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Seong-Soon Cho, Sadok El Ghouli, Omrane Guedhami, Jungwon Suh

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Creditor Rights and Capital Structure: Evidence from International Data

Seong-Soon Cho^a, Sadok El Ghouli^b, Omrane Guedhami^{c,d}, Jungwon Suh^{d*}

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

^a Korea Exchange, 76 Yeouinaru-ro, Yeongdeungpo-gu, Seoul 150-977, Republic of Korea, Tel: +82-10-4542-4484; +82-2-760-0440; Fax: +82-2-761-0693 ; Email: ss0404@krx.co.kr

^b Campus Saint-Jean and School of Business, University of Alberta, Edmonton, AB T6C 4G9, Canada, Tel: +1-780-465-8725; Fax: +1-780-465-8760; Email: elghoul@ualberta.ca

^c Moore School of Business, University of South Carolina, Columbia, SC 29208, USA, Tel: +1-803-777-2175; Fax: +1-803-777-3609; Email: omrane.guedhami@moore.sc.edu

^{d,*} **Corresponding author**, SKKU Business School, Sungkyunkwan University, 25-2 Sungkyunkwan-ro, Seoul 110-745, Republic of Korea, Tel: +82-2-760-0482; Fax: +82-2-760-0440; Email: jungwonsuh@skku.edu

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