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Nuno Fernandes, Halit Gonenc

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## Multinationals and Cash Holdings

**Nuno Fernandes**

*IMD*

*Chemin de Bellerive 23,*

*P.O. Box 915*

*CH-1001 Lausanne, Switzerland*

*e-mail: nuno.fernandes@imd.org*

**Halit Gonenc\***

*University of Groningen*

*Faculty of Economics and Business*

*Department of Economics, Econometrics and Finance*

*Nettelbosje 2, 9747 AE Groningen, the Netherlands*

*e-mail: h.gonenc@rug.nl*

### *Abstract*

This study examines the relationship between cash holdings and the level of multinationality for a large international sample of firms from 40 countries. We consider two dimensions of diversification, geographical and industrial, and find a direct negative relation between both geographic and industrial diversification and cash holdings. This finding is consistent with the diversification argument that multinationals' headquarters plan their investment and cash needs in an efficient way across geographically diversified operations. We further examine whether there is a trade-off between two diversification strategies. The evidence shows that the effect of industrial diversification is negligible once firms are geographically diversified. By performing country-level tests, we also document some new evidence of international differences for the impacts of tax systems, investor protection, political stability, stock market development, economic size and growth, and national culture on the separate and joint effects of geographic and industrial diversifications.

### **Keywords:**

Cash holdings; Multinationals; Diversification; Working capital; Financial markets

### **JEL classification:**

G15, G30

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\* Corresponding author.

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