

## THE EFFECTS OF INTERNATIONAL BOARD DIVERSITY ON WORKING CAPITAL

### AUTHORS

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### EXECUTIVE SUMMARY

By focusing on working capital ratios, this paper examines the impact of international board diversity on the firm's working capital. This study is based on an S&P 1500 index sample of 13,716 firm-year observations drawn between 2005 and 2025. The findings show that the presence of international directors on corporate boards reduces working capital ratios. The results are robust to a battery of empirical tests, including a novel instrumental variable test of the first pronoun drop in the languages spoken in the county where the corporation is headquartered. In addition, we find that the channel by which board international diversity impacts working capital holdings is the institutional collectivist culture of the directors' home country. This finding is consistent with Cushion Theory, which assumes that culturally collective societies tend to take higher risks than individualistic ones.



### KEYWORDS

- International board diversity
- Linguistics
- Working capital

### RESEARCH RELEVANCE

- International board diversity reduces non-cash working capital - Using 13,716 firm-year observations from S&P 1500 industrial firms (2005–2025), we show that the presence of foreign directors systematically lowers current and quick ratios (excluding cash), indicating more aggressive liquidity management.
- Causal evidence via a novel linguistic instrument - We introduce an intra-country instrumental variable based on county-level first-pronoun-drop language structures (from Modern Language Association data), establishing that international board diversity causally reduces working capital rather than merely correlating with it.
- Cultural collectivism is the key mechanism - Drawing on the GLOBE Study institutional collectivism dimension, we show that directors from collectivist societies drive the reduction in liquidity buffers, consistent with Cushion Theory's prediction of greater risk tolerance.
- Efficiency is not the primary channel - Inventory and receivables turnover tests largely rule out operational efficiency improvements as the explanation, reinforcing the interpretation that cultural risk preferences shape liquidity policy.
- Methodological contribution to governance research - We are the first to apply a linguistic-pronoun-drop instrument within a single country to explain variation in international board composition, offering a new identification strategy for research at the intersection of culture, governance and financial policy.

### BIBLIOGRAPHIC INFORMATION

Bazel-Shoham, O., Imes, M., Khan, Z., Shoham, A., & Tarbac, S. Y. (2026). The Effects of International Board Diversity on Working Capital. *International Journal of Finance & Economics*. Advance online publication. <https://doi.org/10.1002/ijfe.70178>

*“International directors reshape corporate liquidity policy not by improving efficiency, but by importing culturally rooted risk preferences that reduce firms’ reliance on non-cash working capital buffers.”*

