indicators World Bank
Demography distance	Difference in demographic characteristics	World Development Indicators World Bank

Table 2: Descriptive statistics

This table describes the median, mean, standard deviation, minimum value, maximum value, and number of observations for the main variables used in the study for 13372 firm years of French subsidiaries subsamples in period 2008-2014. Variables; leverage, ROA, ROA volatility, sales growth, tangibility, tax rate are winsorized at one percentile of extremes on both sides. Total assets and age are scaled by logs. Variables economic distance, financial distance, political distance and connectedness distance are taken from World Development Indicators. GUO (global ultimate owner) variables represent characteristics of the headquarters countries. Host variables represent characteristics of the country in which subsidiary operate (France).

Variable	Median	Mean	Stand. Dev	Minimum	Maximum	Number
Leverage	0.032	0.110	0.159	0.000	0.896	13372
Debt maturity	0.021	0.379	0.433	0.000	1.000	13372
ROA	0.059	0.079	0.130	-0.323	0.509	13372
ROA volatility	0.053	0.064	0.043	0.003	0.242	13372
Total assets	9.523	9.534	1.417	4.247	14.154	13372
Age	3.332	3.311	0.520	1.386	4.575	13372
Sales growth	-0.002	0.052	0.415	-0.605	3.784	13372
Tangibility	0.280	0.305	0.237	0.000	0.958	13372
Tax rate	0.243	0.182	0.432	-1.923	2.312	13372
Economic distance	1.257	1.991	2.016	0.130	14.332	13351
Financial distance	1.216	1.440	0.852	0.249	10.385	11325
Demography distance	1.241	1.136	0.772	0.270	7.105	13351
Connectedness distance	0.837	0.870	0.457	0.155	4.719	13351
Law _GUO	1.615	1.508	0.418	-0.716	2.120	13372
Legal Rights GUO	6.000	6.551	2.978	2.000	12.000	13355
Corruption_GUO	1.563	1.498	0.556	-0.731	2.519	13372
Law host country	1.441	1.453	0.032	1.409	1.512	13372
Legal rights host	4.000	4.000	0.000	4.000	4.000	13372
Corruption host	1.417	1.395	0.078	1.274	1.522	13372

Table 3: Correlations statistics

Table presents Pearson correlation of the main variablesused in the study for 13372 firm years of French subsidiaries subsamples in period 2008-2014. Variables; leverage, ROA, ROA volatility, sales growth, tangibility, tax rate are winsorized at one percentile of extremes on both sides. Total assets and age are scaled by logs. Variables economic distance, financial distance, political distance and connectedness distance are taken from World Development Indicators. GUO (global ultimate owner) variables represent characteristics of the headquarters countries. Host variables represent characteristics of the country in which subsidiary operate (France). Significance threshold is at 1%.

	Lev.	Dmat	ROA	ROAv	Size	Age	Sgrowt	Tang.	Taxr.	EcoD	FinD	DemD	ConnD	LGUO	LRGU	CGUO	LHC	CH
Leverage	1																	
Debt maturity	0.25*	1																
ROA	-0.12*	-0.04*	1															
ROA_volatility	-0.04*	-0.04*	0.09*	1														
Size	0.09*	0.11*	-0.24*	-0.31*	1													
Age	-0.11*	0.04*	-0.03*	-0.11*	0.26*	1												
Sales growth	0.04*	0.00	0.06*	0.04*	0.00	-0.13*	1											
Tangibility	0.24*	0.10*	-0.05*	-0.05*	0.07*	0.09*	-0.04*	1										
Tax rate	-0.05*	0.00	0.14*	-0.01	-0.06*	0.01	0.00	-0.04*	1									
Economic distance	0.04*	0.03*	-0.07*	-0.01	-0.04*	-0.07*	0.00	0.01	-0.03	1								
Financial distance	0.02	-0.01	0.14*	0.04*	0.05*	0.02	0.02	-0.06*	0.00	-0.15*	1							
Demography distance	-0.04*	-0.01	-0.04*	-0.06*	0.07*	-0.03	0.00	0.02	-0.01	-0.08*	-0.01	1						
Connectedness distance	0.01	0.01	-0.05*	-0.02	0.04*	-0.01	0.00	0.04*	0.00	0.00	-0.19*	0.42*	1					
Law _GUO	0.00	0.00	0.07*	0.04*	0.09*	0.06*	0.00	-0.04*	0.00	0.14*	0.25*	-0.51*	-0.46*	1				
Legal Rights GUO	-0.01	-0.03	0.18*	0.04*	0.05*	0.05*	0.01	-0.06*	0.02	-0.30*	0.68*	0.02	-0.24*	0.37*	1			
Corruption_GUO	0.01	0.00	0.01	0.02	0.09*	0.07*	0.00	-0.01	0.00	0.25*	0.05*	-0.50*	-0.36*	0.91*	0.08*	1		
Law host country	-0.02	-0.04*	0.04*	0.00	-0.01	0.03	-0.03*	-0.01	0.00	-0.06*	0.03	0.02	0.02	0.03*	0.01	-0.02	1	
Corruption host	0.01	-0.02	0.03	0.02	-0.02	0.05*	0.06*	0.00	0.03	-0.10*	-0.03	0.01	0.07*	-0.06*	0.03*	-0.02	0.08*	1

Table 4.
Table 4 reports results from basic regression where the independent variables are dummies representing the country headquarters of subsidiaries. Column 1 reports results where scaled leverage of French subsidiaries is a dependent variable. Column 2 reports results where scaled debt maturity is a dependent variable. The symbols *, **, and *** represent statistical significance of coefficients at 10%, 5% and 1% respectively.

	(1) Leverage	(2) Maturity
_Icncodeguo_2	-0.045**	-0.287***
	(-2.413)	(-5.516)
_Icncodeguo_3	-0.008	-0.158***
	(-0.453)	(-3.275)
_Icncodeguo_4	0.096*	-0.284***
	(1.822)	(-3.182)
_Icncodeguo_5	0.013	-0.068
	(0.489)	(-0.968)
_Icncodeguo_6	-0.010	-0.148***
	(-0.533)	(-2.941)
_Icncodeguo_7	-0.049**	-0.290***
	(-1.971)	(-3.784)
_Icncodeguo_8	0.013	-0.278***
	(0.489)	(-4.246)
_Icncodeguo_9	-0.067	-0.142
	(-1.576)	(-0.831)
_Icncodeguo_10	-0.047***	-0.178***
	(-2.593)	(-3.648)
_Icncodeguo_11	-0.024	-0.157**
	(-0.958)	(-2.461)
_Icncodeguo_12	-0.063*	0.212**
	(-1.946)	(2.384)
_Icncodeguo_13	-0.012	-0.147***
	(-0.633)	(-2.847)
_Icncodeguo_14	-0.016	-0.141**
	(-0.714)	(-2.229)
_Icncodeguo_15	-0.013	-0.161***
	(-0.703)	(-3.303)
_Icncodeguo_16	-0.122***	-0.000
	(-6.910)	(-0.004)
_Icncodeguo_17	0.035	-0.034
	(1.006)	(-0.264)
_Icncodeguo_18	-0.110***	-0.205*
	(-5.970)	(-1.855)
_Icncodeguo_19	-0.037*	-0.169***
	(-1.896)	(-3.158)
_Icncodeguo_20	0.019	-0.127
	(0.268)	(-0.809)
_Icncodeguo_21	-0.028	-0.051
	(-1.438)	(-0.859)
_Icncodeguo_22	0.159***	0.414***
	(3.022)	(8.633)
_Icncodeguo_23	-0.028	-0.144***

	(-1.541)	(-2.879)
_Icncodeguo_24	-0.032*	-0.179***
	(-1.780)	(-3.649)
_Icncodeguo_25	-0.081***	-0.425***
	(-2.945)	(-4.650)
_Icncodeguo_26	0.040	-0.542***
	(0.540)	(-11.478)
_Icncodeguo_27	0.001	-0.098*
	(0.064)	(-1.826)
_Icncodeguo_28	-0.037	-0.384***
	(-1.262)	(-4.853)
_Icncodeguo_29	0.324***	0.458***
	(17.737)	(9.687)
_Icncodeguo_30	-0.033	-0.058
	(-0.751)	(-0.633)
_Icncodeguo_31	-0.104***	-0.412***
	(-5.082)	(-5.260)
_Icncodeguo_32	-0.003	-0.148***
	(-0.129)	(-2.833)
_Icncodeguo_33	-0.016	-0.217***
	(-0.631)	(-3.157)
_Icncodeguo_34	0.108***	0.029
	(3.150)	(0.289)
_Icncodeguo_35	-0.005	0.171*
	(-0.170)	(1.709)
_Icncodeguo_36	-0.046**	-0.105
	(-2.095)	(-1.485)
_Icncodeguo_37	-0.129***	-0.542***
	(-7.381)	(-11.478)
_Icncodeguo_38	-0.016	-0.115**
	(-0.827)	(-2.276)
_Icncodeguo_39	0.219***	0.177
	(3.847)	(1.254)
_Icncodeguo_40	-0.063*	-0.288**
	(-1.680)	(-2.331)
_Icncodeguo_41	-0.001	-0.361***
	(-0.012)	(-3.063)
_Icncodeguo_42	0.086	0.179
	(1.311)	(1.266)
_Icncodeguo_43	-0.060	-0.420***
	(-1.628)	(-5.430)
_Icncodeguo_44	-0.020	-0.178***
	(-1.128)	(-3.724)
_Icncodeguo_45	-0.121***	0.458***
	(-6.886)	(9.687)
N	13372	13372
r2	0.014	0.013

t statistics in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 5:

Table 5 presents results of leverage regression with the following set of dependent variables: firm characteristics, global ultimate owner characteristics, global ultimate owner institutional quality and institutional distance variables. Distance factor 1 includes demographic distance, connectedness _distance and law_distance. Distance factor 2 includes economic distance, political distance and financial distance. The symbols *, **, and *** represent statistical significance of coefficients at 10%, 5% and 1% respectively. All regression control for year fixed effect.

	(1) Leverage	(2) Leverage	(3) Leverage
ROA	-0.171***	-0.177***	-0.248***
	(-4.913)	(-6.986)	(-5.453)
ROA volatility	-0.026	-0.070	-0.013
	(-0.649)	(-1.167)	(-0.146)
Size	0.017***	0.013***	0.021***
	(7.551)	(4.939)	(5.783)
Age	-0.034***	-0.036***	-0.032***
	(-7.547)	(-4.472)	(-5.359)
Sales_growth	0.009*	0.015**	0.008
	(1.723)	(2.395)	(1.016)
Tangibility	0.136***	0.170***	0.138***
	(7.089)	(9.075)	(4.250)
Tax rate	-0.009**	-0.013***	-0.010
	(-2.360)	(-3.464)	(-1.583)
Size_guo	-0.004***		-0.001
	(-2.773)		(-0.760)
Age_guo	0.003		-0.004
	(0.893)		(-0.683)
Ebit_ta_guo	0.002**		0.015
	(2.189)		(0.633)
Lev_debt_guo	0.037**		0.050***
	(2.016)		(3.357)
Distance factor 1		-0.002	
		(-0.349)	
Distance factor 2		0.007**	
		(2.113)	
Chair_guo_nation			-0.018
			(-1.566)
Board size			-0.001
			(-1.156)
N	13372	8133	4958
r2	0.212	0.250	0.303

Table 6:
Table reports regression with leverage as a dependent variable and firm characteristics, global ultimate owner characteristics, cultural distance and CD*home country institutional quality as a set of independent variables.

	(1) Leverage	(2) Leverage	(3) Leverage	(4) Leverage	(5) Leverage	(6) Leverage	(7) Leverage
ROA	-0.176***	-0.176***	-0.176***	-0.173***	-0.175***	-0.175***	-0.176***
	(-6.523)	(-6.531)	(-6.513)	(-6.179)	(-6.542)	(-6.533)	(-6.523)
ROA vol.	-0.027	-0.027	-0.028	-0.054	-0.024	-0.026	-0.027
	(-0.731)	(-0.720)	(-0.775)	(-1.080)	(-0.647)	(-0.691)	(-0.731)
Size	0.016***	0.016***	0.016***	0.017***	0.016***	0.016***	0.016***
	(8.218)	(8.227)	(8.224)	(6.176)	(8.199)	(8.256)	(8.218)
Age	-0.036***	-0.036***	-0.037***	-0.035***	-0.036***	-0.036***	-0.036***
	(-7.062)	(-7.067)	(-7.132)	(-5.494)	(-7.017)	(-7.062)	(-7.061)
Salesgrowth	0.012*	0.011*	0.012*	0.015**	0.011*	0.012*	0.012
	(1.952)	(1.932)	(1.943)	(2.351)	(1.931)	(1.943)	(1.951)
Tangibility	0.151***	0.151***	0.151***	0.155***	0.151***	0.150***	0.151***
	(10.470)	(10.441)	(10.480)	(8.027)	(10.485)	(10.422)	(10.470)
Tax rate	-0.008*	-0.008*	-0.008*	-0.013***	-0.008*	-0.008*	-0.008*
	(-1.931)	(-1.922)	(-1.919)	(-3.541)	(-1.938)	(-1.925)	(-1.929)
Wholly_own	-0.012***	-0.011***	-0.011***	-0.010**	-0.012***	-0.012***	-0.012***
	(-3.036)	(-3.026)	(-3.028)	(-2.458)	(-3.040)	(-3.078)	(-3.016)
Comp. group	-0.000*	-0.000*	-0.000*	-0.000	-0.000*	-0.000*	-0.000*
	(-1.814)	(-1.802)	(-1.835)	(-1.447)	(-1.745)	(-1.840)	(-1.810)
Patents	-0.000***	-0.000***	-0.000***	-0.000***	-0.000***	-0.000	-0.000***
	(-2.781)	(-2.778)	(-2.778)	(-3.438)	(-2.784)	(-0.968)	(-2.782)
Size_guo	-0.003	-0.003	-0.003	-0.004**	-0.003	-0.003	-0.003
	(-1.560)	(-1.571)	(-1.586)	(-2.575)	(-1.567)	(-1.580)	(-1.554)
Age_guo	0.002	0.002	0.002	0.008	0.002	0.002	0.002
	(0.471)	(0.474)	(0.470)	(1.274)	(0.449)	(0.461)	(0.470)
Ebit_ta_guo	0.002	0.002	0.002	0.002**	0.002	0.002	0.002
	(1.578)	(1.588)	(1.588)	(2.146)	(1.583)	(1.585)	(1.576)
Levdebt_guo	0.031*	0.031	0.031*	0.027	0.031*	0.031*	0.031*
	(1.709)	(1.678)	(1.729)	(1.156)	(1.712)	(1.710)	(1.709)
Cd	-0.014	0.103	0.711	-3.250***	-0.021	-0.015	-0.014
	(-0.192)	(0.916)	(1.473)	(-9.154)	(-0.270)	(-0.203)	(-0.192)
Cd_law_guo		-0.017					
		(-1.456)					
Cd_lega_guo			-0.025				
			(-1.315)				
Cd_crediguo				-0.060***			
				(-3.329)			
Cd_bankcred					0.000		
					(0.327)		
Cd_patent						-0.000	
						(-1.674)	
Cd_guomngr							0.001
							(0.284)
N	13372	13372	13355	9365	13351	13372	13372
r2	0.169	0.169	0.169	0.173	0.169	0.169	0.169

Table 7:

Table reports results with maturity(ratio of long-term debt out of total debt) as dependent variable.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Maturity	Maturity	Maturity	Maturity	Maturity	Maturity	Maturity
Lever._	0.668***	0.668***	0.668***	0.650***	0.667***	0.669***	0.668***
	(20.777)	(20.775)	(20.734)	(14.484)	(20.537)	(20.877)	(20.789)
ROA	0.140***	0.140***	0.140***	0.200***	0.140***	0.139***	0.140***
	(3.583)	(3.584)	(3.580)	(4.140)	(3.583)	(3.534)	(3.585)
Roa_vol_	0.041	0.042	0.043	0.005	0.044	0.036	0.037
	(0.254)	(0.258)	(0.264)	(0.021)	(0.275)	(0.226)	(0.231)
Size	0.026***	0.026***	0.026***	0.029***	0.026***	0.025***	0.026***
	(5.970)	(5.968)	(5.964)	(4.779)	(5.973)	(5.633)	(5.966)
Age	0.027*	0.027*	0.027*	0.036**	0.027*	0.026*	0.027*
	(1.899)	(1.896)	(1.889)	(2.200)	(1.914)	(1.805)	(1.897)
Sales_gr_	-0.010*	-0.011*	-0.011*	-0.012	-0.011*	-0.010*	-0.011*
	(-1.865)	(-1.896)	(-1.899)	(-1.291)	(-1.930)	(-1.856)	(-1.894)
Tang	0.042	0.042	0.041	0.084	0.043	0.043	0.042
	(0.777)	(0.777)	(0.764)	(1.277)	(0.789)	(0.792)	(0.781)
Tax_rate	0.015***	0.015***	0.015***	0.012	0.015***	0.015***	0.015***
	(3.140)	(3.134)	(3.136)	(1.687)	(3.126)	(3.143)	(3.044)
Wh_own	0.005	0.005	0.006	-0.017	0.005	0.006	0.005
	(0.437)	(0.445)	(0.459)	(-0.854)	(0.438)	(0.474)	(0.371)
Cgroup	0.000	0.000	0.000	0.000	0.000	0.000	0.000
	(1.304)	(1.306)	(1.301)	(0.969)	(1.311)	(1.307)	(1.323)
Patents	0.000	0.000	0.000	0.000	0.000	-0.000	0.000
	(1.260)	(1.261)	(1.259)	(0.917)	(1.257)	(-0.246)	(1.260)
Size_guo	-0.020***	-0.020***	-0.020***	-0.022***	-0.020***	-0.020***	-0.020***
	(-4.803)	(-4.812)	(-4.777)	(-5.808)	(-4.823)	(-4.763)	(-4.891)
Age_guo	0.012	0.012	0.013	0.028***	0.012	0.013	0.013
	(0.945)	(0.947)	(0.963)	(3.769)	(0.946)	(0.955)	(0.961)
Ebitta_G	0.000	0.000	0.000	0.001	0.000	0.000	0.000
	(0.171)	(0.182)	(0.168)	(0.973)	(0.179)	(0.145)	(0.190)
Lev_guo	0.041	0.040	0.040	0.045	0.042	0.040	0.041
	(0.592)	(0.580)	(0.584)	(0.533)	(0.607)	(0.589)	(0.593)
Cd	-2.737***	-2.465***	5.433***	-8.944***	-2.694***	-2.734***	-2.733***
	(-15.246)	(-10.987)	(3.343)	(-4.199)	(-14.664)	(-15.214)	(-15.271)
Cdlaw_G		-0.040					
		(-1.637)					
CD_legG			-0.280***				
			(-4.576)				
CdcredG				-0.160***			
				(-2.870)			
CdbankG					-0.000		
					(-0.800)		
Cd_paten						0.000***	
						(3.352)	
Cd_guom							-0.123***
							(-6.673)
N	13372	13372	13355	9365	13351	13372	13372
r2	0.112	0.112	0.111	0.119	0.111	0.112	0.112

Table 8:

Table presents results of cash flow level regressions with the following set of dependent variables: firm characteristics, global ultimate owner characteristics, global ultimate owner institutional quality and institutional distance variables. The symbols *, **, and *** represent statistical significance of coefficients at 10%, 5% and 1% respectively.

	(1) Cash	(2) Cash	(3) Cash	(4) Cash	(5) Cash	(6) Cash
Leverag.	-0.027	-0.025	-0.028	0.007	-0.024	
	(-1.353)	(-1.282)	(-0.879)	(0.189)	(-1.236)	
ROA	0.093***	0.089***	0.121***	0.086**	0.090***	
	(3.557)	(3.187)	(3.398)	(2.588)	(3.194)	
ROA_vol	0.053	0.053	0.019	0.079	0.041	-0.182**
	(1.219)	(1.295)	(0.433)	(1.616)	(0.995)	(-2.075)
Size	-0.015***	-0.016***	-0.015***	-0.015***	-0.016***	
	(-7.812)	(-7.464)	(-4.477)	(-5.155)	(-7.700)	
Age	-0.007*	-0.005	-0.001	-0.001	-0.005	0.006
	(-1.695)	(-1.511)	(-0.201)	(-0.383)	(-1.471)	(0.912)
Sales_growth	0.002	0.003	0.001	0.004	0.003	-0.003
	(0.629)	(0.840)	(0.286)	(1.241)	(0.911)	(-0.497)
Tang	-0.129***	-0.133***	-0.119***	-0.134***	-0.132***	
	(-10.749)	(-10.239)	(-10.561)	(-6.307)	(-9.950)	
Tax_rate	0.004*	0.004*	0.006**	0.000	0.004*	-0.004
	(1.992)	(1.897)	(2.418)	(0.098)	(1.724)	(-0.920)
Size guo	-0.003**			-0.002		
	(-2.166)			(-1.351)		
Age_guo	-0.001			-0.007		-0.012
	(-0.119)			(-0.948)		(-0.845)
Ebit_ta_guo	-0.002**			-0.052*		
	(-2.278)			(-1.848)		
Levdebt_guo	-0.043***			-0.020		
	(-4.992)			(-1.005)		
Law_host		0.110			0.001	
		(0.206)			(0.003)	
Legalrights_h		0.000			0.000	
		(.)			(.)	
Law_guo		-0.010			-0.008	
		(-1.574)			(-1.098)	
LegalrightsG		-0.001			-0.001	
		(-0.331)			(-0.520)	
Distance 1			0.004			
			(0.584)			
Distance 2			-0.007**			
			(-2.323)			
Chair_guoNa				0.005		
				(0.446)		
Boardsize_w				-0.001		
				(-1.108)		
Eco_d					-0.002	

						(-1.176)
Levdebt_na_						0.101[*]
						(1.753)
Ebit_na_w						0.521[***]
						(14.520)
Lnnet_assets						-0.064[***]
						(-19.225)
Tang_na_w						0.000[***]
						(5.212)
Wholly_own.						-0.009
						(-0.691)
CompaGroup						-0.000
						(-0.481)
Patents						0.000
						(1.533)
Lnnet_as_guo						-0.002
						(-0.584)
Ebit_na_guo						-0.171[*]
						(-1.975)
Levdebtguo						-0.092[***]
						(-3.425)
Cd						0.365[***]
						(3.143)
N	12731	12715	7870	4760	12694	12686
r2	0.232	0.229	0.279	0.221	0.229	0.272