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Company, Governance Or Cultural Dimensions, Is There Any Difference In Factors Affecting Capital Decisions In Asia And Europe? (Cultural Finance)

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Abstract

This study examined the relation of three dimensions of the capital structure (company specific factors, corporate governance and cultural dimensions). We found a significant effect of five cultural dimensions of Hofstede , 1) Individualism vs. collectivism (IND),2)Uncertainty avoidance (UNCA) and 3) Masculinity vs. femininity (MAS) on capital structure in the presence of company specific elements i.e. liquidity, profitability, tangibility, growth and firm size along with corporate governance variables such as board size, CEO duality, presence of independent directors, number of female directors and presence or absence of foreign directors. For this paper, secondary data of listed companies from 8 countrieswascollected through DataStream database for the period of (2006 to 2016). Furthermore, data was analyzed through Panel EGLS and GMM and results are summarized.

Keywords: liquidity, profitability, tangibility, growth, firm size,board size, independent directors, gender diversityand Hofstede cultural dimensions.

Introduction

World have become a global village,firms are working across boundaries so its important now to know about the effect of specific region on capital decisions of the firms andin finance the most important decision is about the choice of capital. After Modigliani and Miller work its more than six decades and hundreds of papers,but the choice of capital is still debate able. Academician and researchers found multiple factors effecting the firm's choice for capital structure, including firm specific as well as governance related variables. Financial gurus are interested in knowingthe causes effecting thefirm's financial decision. Firm specific variables such as profitability, liquidity, tangibility, size,growth and leverage shows random relation i.e. both positive and negative relation with debt financing. A number of finance theories such as M &M theory, trade off theory, pecking order theory and bank cruptcy theory supports theseinconsistent relation of firm specific variables with capital structure. To justify this diverse relationfinancialist inculcate governance variables such as board size, CEO duality, Gender diversity, outside directors and presence of foreign directors. They argue that humans being are rational ,so depicts socio economic behavior based on the'norms and values' (culture) of their society,indirectly it can be said thatculture (norm and values) of the countryin which firm is located influence the decision making process in finance.

In this paper we will study this phenomena about choice of capital structure that either culture or region matters or not in making choice of debt or equity.For this purpose we will divide data in to two groups i.e. Asia and Europe. We will find out the pattern of finance in both groups that either itis same or effected by the culture of these regions.

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Group of Asian countries includePakistan, India, Bangladesh and Turkey. Group of European countries include Italy, Spain, Finland and Norway.

This paper has been structured as follows. Section I gives introduction. Section 2 provides summary of existing literature on the topic. Section 3 consist on the data, variables and methodology. In Section 4 findings of the study are presented and discussed. Finally, Section 5 gives the concluding remarks about the findings and results.

Literature Review

Scholars are trying to find an equilibrium between equity and long term liability where cost of capital can be minimized and shareholder interest can be maximized.In the following section main variables found in literature about company's performance, governance and culture, inducing the decision of the capital structure of the company are briefly discussed.

3.1 Company specific Factors

3.1.1. Liquidity

The classical opinion about liquidity is that it increases debt capacity of the firm (Williamson, 1988). Sibilkov (2009) found firms withexcessive liquid assets have greater tendency of leverage. Harris & Raviv (1990) and Shleifer & Vishny (1992) found direct association between liquid assets and long term debt which is in align with trade off and bankruptcy theories. Conflicting to these theories pecking order theory and signaling theory expects negative relation with leverage.

Deesomsak et al. (2004), Sheikh and Wang (2011), Ozkan(2001) Sheikh (2015) and Khaki & Akin (2020) supports negative relation between liquidity and leverage.

Hypothesis 1. There is a positive association between liquidity and leverage.

Growth; (GROW)

To gain the essential funds at growth stage mature firms require funds either through internal or external source of finance. Although growth upsurgesthe firm's assets but not necessarily in tangible form, Myers (1977), so firms may not have additionalassets to use as collateral, in absence of secureties debts will be obtained at higher cost increasing the likelihoods of insolvency and distress. So even in growth phase firms may not acquire debt. Findings of various scholars support the negative relation of growth and leverage. Kim & Sorensen (1986), Rajan and Zingales (1995), Ozkan (2001) , Barclay & Smith (2005), Gaud et al. (2005); Huang, (2006); Akhtar & Oliver, (2009); Frank & Goyal, (2009); Sheikh & Wang, (2011); Handoo & Sharman (2014), Granado& López (2017),Inderst & Vladimirov (2019) andMoradi & Paulet (2019) indorse the above-mentioned theoretical and empirical outcomes. But supporters of signaling theory i.e. Lang et al.(1996), Wald(1999), Chen (2004) and Khaki & Akin (2020) argues that the firms with high earnings and growth opportunities will engage in high leverage due to its strong position in market.

Hypothesis 2. There is a negative association between growth and long term debt.

Tangibility (TANG);

Businessuses tangible assets to make profit but at same time companies use their possessionsas a security to obtain debt from banks or financiers. According to capital structure theories i.e. M & M theory ,Trade off ,bankruptcy and agency theory greater the value of available collaterals, stronger the position of firms to get loan at economicalcost as firms will have greater bargaining power with loaning institutions, this will also reduce the distress and bankruptcy cost , Chen et al. (1998), Marsh (1982), Titman and Wessels (1988), Rajan and Zingales (1995),Michaelas et al. (1999), Huang (2006), Lemmon et al.(2008), Hovakimian & Li (2011), Alipour et al.(2015), Moradi & Paulet (2019) and Khaki & Akin (2020) endorse the positive relation of tangibility and leverage. Opposing the above scholars' findings various academician found the negative

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relation proving the application of pecking order theory Karadeniz et al., (2009). Deesomsak et al. (2004) and Granado& López(2017) found inverse relation between tangibility and debt.

Hypothesis 3. There is a positive associationbetween tangibility and long term debt.

3.1.4 Firm's Size (SIZE)

Capitalization measures the size of the firm, it is the market value of outstanding shares of the company. Inconsistency of theories continue here again, trade off theory shows positive relation and pecking order theory's signal negative for the two variables i.e. leverage and size of the firm. Arguing in favour of trade off theories scholars suggest that as the size of the firm increases, due to economies of scale firms have strong bargaining power on cost of debt with lenders, they have

more assets to use as collaterals and cost associated with bankruptcy will decrease, more cash flows will be there, so according to trade of theory expected relation between the two variables is positive .Agrawal & Nagarajan, (1990), Harris & Raviv(1991), Berger et. al. (1997), Graham et al. (1998), Wiwattanakantang (1999), Baker & Wurgler(2002), Gaud, et al.(2005), Frank &Goyal (2009), Sheikh & Wang (2012), Granado& López(2017), Moradi & Paulet (2019), Li & Islam (2019) andKhaki & Akin (2020) found positive relation between the size and leverage of firm. Fama and Jensen (1983) evidenced negative association arguing that increase in size causes agency issues and to a void more disclosures of information for the purpose of obtaining debt firms prefers to issue equity (Kim and Sorensen, 1986). Rajan and Zingales(1995), Chen (2004) and Kurshev & Strebulaev (2015)also found negative relation.

Hypothesis 4. There is a negative relationship between size and leverage.

3.1.5 Profitability (PROF)

According to Pecking order theory, profitable firms have retained earnings as the source of finance, it's not only a risk free investment rather it increases the confidence of investor. Scholars suggested that highly profitable firm's uses internal source of finance in order to avoid information symmetry and cost of external debt. Titman & Wessels (1988), Rajan & Zingales (1995), Chen et al. (1998),Fama & French(2002), Chen(2004), Chen & Strange (2005), Gaud et al. (2005), Kim & Berger (2008), Frank & Goyal(2009), Sheikh and Wang(2011), Hovakimian & Li, (2011), Granado& López(2017), Allini et al. (2018), Moradi & Paulet (2019) and Khaki & Akin (2020) found negative relation between profitability and debt.

Opposite to this, trade off theory argues that to take the advantage of tax shield profitable firms includes more debt in its capital. Free cash flow theory, signaling theory, cost of distress and bankruptcy theory are also encourage higher debt due to positive and strong negotiating power of these profitable firms. Frank & Goyal. (2009) found positive relation between the profit and debt of the firm.

Hypothesis 5. There is a negative relationship between profitability and leverage.

3. Corporate Governance

Scholars found significant evidence in literature that apart from financial factors, non-financial factors such as different characteristics of corporate governancei.e.board size, CEO as Chairman, CEO as Director, gender diversification, foreign directors,and presence of outside directors also effect the financial decision of the firm, Sheikh and Wang (2012).

3.2.1. Board size (BSZ)

Board size represent the logarithm of the number of directors present on the board. It's a debatable question that a firm should have larger or smaller board and how the size of board effects leverage decision. According to Agency Theory larger the board, lowerthe efficiency because of more conflicts in decision making process, meaningless discussion, time consuming at the moment of taking quick decision, more lobbying and there are free rider which enjoy the benefit at the cost of others. Berger et al. (1997), Mak& Kusnadi (2005), Abor and

Biekpe (2007), Hassan and Butt (2009),Granado& López(2017), Yusuf & Sulung, 2019; Guney et al., 2020) found negative relation between board size and leverage. Antagonistically, literature also prove the positive relation between board size and leverage, in its favour scholars argue that it's consistent with the resource dependence theory suggesting that larger board takes an advantage of its diversified knowledge, skills and experience. Outcomes of the research work of Jensen(1986), Anderson et al. (2004), Abor (2007), Bokpin and Arko(2009) , Sheikh and Wang (2012) ,Pham & Nguyen (2019) and Nguyen et al.(2020) depicted positive relation between board size and debt.

Hypothesis 6. There is a negative relationship between board size and leverage.

3.2.2. Gender Diversity

Gender diversity debates on the fair representation of different genders in various aspects of life. Narrowing the focus of study on corporate governance, the presence of female segment in top management is very small. It is common believe around the globe that women are risk averse, more emotional, lack decision power and do not have strategic mind due to which they cannot take good business decision, so presence of females on top of the firm will give adverse signal to the investors, providing females less access to debt leading the firm performance toward declineChaudhuri et al. (2020). General finding of scholars about females choice of capital shows that female are risk averse, they prefer lower debt to avoid the problems of insolvency, Mirza et al (2012) and Faccio et al. (2016).

Alves et al (2015) and Nguyen et al. (2020) found positive relation between gender diversity and risky securities, believing that increase monitoring and disclosure of information shows more trust of credit firms on these businesses. Jurkus et al. (2011) studied the relation of gender diversity with agency cost and found inverse relation which shows that lower agency cost will lead toward lower level of debt.(Vu et al., 2018) in Vietnam found that presence of female director shows insignificant effect on the firm performance which describes gender diversity does not matter in firm financial decisions. Rose, (2007), Matsa & Miller (2013), Isidro & Sobral (2015), Gordini & Rancati (2017) andGranado& López (2017) also found insignificant result between female directors and capital decision of the firm.

Hypothesis 7. There is a positive relationship between gender diversity and leverage.

3.2.3. Independent directors

Outside or independent directors have no material interest or relation with the company other than salary, they are appointed to increase monitoring and reduce the agency issues which leads to board efficiency and higher information symmetry which givesconfidence to the market about the firm's performance,it reduces the distress and bankruptcy cost. Fama and Jensen (1983), Vafeas, (2000), Petra (2007), Alves et al. (2007) , Butt & Hasan(2009) and Dimitropoulos & Asteriou (2010). Trade off theory suggest that where agency and bankruptcy cost will be lower, the managers' choice for capital will be debt. Findings of Jensen (1986); Berger et al(1997), Abor and Biekpe (2007), Sheikh & Wang (2012), Granado& López (2017), Pham & Nguyen (2019) andNguyen et al. (2020) support the tradeoff theory, showingpositive relation between independent directors and leverage. Opposite to the findings of above scholars Masulis &Zhang, (2019) found that outside directors are not devoted with board, attend few meetings and have more job turnover which reduces the knowledge and experience of the board, ultimately reducing the performance of governance board. In view of Abor and Biekpe (2007) board with less knowledge and experiencehave lower level of gearing. At the same time managers are under rigorous supervision of outside directors so issuing risky securities increases their problem,monitoring also increase the firm value so the choice of managers will be retained earnings for reinvestment to avoid the increased risk . Frank and Goyal (2008), Anderson et al.(2004); Kuo et al (2012), Purag and Abdullah (2016), found inverse relation between outside directors and long term debt.There are also many scholars who found insignificant results between the board independence and leverage such as Mehran (1992) ; Coleman and Biekpe (2006) Bokpin and Arko, (2009), Hassan and butt (2009) and Pamba (2013)found no significant relation, showing that presence of independent directors do not effect the decision of leverage .

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Hypothesis 8. There is a positive relationship between independent directors and leverage.

2.4 CEO Duality/ CEO as Director

An important feature of effective and efficient corporate governance is the dual position held by same board member, (Dalton et al., 2007). This position has direct impact on the financing decision of the company, as it increases the power of single person who can influence decision making process specially related to raising funds.Fama and Jensen (1983), argued that role of the chief decision management authority should be separated from the chief control decision authority, otherwise if management and decision making will be in hands of same person it will create agency problem. (Krause et al., 2014) documented that CEO with dual position have potency to decide the maximization of own benefits at the expense of shareholders, it will limit the independence of board as CEO with dual power can influence the other members opinion with its higher position.In literature both signs are found between CEO Duality and leverage.(Fosberg, 2004; Kyereboah-Coleman and Biekpe, 2006; Ganiyu and Abiodun , 2012; Njuguna & Obwogi,2015; Ahmad et al,2018) found negative relation between CEO duality and leverage, showing consistency with agency theory. While (Wen, 2002; Faleye, 2004; Abor, 2007; Abor and Biekpe, 2007; Bokpin & Arko, 2009; Vakilifard et al., 2011; Wellalage and Locke,2012; Nazir et al.,2012; Mokarami et al ,2012; Ranti, 2013; Milad et al, 2013; Uwuigbe , 2014 ; Bajagai et al ,2019)found positive relation between CEO duality with leverage which is consistant with steward ship theory.

Hypothesis 9. There is a positive relationship between dual position of CEO as director and leverage.

Foreign Director

Literature is silent about the presence of foreign directors and debt decisions in firms,bur we can say that in presence of foreign directors there will be more diversity with respect to knowledge, experience, norms, race, ethnicity, education and personal values . More diverse board is more efficient, Abor and Biekpe (2007) preferring debt over equity. But opposing to the findings of above scholars Masulis &Zhang, (2019) directors attending few meetings have more job turnover which reduces the knowledge and experience of the board, ultimately reducing the performance of governance board, which is also applicable for foreign directors.

Hypothesis 10. There is a positive relationship between foreign directors and leverage.

3.3 Cultural Dimensions

Above discussed predictors of capital structure at company and governance level behave differently in choice of capital ,which shows the presence of any hidden variable.it may be the culture of the country. Cultural values and norms also aid in forecasting the capital structure of the companies of a particular country. In this regard Breuer & Quinten (2009) concluded that there exist a gap in the theoretical approaches that link economic and finance theoriesimplicitly to cultural aspects.In view of Ahunov & Van, (2020) these cultural dimensions matters more than the economic variableshelping in understanding of financial literacy.In this perspective Nadler & Breuer, (2019) found that Cultural Finance revisit the already well-studied questions of traditionalfinance in a unique way. In present study we took three (3) Hofstede cultural dimensions uncertainty avoidance , Masculinity and Individualism vs. collectivism.

3.3.1. Masculine (MAS)cultures show different directions for men and women as compared to feminine cultures. In Hofstede's masculine culture, males are dominant, more powerful with strong leadership qualities, responsible for taking all kind of decisions followed by female members, more assertive, independent and risk takers**.**Their risk seeking behavior shows their desire to make growth by introducing more debt in capital structure (Willemink, 2018)**.** De Jong and Semenov (2002)argued in favour of increased debt that as the regulatery bodies of masculine societies encourge the competetion in financial system so they also have strong policies for shareholders' rights protection. In the presence of strong regulatory bodies and disclosure of information, mangers feel confident to take more loans for growth of the firm. (Malmendier et al ,2011; Zheng et al. 2012 ;Boubakri and Saffar, 2016 andHaq et al., 2018 ,) also found a positive relation between Masculanity and debt .

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Opposing this, (Chui et al., 2002 and Lin et al, 2010) argued that managers who aim for mastery, are inclined towards uncertainty avoidance and avoid debt financing as they stress upon control , more authority and individual success. They avoid the disclosures of information which increases the cost of debt. . Hirshleifer and Thakor (1992) found that the managers belonging to maaculine cultures care about their own performance so they choose relatively safer projects with a high probability of success and hence, prefer equity over debt.

Hypothesis 11. There is a negative relationship between masculinity and leverage.

3.3.2. Individualism (IDV) vs Collectivismis the degree to which people prefertheir own interest, being independent, self-supporting and autonomous in making decisions they areoveroptimisticabout the evidence they have and believe in their abilities to control the situation, Yates et al. (2016).In individualistic societies, there is higher tendency of including debt in capital structure because management prefer own interest and enjoy the benefit of lower cost of capital and use it as a tax shield (Gleason et al. 2000).These manager are not willing to scarify their autonomous position so they avoid the involvement of external financier ,i.e. Their choice for capital will be equity over debt. Scholars such as (Chui et al,2010; Bhaird and Lucy, 2014). Contrary to these findings(Gray et al.,2013 ;Wang and Esquesa, 2014; Boubakri and Saffar, 2016 andWillemink,2018) found positive relation between individualism and debt.

Hypothesis 12. There is a negative relationship between individualism and leverage.

3.3.3. Uncertainty avoidance:

It means some society's shows risk averse behavior and some are risk takers, culture of risk taking depicts people of that society feel easiness in working with unpredicted circumstances and they have ability to cope uncertain conditions and can change their strategy in dynamic environment. While the societies with lower scores are working on set rules and policies, they avoid unpredictable circumstances as they have proper s planning for their decisions, they strictly follow their plans and if they feel any uncertain situation they try to avoid it (Chang et al., 2012). .These people don't like risky investment because debt can increase their bankruptcy chances, Gleason et al. (2000) and Arose 2014). From these arguments it can be concluded that countries with higher score of UAI prefer equity over debt. (Knight ,2009; Kearney et al,2012; Bhaird &Lucy, 2014; Wang and Esquesa, 2014; Im & Shon,2020) also found the inverse relation between UAI and leverage of the firm. Contrary to this, some researchers argue that societies with higher values of UAI are more rule-oriented, does not accept change easy and takes less risk (Chang et al., 2012).So firms in this culture retain complete accounting disclosures, reducing the mortgagor's financial risk, making debt more attractive. (Kwok and Tadesse (2006) found that firms in culture of higher UAI rely more on debt from bank rather equity market. Zheng et al. (2012) found positive relation for short term debt while (Boubakri and Saffar, 2016 and Willemink,2018) also found positive relation between the UAI and leverage.

Hypothesis 13. There is a negative relationship between UAI and leverage.

4 Data Collection

The source of DataStream (Thomson Reuters) database is used to collect data of listed non-financial companies from Asian and European countries including Pakistan, India, Bangladesh, Turkey, Italy, Spain, Finland and Norway. These countries have been grouped in two categories on bases of their continent i.e. Asia and Europe. For sampling largest 50 companies are selected with respect to highest market capitalization in the fiscal year 2016.Independent Variables include growth (market to book value), liquidity ratio (current ratio), tangibility (tangible Assets/Total Assets) , profitability (net profit/total assets), leverage (long term /total equity) and LS (log of size).Corporate governance variables such as board size, dual position of CEO, independent directors and presence of foreign directors is collected from the annual reports of the firms. Apart from that, Hofstede cultural dimensions i.e. power distance, individualism and uncertainty avoidance are taken into account for the purpose of analysis. All the values of cultural dimension ranged from 0 to 100, with higher scores indicating more influence of a specific variable in a specific country.

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4.1 Data Analysis

The collected data was analyzed through Eviews by using descriptive statistics, correlation matrix and panel data. Panel generalized method of moments with 1st difference was employed to check the relation of company specific factors while Panel EGLS (Cross-section weights) was used to check the effect of governance and cultural variables. By comparing the results of both groups it can be generalized that these variables depicts country effect or not.

Descriptive statistics for Asian countries

	Mean	Median	Maximum	Minimum	Std.dev
cur_ratio	1.670289	1.360000	17.40000	0.140000	1.224684
profitabilty	0.141194	0.112099	7.453771	-0.325327	0.236243
tangibility	0.405427	0.400491	1.275111	0.009496	0.218305
ls	7.198926	7.243302	9.232710	0.689420	0.785584
growth	4.050654	2.120000	1107.180	-193.3600	27.41354
b_size	8.653802	8.000000	18.00000	3.000000	2.824648
chair__ceo	0.121544	0.000000	1.000000	0.000000	0.326852
female	0.500576	0.000000	5.000000	0.000000	0.771988
indp_dir	2.391705	2.000000	11.00000	0.000000	2.387484
frgn	0.334677	0.000000	1.000000	0.000000	0.472014
mas	51.44816	50.00000	56.00000	45.00000	4.309585
unc_avoi	63.09908	70.00000	85.00000	40.00000	16.78439
ind	30.22350	37.00000	48.00000	14.00000	14.11887

Correlation matrix for Asian Countries

	CUR RATIO	PROFITABILITY	TANGIBILITY	LS	GROWTH	B_SIZE	CHAIR_CEO	FEMALE	INDP_DIR	FRGN	MAS	UNC_AVOI	IND
CUR RATIO	1												
PROFITABILITY	0.23189	1											
TANGIBILITY	-0.2138	-0.0554	1										
LS	-0.0093	0.09	0.1324	1									
GROWTH	-0.0166	0.0159	0.0389	0.0528	1								
B_SIZE	-0.1203	-0.0797	0.0411	0.2716	-0.0323	1							
CHAIR_CEO	-0.055	-0.0415	0.0133	0.2602	0.0006	0.2397	1						
FEMALE	0.0647	0.0031	-0.044	-0.1393	-0.0107	0.071	0.0328	1					
INDP_DIR	-0.1345	-0.0813	-0.1345	0.0295	0.239	-0.0147	0.5183	0.3451	1				
FRGN	-0.0014	0.0563	-0.1626	0.0402	0.0096	0.0247	0.0433	-0.1436	-0.0872	1			
MAS	-0.1191	0.0251	0.2301	0.5313	0.027	0.1473	0.226	-0.1724	0.4093	-0.0819	1		
UNC_AVOI	0.154	0.0186	-0.2062	-0.5254	-0.029	-0.2454	-0.2977	0.1704	-0.5732	0.0974	-0.9436	1	
IND	-0.1328	-0.1481	-0.0114	0.0236	0.0138	0.3521	0.1797	0.0381	0.659	-0.1591	0.2237	-0.4697	1

Descriptive statistics for European countries

	Mean	Median	Maximum	Minimum	Std.dev
cur_ratio	1.476999	1.260000	10.17000	0.130000	0.860935
profitabilty	0.064719	0.072452	0.597630	-4.021755	0.217537
tangibility	0.295434	0.229793	1.568538	9.44E-05	0.230714

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ls	6.442597	6.376910	8.731194	3.931458	0.666073
growth	2.923505	2.050000	369.8300	-105.2500	10.56959
b_size	9.586002	9.000000	21.00000	4.000000	3.246457
chair__ceo	0.121590	0.000000	1.000000	0.000000	0.326908
female	1.676157	2.000000	14.00000	0.000000	1.309899
indp_dir	5.467933	5.000000	17.00000	0.000000	2.566671
frgn	0.510143	1.000000	2.000000	0.000000	0.513011
mas	38.20403	42.00000	70.00000	8.000000	21.73968
unc_avoi	68.70285	75.00000	86.00000	50.00000	13.51777
ind	64.17260	63.00000	76.00000	51.00000	9.335894

Correlation matrix for European countries

	CUR RATIO	PROFITABILITY	TANGIBILITY	LS	GROWTH	B_SIZE	CHAIR_CEO	FEMALE	INDP_DIR	FRGN	MAS	UNC_AVOI	IND
CUR RATIO	1												
PROFITABILITY	0.0066	1											
TANGIBILITY	-0.171	0.0291	1										
LS	0.0186	0.1945	0.1742	1									
GROWTH	0.0013	-0.0532	-0.0538	0.0223	1								
B_SIZE	-0.1996	-0.016	0.0344	0.2251	0.0622	1							
CHAIR_CEO	-0.0312	0.0207	0.0061	0.0261	-0.0311	0.2581	1						
FEMALE	0.1239	-0.0478	-0.0288	0.3417	0.0829	0.0571	-0.1254	1					
INDP_DIR	0.0174	-0.1398	0.0846	0.2355	-0.0019	0.2166	-0.0879	0.3152	1				
FRGN	-0.0942	-0.0766	0.0429	0.0558	0.0328	0.1	0.0864	0.1223	0.1468	1			
MAS	-0.1985	0.1012	-0.0634	-0.1605	0.003	0.4295	0.1638	-0.3782	-0.2252	-0.1705	1		
UNC_AVOI	-0.2727	0.1107	0.0606	-0.0855	0.0413	0.6221	0.3637	-0.3498	-0.2661	-0.0093	0.6988	1	
IND	0.1604	-0.0543	-0.1423	0.0307	-0.0463	-0.2328	-0.2585	0.0527	0.0463	-0.1802	0.3024	-0.4428	1

1. Effect of company specific factors on capital structure

$$DL=\beta_0+\beta_1 LVG(-1)+\beta_2 LVG_{EUR}(-1)+\beta_3 CUR+\beta_4 CUR_{EUR}+\beta_5 GRW+\beta_6 GRW_{EUR}+\beta_7 TAG+\beta_8 TAG\_EUR+\beta_9 PROF+\beta_{10} PROF_{EUR}+\beta_{11} LS+\beta_{12} LS_{EUR}+\mu$$

The above-mentioned equation shows the debt/equity leverage ratio where EUR shows the difference of Europe and Asia. LVG (-1)is lag of debt which explains the dependance of leverage on its previous value. CUR depict current assets/current liability of firm i at time t, GRW represent growth of firm,PROF1 depicts return on assets of firm i at time t, growth depicts MV /BV of firm i at time t, TANG depicts tangibility (Fixed Assets/Total Assets) of firm i at time t, LS is log of the size of firm,μ depicts error term.

VARIABLES	Asia	Europe
C	0.017603 2.854551 **0.0043**	
LEVERAGE(-1)	0.876451 86.22193 **0.0000**	0.067395 5.123420 **0.0000**
CUR	0.000119 0.232809 **0.8159**	-0.0000261 -0.017401 **0.9861**

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GRW	0.0000783 -0.614084 **0.5392**	0.0000331 0.111960 **0.9109**
TANG	0.031149 7.037609 **0.0000**	-0.013457 -1.908798 **0.0564**
PROF	-0.036328 -5.225492 **0.0000**	-0.029765 -1.999947 **0.0456**
LS	-0.001756 -2.086085 **0.0371**	0.000559 1.084219 0.2784
F-statistic Prob	3186.100 **0.000000**	
R Squard D.Watson S.E. of Regression	0.926479 2.015321 0.784332	

From the above table it is clear that independent variables such asleverage itself, tangibility and Profitability show their effect on choice of capital in both groups,size of business shows significant result in Asia but insignificant for Europe. The relation of tangibility and LS is also opposite for both groups,In Asian countries trend for leverage increases as the companies have more non-current assets which is consistent with trade off and bankruptcy theory but European countries are showing negative relation which is in align with pecking order theory. LShave significant results in Asia but shows insignificant findings for Europe. While liquidity and Growth have insignificant results in both groups.

Corporate governance and leverage decision

$$DL=\beta_0+\beta_1 LVG(-1)+\beta_2 LVG_{EUR}(-1)+\beta_3 CUR+\beta_4 CUR_{EUR}+\beta_5 GRW+\beta_6 GRW_{EUR}+\beta_7 TAG+\beta_8 TAG_{EUR}+\beta_9 PROF+\beta_{10} PROF_{EUR}+\beta_{11} LS+\beta_{12} LS_{EUR}+\beta_{13} B.SIZ+\beta_{14} B.SIZ+\beta_{15} FEMALE+\beta_{16} FEMALE\ EUR+\beta_{17} IND+\beta_{18} IND\ EUR+\beta_{19} FRGN+\beta_{20} DIR\ CEO+\beta_{21} DIR\ CEO\ EUR+\mu$$

Along with the firm specific factorsdiscussed in equation 1, above mentioned equation includes governance variables such as b.size which is the total number of board members, no of female directors 'FEMALE', no of outside directors 'IND' and presence of foreign director 'FRGN' and DIR _ CEO shows dual position of CEO as director

VARIABLES	Asia	Europe
C	0.011407 2.224808 0.0262	
LEVERAGE(-1)	0.876219 89.08037 0.0000	0.059696 4.297929 0.0000
CUR	0.000231 0.610213 0.5418	-.0000058 -0.044904 0.9642
GRW	-8.43E-05 -0.757029 0.4491	0.025093 6.280480 0.0000
TANG	0.025093	0.005121

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	6.280480 0.0000	-0.726759 0.4674
PROF	-0.024413 -5.135900 0.0000	-0.047072 -3.665693 0.0003
LS	-0.002407 -3.049800 0.0023	0.002002 2.481281 0.0131
B SIZE	0.001219 5.536399 0.0000	-0.000291 -0.637076 0.5241
CHAIR CEO	0.002564 1.105047 0.2692	-0.001701 -0.374606 0.7080
FEMALE	-0.001483 -1.915738 0.0555	0.000298 0.256689 0.7974
INDP_DIR	0.001086 3.259490 0.0011	-0.001901 -3.583671 0.0003
FRGN	-0.001721 -1.654057 0.0982	0.001728 0.723326 0.4695
F-statistic Prob	2087.878 0.000000	
R Squard D.Watson S.E. of Regression	0.938462 2.001948 0.776786	

Findings displayed in above table reveals that board size , No of female directors and presence of foreign directors FRGN effect the decision of leverage in Asia but do not in Europe .Results for Independent directors are significant for both groups with opposite sign which means if no of outside directors increases in Asian firms ,it will increases the creditability and due to high monitoring and better controlling firms performance increases which leads towards increased Leveragewhile in European countries as the no of outside directors increases due to rigorous supervision of managers firm performance and retained earnings increases at one side on the other hand under controlled environment managers will avoid to take risky decisions so they will follow pecking order theory and will prefer reinvestment in place of issuing debt which can lead to bankruptcy.Dual position of CEO shows in- significant result for both groups these are consistent with the findings of Hassan and Butt (2009)

CULTURAL DIMENSION

$$DL=\beta_0+\beta_1 LVG(-1)+\beta_2 LVG_{EUR}(-1)+\beta_3 CUR+\beta_4 CUR_{EUR}+\beta_5 GRW+\beta_6 GRW_{EUR}+\beta_7 TAG+\beta_8 TAG_{EUR}+\beta_9 PROF+\beta_{10} PROF_{EUR}+\beta_{11} LS+\beta_{12} LS_{EUR}+\beta_{13} B.SIZ+\beta_{14} B.SIZ+\beta_{15} FEMALE+\beta_{16} FEMALE\ EUR+\beta_{17} IND+\beta_{18} IND\ EUR+\beta_{19} FRGN+\beta_{20} DIR\ CEO+\beta_{21} DIR\ CEO\ EUR+\beta_{21} PD+\beta_{21} PD\ EUR+\beta_{21} MAS+\beta_{21} MAS\ EUR+\beta_{21} UNC\ AVOI+\beta_{21} UNC\ AVOI\ EUR+\mu$$

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VARIABLES	Asia	Europe
C	0.047352 1.567989 **0.1170**	
LEVERAGE(-1)	0.878456 93.54239 **0.0000**	0.053070 3.871438 **0.0001**
CUR	0.000240 0.594210 0.5524	-5.73E-06 -0.004078 0.9967
GRW	1.78E-05 0.202781 0.8393	0.000173 -0.634232 0.5260
TANG	0.019882 6.527300 **0.0000**	0.003881 0.587858 **0.5567**
PROF	-0.027536 -5.966282 **0.0000**	-0.037780 -3.049299 **0.0023**
LS	0.001740 1.919676 **0.0550**	0.000191 -0.083767 0.9332
B SIZE	0.001058 5.048824 **0.0000**	4.49E-06 0.007-743 0.9938
CHAIR CEO	0.002225 1.043118 0.2970	0.001182 0.264382 0.7915
FEMALE	-0.000932 -1.639055 0.1013	-0.000212 -0.173415 0.8623
INDP_DIR	0.000111 0.339237 0.7345	-0.000869 -1.539277 0.1238
FRGN	-0.001182 -1.279114 0.2010	2.41E-05 0.010661 0.9915
UNC AVOI	-0.000177 -1.250808 0.2111	-0.000388 -1.955969 **0.0506**
MAS	-0.001110 -3.134610 **0.0017**	0.001413 2.730918 **0.0064**
IND	0.000268 3.453456 **0.0006**	-0.000636 -2.033524 **0.0421**

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R Squard D.Watson S.E. of Regression	0.948635 2.020683 0.769359	
F-statistic Prob	1982.745 0.000000	

Results shows uncertainty Avoidance haveinsignificant effect for Asia but significant for Europe. Masculinity and individualism shows significant effects on the financial decision of Asia and Europe but the relation for both groups are opposite, which means culture of the country is important determinant of capital structure. In Asia masculinity shows inverse relation while in Europe we see direct relation with leverage.in Asia Individualism have direct effect on leverage decision while for Europe we see negative association between the two variables.

Conclusion

This paper expected to find out the influence of Hofstede's cultural dimension on the financial decision of the listed nonfinancial firms across European and Asian countries. To study this relation secondary data of the eight countries from two main continentsof the globei.e. Asia and Europe is collected from DataStream,corporate governance variables are collected from annual reports covering the period from 2006 to 2016 while values of cultural dimension such as uncertainty avoidance, individualism and masculinity are taken from Hofstede cultural Insight. 50 companies with highest market capitalization in 2016 are selected from each country. Results reveals that firm specific factors and corporate governance factors effects firms leverage decision but they also gives indication of significant differences between the selected countries, which gives indication of the cultural effect of the specific country on the choice of capital structure.

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