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International diversification, capital structure and cost of capital: evidence from ICT firms listed at NASDAQ

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Abstract

In this study, we investigate the relationship between international diversification (ICT) firms and their cost of capital. On the one hand, we find that international diversification is positively related to the cost of capital. On the other hand, we find that international diversification is negatively related to the cost of capital. Our findings suggest that international diversification is a high-risk strategy for ICT firms.

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Notes

¹In this study, we adopt OECD's 1998 definition of the ICT. Accordingly, we distinguish ICT manufacturing industry from ICT service industry. The product of an ICT manufacturing firm must be anticipated to fulfil the purpose of information processing and communication including transmission and display; or use electronic processing to spot, measure and/or record physical phenomena or to control a physical process. Components primarily intended for use in such products are also included. The products of a candidate service industry must be intended to enable the function of information processing and communication by electronic means; and the service provided must go beyond simply the supply of goods. For a recent review of ICT see also Heshmati and Lee ([2007](#)).

²The dot-com boom refers to the 1996–2000 period, in which stock markets in Western nations increased in value, especially in the technology and new Internet sectors.

³The dot-com burst, numerically, on 10 March 2000, when the technology heavy NASDAQ fell 400 points, or 12.5%, from its peak of 5,048.67 on 22 February 2000. It was the first time that the index had fallen more than 10% in a year before, for the first time since the 1929 crash.

⁴The authors

⁵We expect that the effect of the dot-com boom on the growth rate of the variable is positive, i.e. if the variable is a negative effect.

⁶Metcalf's law, also known as Metcalf's law of network growth, states that the number of nodes in a network grows exponentially over time. The law was first proposed by Paul Baran in the late 1960s and early 1970s.



⁷Adverse selection is present when the insiders of an ICT firm know more about the probability of the firm's success than outside investors.

⁸The 3SLS results are used when a two-way causal relationship is detected between leverage and COC, while the 2SLS results are used when the causal relationship is just one way, i.e. when leverage affects COC and not the other way around. The nature of the causal relationship between the two variables and estimation method is determined by the significance of the causal factors.

⁹The results are not reported here for brevity, but are available from the authors upon request.

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