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Creditor Rights and Capital Structure: Evidence from International Data

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ABSTRACT

For a large sample of 48 countries, we find robust evidence that strong creditor rights are associated with low long-term leverage across countries. We further find that strong creditor protection lowers long-term debt issuance, the extent to which investments are financed with long-term debt, and target leverage ratios. Finally, we find that firm and country characteristics influence the link between creditor protection and long-term leverage. Our results support the *demand-side view* that strong creditor protection discourages firms from making long-term cash flow commitments to service debt because managers and shareholders avoid the risk of losing control in the case of financial distress.

JEL classification: G15; G32; G33; K22
Keywords: Creditor rights; Investor protection; Capital structure; Bankruptcy

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