
| RESEARCH ARTICLE

Slow to Adjust: International Diversification and the Speed of Adjustment to Cash and Leverage Targets

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| ABSTRACT

Using 53,121 U.S. firm-year observations from 1989 through 2024, I estimate target cash holdings and leverage ratios and measure deviations from these targets as excess cash and excess debt capacity, respectively, for internationally diversified firms. I find that internationally diversified firms hold significantly higher excess cash and excess debt capacity than domestic firms, consistent with greater information asymmetry and weaker external monitoring. More importantly, internationally diversified firms adjust more slowly toward their target cash and leverage levels. This effect is mitigated by product market competition, and the results are robust to an instrumental-variable approach addressing the endogeneity of diversification. Overall, my findings suggest that international diversification impedes firms' ability to adjust toward optimal financial policies, with implications for capital structure and liquidity management in multinational firms.

| KEYWORDS

International diversification; excess cash; excess debt capacity; speed of adjustment; product market competition; information asymmetry.

| ARTICLE INFORMATION

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1. Introduction

International diversification has become one of the central strategic decisions available to corporations seeking new growth, access to foreign markets, and greater operating flexibility. By expanding across national borders, firms diversify their revenue base, lower their dependence on domestic demand, exploit economies of scale, and gain access to new technologies and resources. A substantial literature documents the benefits associated with this strategy, including greater growth opportunities and, in some settings, higher firm value (Bodnar, Tang, & Weintrop, 1997), improved risk sharing, particularly during periods of heightened market uncertainty (Yousefi & Najand, 2022), and stronger operating performance. Yet international expansion is not without cost. Firms operating across borders confront a patchwork of legal systems, accounting standards, tax regimes, cultures, and political environments that make managerial oversight considerably harder than it is for a purely domestic firm — costs that can be steep enough, as Denis, Denis, and Yost (2002) show, globally diversified firms are trading at a valuation discount relative to their domestic peers.

The added complexity of multinational operations carries real consequences for corporate governance. As firms expand internationally, geographic dispersion and organizational complexity erode the transparency of corporate activity and widen the information gap between managers and outside investors. Monitoring becomes harder: shareholders simply have less visibility into foreign operations, and boards struggle to evaluate investment and financing decisions that span multiple jurisdictions. Duru and Reeb (2002), for instance, find that analysts following more geographically diversified firms produce earnings forecasts that are both less accurate and more optimistically biased — a pattern consistent with the added opacity these firms present to outside observers. The natural consequence is that managers of internationally diversified firms tend to enjoy more discretion over financial decisions than their counterparts at domestic firms.

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Agency theory offers a fairly direct account of what that discretion means for financing policy. When monitoring is weak, managers may pursue policies that serve their own interests rather than shareholders' (Jensen & Meckling, 1976). Rather than keeping financial structures close to their optimal levels, managers may build up excessive financial slack to increase their own operating flexibility, reduce their reliance on external financing, and preserve the private benefits that come with control (Jensen, 1986). Doukas and Pantzalis (2003) document a related pattern directly among multinational firms: greater agency costs of debt lead these firms to rely less on long-term borrowing than domestic firms with otherwise similar characteristics. Over time, these incentives can produce lasting deviations from firms' optimal cash holdings and capital structures.

Much of the existing literature on international diversification focuses on its consequences for firm value, innovation, investment efficiency, financing costs, and information environments, but comparatively little work asks how international operations shape the *dynamics* of firms' financial policies. Most studies examine leverage or cash holdings only at a point in time, implicitly treating firms as though they reach their optimal financial policy instantaneously. Yet both theory and evidence on dynamic trade-off models show that firms routinely deviate from their target leverage and cash positions simply because adjusting financial policy is costly (Flannery & Rangan, 2006). Firms therefore tend to drift back toward their optimal financial position gradually rather than snapping back immediately after a shock.

How quickly a firm closes that gap matters a great deal for its financial flexibility and, ultimately, its value. A firm that rapidly eliminates deviations from its target leverage and cash holdings keeps financing inefficiencies to a minimum and allocates capital more efficiently. One that adjusts slowly stays financially inefficient for longer, which can raise agency costs and erode shareholder value. Understanding what drives adjustment speed has, for this reason, become an important question in its own right within corporate finance.

This study argues that international diversification is itself an important determinant of that adjustment speed. Unlike a temporary shock, which simply raises the urgency of restoring an optimal financial policy, international diversification permanently reshapes a firm's information environment. Geographic dispersion, multiple operating segments, and more complex organizational structures raise information asymmetry and weaken monitoring, giving managers more room to exercise discretion over financing. As a result, internationally diversified firms are expected to drift further from their target cash holdings and leverage ratios than domestic firms do. More importantly, the same information asymmetry that produces these deviations in the first place also dulls the incentive to correct them quickly — implying a lower speed of adjustment toward target financial policies.

This argument departs from the traditional dynamic trade-off literature, which generally attributes adjustment costs to transaction costs or financing frictions. Here, I propose instead that agency problems are themselves an important source of adjustment friction. Managers running opaque multinational organizations may have reason to postpone financial adjustments deliberately, since holding excess liquidity or conservative leverage both expands managerial flexibility and reduces outside scrutiny. Information asymmetry, in other words, shapes not just the level of a firm's financial policy but the path by which that policy evolves over time.

To examine this argument, I first examine whether internationally diversified firms show larger deviations from their target cash holdings and target leverage than domestic firms do. Target cash holdings and target leverage are estimated using established models from the corporate finance literature, and deviations are measured as excess cash holdings and excess debt capacity. I then examine whether international diversification affects the speed at which firms close these gaps over time. Finally, I examine whether product market competition moderates this relationship. Because firms in highly competitive industries have less room to absorb financing inefficiencies, competitive pressure should raise the cost of maintaining inefficient policies (Giroud & Mueller, 2011; Hart, 1983) and, in turn, partially discipline managerial behavior, offsetting the negative effect of international diversification on adjustment speed.

This study contributes to several strands of the literature. First, it extends the international diversification literature by showing that multinational operations shape not just the level of corporate financial policy but the dynamics through which firms restore their optimal position. Second, it adds to the dynamic capital structure and cash holdings literature by identifying information asymmetry linked to international diversification as a determinant of adjustment speed. Finally, it contributes to the agency literature by showing that managerial discretion affects not only financing choices themselves but also how long deviations from optimal policy are allowed to persist.

The empirical results support these predictions. Internationally diversified firms hold significantly larger excess cash and carry significantly greater excess debt capacity than comparable domestic firms, suggesting that they deviate further from their optimal financial policies. More importantly, these firms adjust more slowly toward both target cash holdings and target

leverage. Additional tests show that stronger product market competition attenuates this negative relationship, indicating that competitive pressure partly offsets managerial incentives to maintain financially inefficient positions.

The remainder of the paper proceeds as follows. Section 2 reviews the related literature and develops the hypotheses. Section 3 describes the sample construction, variable measurement, and empirical methodology. Section 4 presents the empirical results. Section 5 concludes.

2. Literature Review and Hypothesis Development

2.1. International Diversification, Information Asymmetry, and Corporate Financial Policies

International diversification has long been treated as a core corporate strategy — one that lets firms expand beyond domestic markets, diversify cash flows, exploit economies of scale, and reach new growth opportunities. The international business literature generally holds that multinational firms benefit from geographic diversification because operating across multiple countries reduces dependence on domestic economic conditions and lets firms exploit country-specific advantages. There is some support for this view: Bodnar et al. (1997) find that the foreign earnings of U.S. multinationals are priced by the market as growth opportunities, suggesting that investors do see real value in cross-border expansion, at least under some conditions.

That said, international diversification also brings genuine organizational costs. As firms expand abroad, they operate across multiple legal systems, accounting standards, currencies, political environments, and institutional frameworks. This geographic spread makes both internal coordination and external monitoring considerably harder, and it leaves multinational firms with more opaque organizational structures than their domestic peers — costs substantial enough that Denis et al. (2002) find global diversification associated with a persistent valuation discount rather than a premium.

This added complexity has direct consequences for information asymmetry. Investors and boards of directors often have limited visibility into foreign subsidiaries, which makes it difficult to evaluate managerial decisions or gauge firm performance accurately. Geographic distance, uneven disclosure quality across countries, and inconsistent reporting environments widen the informational gap between managers and outside stakeholders still further. Duru and Reeb (2002) provide direct evidence of this: analysts covering more geographically diversified firms produce forecasts that are both less accurate and more optimistically biased, a pattern the authors attribute to the added opacity of cross-border operations. Managers of internationally diversified firms, in short, tend to hold substantially more private information about firm operations than shareholders do.

Agency theory suggests that this kind of information asymmetry weakens external monitoring and widens managerial discretion (Askarzadeh, Kanaanitorshizi, Askarzadeh, & Ebrahimi, 2026). When shareholders find it harder to observe managerial actions, managers gain more room to pursue financial policies that serve their own utility rather than shareholder wealth. Jensen (1986) argues that managers often prefer to keep abundant financial resources on hand because internal liquidity reduces dependence on external capital markets and increases managerial autonomy. In a similar vein, greater financial slack lets managers postpone the external scrutiny that comes with issuing debt or equity while preserving discretion over future investment decisions — a pattern consistent with Doukas and Pantzalis (2003), who find that multinational firms carry significantly less long-term debt than domestic firms with otherwise comparable characteristics, tracing the difference to the greater agency costs of debt that accompany cross-border operations.

Taken together, these agency considerations suggest that internationally diversified firms are less likely to keep their financial policies close to optimal levels. Rather than continuously rebalancing to maximize firm value, managers may tolerate persistent deviations from target cash holdings and leverage because the private benefits of financial flexibility outweigh, from their perspective, the costs imposed on shareholders. International diversification may therefore shape not just the level of a firm's financial policy, but the extent to which that policy is allowed to drift from its optimum.

2.2. International Diversification and Deviations from Target Financial Policies

Dynamic trade-off theory holds that firms have optimal levels of leverage and liquidity that balance the benefits and costs associated with financing decisions. The optimal leverage ratio reflects the trade-off between tax benefits and expected financial distress costs, while optimal cash holdings balance precautionary motives against the opportunity cost of idle cash (Myers, 1977). Because adjustment is costly, firms frequently deviate from these targets and only gradually move back toward their optimal financial position over time (Flannery & Rangan, 2006).

Temporary deviations naturally arise from ordinary financing needs and shifting investment opportunities. Agency theory, however, predicts something more systematic: information asymmetry can generate persistent — not merely temporary — departures from target financial policy. Managers facing limited external monitoring have a stronger incentive to accumulate

precautionary resources that serve their own flexibility rather than shareholder value. Excess cash holdings reduce reliance on external financing and let managers undertake projects without immediate capital-market scrutiny. Likewise, holding lower leverage than optimal preserves unused debt capacity, reduces the likelihood of financial distress, and limits the disciplining role that creditors would otherwise play.

These incentives are likely to matter more for internationally diversified firms specifically. The complexity of multinational operations reduces investors' ability to distinguish a genuinely precautionary financial policy from simple managerial empire-building. Managers, as a result, possess greater discretion to maintain financial policies that deviate from shareholder-optimal levels.

Moreover, international operations expose firms to exchange-rate fluctuations, political uncertainty, differences in legal enforcement, and varying macroeconomic conditions across countries. These risks justify holding some additional financial flexibility (Yung, Kanaanitorshizi, Zadeh, & Askarzadeh, 2026), but they also make it genuinely harder to estimate what a firm's target financial policy should be. Both managerial discretion and this target uncertainty, then, contribute to larger deviations from optimal leverage and cash holdings.

Internationally diversified firms are accordingly expected to exhibit larger deviations from their target financial policies than purely domestic firms.

Hypothesis 1. *International diversification is positively associated with deviations from target financial policies, resulting in higher excess cash holdings and greater excess debt capacity.*

2.3. International Diversification and the Speed of Adjustment

While previous studies primarily ask whether firms deviate from their optimal financial policies, considerably less attention has gone to how international diversification affects the speed with which those deviations are corrected.

The dynamic trade-off literature predicts that firms adjust toward their target financial policies gradually, because rebalancing leverage or liquidity involves transaction costs, financing frictions, and market-timing considerations. The observed speed of adjustment, in other words, reflects a balance between the benefit of returning to target and the cost of implementing the adjustment.

Much of this literature implicitly assumes that firms facing larger deviations have correspondingly stronger incentives to rebalance quickly — which amounts to assuming that managers always act to maximize shareholder value. Agency theory suggests otherwise: when managers enjoy substantial discretion, deviations from target financial policy may persist simply because correcting them would cost managers some of their flexibility.

International diversification changes the underlying incentives for financial adjustment in a few distinct ways. First, greater organizational complexity increases information asymmetry, making it harder for investors to tell whether a firm's financial policies are actually inefficient. Second, multinational firms face weaker external monitoring, since analysts, creditors, and institutional investors typically hold less precise information about foreign operations (Duru & Reeb, 2002). Third, managers derive real private benefits from maintaining financial slack, including greater investment discretion, lower refinancing pressure, and reduced dependence on external capital markets.

Consequently, managers of internationally diversified firms face weaker incentives to restore target financial policies once deviations arise. Rather than moving quickly to eliminate excess cash holdings or adjust leverage toward optimal levels, managers may intentionally postpone these adjustments to preserve financial discretion. Information asymmetry therefore increases not only the magnitude of financial-policy deviations but also their persistence.

A second explanation stems from target uncertainty. Estimating optimal leverage and cash holdings is harder for multinational firms, because the relevant targets depend on heterogeneous country characteristics, institutional quality, taxation, political risk, and financing conditions. When targets themselves are estimated with greater uncertainty, managers become less willing to undertake a costly adjustment whose benefit is genuinely ambiguous. Firms, as a result, rationally adjust more slowly toward their target financial policies.

Taken together, both agency theory and target uncertainty point toward the same conclusion: international diversification lowers the speed with which firms adjust toward their optimal financial structures.

Hypothesis 2. *International diversification is negatively associated with the speed of adjustment toward target cash holdings and target leverage.*

2.4. Product Market Competition as a Disciplining Mechanism

International diversification widens managerial discretion, but external governance mechanisms may still limit managers' ability to sustain inefficient financial policies. One of the more effective of these mechanisms is product market competition (Hart, 1983).

The industrial organization literature holds that competition disciplines managers by raising the cost of inefficient decisions. Firms in highly competitive industries have less room to tolerate financial inefficiency, since rivals rapidly exploit any operational weakness. A manager who maintains excessive cash balances or overly conservative leverage for too long risks forgoing profitable investment opportunities, losing operating efficiency, and weakening the firm's competitive position.

Competition also narrows managerial slack directly, by increasing bankruptcy risk and shrinking the rents available from inefficient resource allocation. Giroud and Mueller (2011) document a closely related pattern in the governance context: weak-governance firms underperform their well-governed peers only in industries with limited competition, since competitive pressure on its own appears sufficient to keep managers in check where it is strong. Managers operating in competitive industries, then, face stronger incentives to improve efficiency and to respond more quickly to financial imbalances, consistent with evidence that market constraints shape financial outcomes (Mashhadi, Mojtahedi, & Kanaanitorshizi, 2025).

These disciplinary effects are particularly relevant for internationally diversified firms. Multinational operations create greater information asymmetry, but managers competing in highly competitive product markets cannot indefinitely sustain inefficient financial policies, since doing so imposes real competitive costs. Product market competition therefore partially offsets the agency problems associated with international diversification by raising the benefits of restoring a target financial position. The adverse effect of international diversification on adjustment speed should, accordingly, be weaker in industries characterized by stronger competitive pressure.

Hypothesis 3. *Product market competition attenuates the negative association between international diversification and the speed of adjustment toward target cash holdings and target leverage.*

3. Model Specification and Data

3.1 Dependent Variables

3.1.1 Excess Debt Capacity

To measure excess debt capacity, I follow Tao, Sun, Zhu, and Zhang (2017) and estimate the following regression model:

$$Debt_{t+1} = \alpha_0 + \alpha_1 M/B_t + \alpha_2 Tangibility_t + \alpha_3 Profitability_t + \alpha_4 R\&D_t + \alpha_5 R\&D\ Dummy_t + \alpha_6 SellExp_t + \alpha_7 Size_t + Year\ FE + Industry\ FE \quad (1)$$

where Debt is total liabilities scaled by total assets, with both variables measured at book value. The independent variables include the market-to-book ratio (M/B), defined as the market value of equity divided by its book value; Tangibility, measured as net property, plant, and equipment scaled by total assets; and Profitability, defined as EBITDA scaled by total assets.

R&D intensity is measured as research and development expenditures scaled by net sales, while the R&D dummy equals 1 if the firm does not report R&D expenditures and 0 otherwise. SellExp is selling expenses scaled by net sales, and Size is the natural logarithm of total assets. Industry fixed effects control for unobserved industry-level heterogeneity that might otherwise affect leverage decisions.

The fitted values from this regression are interpreted as the firm's target debt level, and excess debt capacity is defined as the difference between target debt and actual debt.

3.1.2 Excess Cash

Cash holdings are typically measured as cash and cash equivalents scaled by total assets. To construct excess cash, I first estimate target cash holdings following Opler, Pinkowitz, Stulz, and Williamson (1999), using the following model:

$$Cash_{t+1} = \alpha_0 + \alpha_1 M/B_t + \alpha_2 Industry\ \sigma_t + \alpha_3 Size_t + \alpha_4 R\&D_t + \alpha_5 Cashflow_t + \alpha_6 NWC_t + \alpha_7 Capex_t + \alpha_8 Leverage_t + \alpha_9 Divdummy_t + \alpha_{10} Acquisition_t \quad (2)$$

where Cash is cash and short-term investments scaled by total assets. The market-to-book ratio is defined as the book value of assets minus the book value of equity plus the market value of equity, divided by total assets.

Industry sigma captures cash-flow volatility: for each firm, I calculate the standard deviation of cash flows over the past 20 years, then average these standard deviations across firms within the same two-digit SIC industry.

Size is the natural logarithm of total assets. R&D intensity is R&D expenditures scaled by total sales. Cashflow is EBIT plus depreciation and amortization minus interest, taxes, and common dividends, scaled by total assets. Net working capital (NWC) excludes cash holdings and is scaled by total assets. Capex is capital expenditures scaled by total assets, and Leverage is total debt scaled by total assets. Divdummy equals 1 if the firm pays dividends and 0 otherwise, and Acquisition is acquisition expenditures scaled by total assets.

The fitted values from this regression represent target cash holdings, and excess cash is defined as the difference between actual cash and predicted cash.

3.2 Independent Variable

The primary independent variable is the FSTS (Foreign sales divided by total sales). Following Askarzadeh, Kanaanitorshizi, Tabarhosseini, and Amiri (2024), the baseline measure of internationalization is FSTS, defined as foreign sales divided by total sales. Because agency problems may differ between foreign sales and foreign asset holdings, I also follow Askarzadeh, Yung, and Askarzadeh (2025) and include FATA, defined as foreign assets divided by total assets.

This dual-measure approach gives a more complete picture of internationalization by accounting for both foreign revenue generation and foreign asset allocation. Examining both FSTS and FATA is intended to yield more robust evidence on how internationalization affects firms' financial policies and investment outcomes.

3.3 Empirical Model

Firms with greater international sales are expected to deviate more from their target cash holdings and target debt levels. To reduce monitoring by external stakeholders, internationally diversified firms may lower leverage, generating positive excess debt capacity; at the same time, weaker monitoring may let managers accumulate larger cash reserves, consistent with evidence that cross-national uncertainty affects governance-sensitive financial decisions (Askarzadeh, Yousefi, & Forghani Bajestani, 2021).

To test the relationship between internationalization and financial-policy deviations, I estimate the following model:

$$\text{Excess Cash (or Debt Capacity)}_{t+1} = \text{DOI}_t + \text{Controls}_t + \text{Year FE} + \text{Industry FE}, (3)$$

Following Aslan and Kumar (2016) and Askarzadeh et al. (2025), I include several firm-level control variables: Size (log of total assets); Tobin's Q; Z-score as a measure of bankruptcy risk; Tangibility is net property, plant, and equipment scaled by total assets; CFOsales is cash flow from operations scaled by sales; Loss is a binary variable equal to one if income before extraordinary items is negative and zero otherwise; Dividend is a binary indicator equal to one if the firm pays dividends. Table 1 reports the summary statistics.

3.4 Sample

This study uses the historical segment of the Compustat database to construct the degree of internationalization, while other financial variables come from Compustat Fundamentals Annual. The sample period spans 1989 to 2024. Firms with book equity below \$5 million are excluded, as are financial firms (SIC 6000–6999) and utilities (SIC 4900–4999), given their distinct regulatory environments and investment behavior.

All continuous variables are winsorized at the 1st and 99th percentiles. The final sample consists of 53,121 firm-year observations.

4. Empirical Results

4.1 International Diversification and Excess Cash and Excess Debt Capacity

Table 2 reports the effect of international diversification on excess cash and excess debt capacity. The coefficient on FSTS in column (1) is 0.0004 and statistically significant at the 1% level, indicating that international diversification is positively associated with excess cash. The coefficient on FSTS in column (2), 0.0003, is likewise significant at the 1% level, confirming a positive relationship between international diversification and excess debt capacity.

Columns (3) and (4) show that these findings hold up when using an alternative measure of internationalization (FATA). Overall, the evidence indicates that international diversification is positively associated with both excess cash and excess debt capacity.

4.2 Speed of Adjustment

Prior studies have used various approaches to estimate the speed of adjustment in capital structure (e.g., Byoun, 2008; Flannery & Rangan, 2006), approaches that extend naturally to adjustment speeds for cash holdings and other forward-looking firm-period designs (Mashhadi, Saghezchi, & Kashani, 2025). I follow Byoun (2008), which adopts a two-step procedure: first estimating target levels of the variable of interest, then regressing the change in the actual variable on its deviation from that target.

This framework is well suited to examining heterogeneous adjustment dynamics, since it allows for the estimation of differential adjustment speeds across subsamples and supports analysis of how firm characteristics and external shocks influence convergence toward target levels.

After estimating the target variables in the first stage, I regress the year-to-year change in the variable at time $t + 1$ on its deviation from the target at time t :

$$(X_{t+1} - X_t) = \lambda(\hat{X}_t - X_t) + \varepsilon_t \quad (4)$$

where $\hat{X}_t$ denotes the target value of the variable of interest and λ represents the speed of adjustment. Throughout, the deviation between target and actual values is referred to as LevDev (for leverage) or CashDev (for cash), depending on the variable.

To examine how international diversification affects the speed of adjustment, I introduce an interaction term between the degree of internationalization and the deviation from target:

$$(X_{t+1} - X_t) = \lambda_1(\hat{X}_t - X_t) + \lambda_2 FSTS \times (\hat{X}_t - X_t) + \varepsilon_t \quad (5)$$

In this specification, the speed of adjustment is given by the sum of the coefficients on the deviation term and the interaction term. Internationally diversified firms are expected to show lower adjustment speeds for both leverage and cash holdings.

As reported in Table 3, the speed of adjustment for leverage falls from 31.72% to 25.51% once international diversification is accounted for. The adjustment speed for cash holdings falls similarly, from 21.26% to 17.11%.

4.3 Moderating Role of Product Market Competition

I hypothesize that product market competition moderates — specifically, weakens — the relationship between international diversification and the speed of adjustment. To test this, I split the sample into high- and low-competition subsamples based on product market pressure, similar to state-dependent tests of financial anomalies (Mojtahedi, Mashhadi, & Savin, 2025).

Product market competition is measured using the Herfindahl–Hirschman Index (HHI), the sum of squared market shares (firm sales divided by total industry sales) within a given industry at the start of each year. A higher HHI indicates lower competition. Observations with HHI above the sample median are classified as low-competition firms, and those below the median as high-competition firms.

As shown in Table 4, the speed of adjustment for leverage in the high-competition subsample is 38.46%, roughly 21% higher than the 31.75% observed in the low-competition subsample. The speed of adjustment for cash holdings is 31.01% in the high-competition group, a 30% increase relative to 23.91% in the low-competition group.

4.4 Endogeneity Concern

These results may be affected by endogeneity if excess cash, excess debt capacity, and internationalization are jointly determined. To address this concern, I adopt a two-stage instrumental variable approach.

Following the methodology in Askarzadeh et al. (2025), I use PNFOR — the proportion of firms with foreign sales within an industry in a given year — as the instrument for FSTS.

Table 5 summarizes the results of the two-stage least squares regression. In column (1), PNFOR shows a positive and statistically significant association with FSTS. Columns (2) and (3) present the second-stage results for excess debt capacity and excess cash,

respectively; in both, the fitted value of FSTS remains positive and significant at the 1% level. This suggests that the baseline results are robust to concerns about endogeneity.

5. Conclusion

This study examines how international diversification affects firms' financial-policy deviations and their adjustment dynamics toward target cash holdings and capital structure. Using a large panel of U.S. firms from 1989 to 2024, I find that internationally diversified firms exhibit systematically higher excess cash and greater excess debt capacity, suggesting that firms with greater foreign involvement deviate more from their internally estimated target financial policies.

I further show that international diversification slows the speed of adjustment toward target leverage and cash holdings: firms with higher levels of internationalization adjust more gradually toward their optimal capital structure and liquidity positions. This pattern is consistent with the view that international operations increase information frictions, organizational complexity, and monitoring challenges, which in turn weaken the effectiveness of external discipline and slow managerial convergence toward target policies.

I also find that product market competition plays an important moderating role. Firms in more competitive industries adjust more quickly toward their target levels of leverage and cash, while this process is markedly slower in less competitive environments — evidence that external market discipline can partially offset the frictions associated with international diversification.

Overall, these results contribute to the literature on international corporate finance by linking international diversification to both the level and the dynamics of financial-policy deviations. They also complement prior work on capital structure and cash-holding adjustment by showing that globalization meaningfully shapes the speed at which firms correct deviations from target policies. Future research could explore the specific channels through which international diversification affects managerial decision-making — internal capital market efficiency, governance structures, and cross-border information asymmetries among them. Extending the analysis to non-U.S. firms, or examining heterogeneity across institutional environments, may offer further insight into how globalization interacts with corporate financial behavior.

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