



**Cross-Border Mergers and Acquisitions: Political Relationship,
Constraints and Prior Experience**

By

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A thesis submitted for the award of Doctor of Philosophy

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Signed: *Mehrin Shane Abbas Rajwani*

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Abstract

Cross-border mergers and acquisitions (CBAs) are critical investment decisions of firms. Theoretically, in a perfect world, with no cross-country institutional differences, no information asymmetry and no agency-related frictions, CBAs should help managers channel corporate assets toward their best possible use. However, in the real world, amidst institutional differences, information and agency-related frictions, this is not always the case; many CBA bids either fail to get initiated, fail to get completed, are delayed or fail to create value, which entails costs to various stakeholders. It is, therefore, crucial to examine the factors that affect this strategic activity and its outcomes. This thesis, in three separate but interconnected empirical chapters, examines whether factors from the political environment and acquirers' prior experience that have received little to no attention contribute in explaining, at least in part, CBA bid activities, the success/failure of their completion after their announcement, including value creation/destruction during the announcement period.

The first empirical chapter (Chapter 3) investigates whether country-pair political relations (CPR) contribute in explaining, at least in part, the variation in CBA bid activities and their related outcomes for 45 countries, for the period 1992 to 2018. Findings robust to alternative specifications underline a positive relationship between CPR and the number and volume of bilateral CBA bids. CPR, in this case, is the net of the time-varying media-based country-pair political events, where higher levels demonstrate co-operative relations and lower levels indicate adversarial relations between country-dyads. The results, therefore, suggest that co-operative relations enhance, and adversarial relations deter bilateral CBA activity. These results are consistent with the proposition that co-operative relations amplify economic opportunities for potential country-dyad investors, and adversarial relations create deadweight costs. Reiterating this, investigation on bids after their announcement reveal that higher levels of CPR enhance the likelihood of the deal completion and reduce the deal completion duration. Investigation on the announcement period returns underscore that acquirers' and targets' shareholders gain in the face of higher levels of CPR. Further investigation on the distinct effect of country-pair conflicts and co-operations (rather than their net effect) suggest an asymmetrical impact between these

two events on the outcomes of CBAs. Finally, investigation on the effect of the two types of conflict events (military and non-military conflict events) reveal that military conflict events, in many instances, exhibit a stronger role in explaining the deterring impact of conflict on CBA activity and its related outcomes.

The second empirical chapter (Chapter 4) examines whether political constraints (PCs) in policy-making at targets' and acquirers' domiciles explain, at least in part, the variations in CBA bid activities and their related outcomes. This is examined for the same sample of 45 countries as the first empirical chapter, for the period 1992 to 2017. Results robust to alternative specifications suggest that higher levels of PCs at the targets' domiciles increase inbound CBA bids. The bilateral country-pair investigation reiterate these results and additionally underscore that lower levels of PCs at the acquirers' domiciles motivate outbound CBA bids. Investigation on bids after their announcement reveal that higher levels of PCs at the target and acquiring firms' domiciles increase the likelihood of the deal completion. The investigation also underscore that higher levels of PCs at the targets' domiciles reduce the deal completion duration. Investigation on the announcement period returns underline that while higher levels of PCs at the targets' domiciles are positively associated with higher returns for the target firms' shareholders, acquiring firms' shareholders benefit from higher returns with lower levels of PCs at their domicile. The chapter also insinuates that higher levels of other institutional quality and the common law legal origin of the target's domicile compensate its lower levels of PCs. Finally, results reveal that emerging markets benefit the most with regard to outbound acquisitions in the face of lower levels of PC at their domicile and in attracting inbound CBAs upon improving PCs.

Finally, the third empirical chapter (Chapter 5) quantifies the effect of acquirers' experience and embeddedness at the target's domicile before the bid (i.e., acquirers' pre-bid host-country experience) on their subsequent acquisitions in the same domicile. This is examined for acquiring firms based in 6 countries for the period 2005 to 2018. Results robust to alternative specifications suggest that acquirers' pre-bid host-country experience matter. Particularly, investigation on bids after their announcement reveal that acquirers with pre-bid host-country experience, compared

to other acquirers, benefit from a higher likelihood of deal completion, face lower deal completion duration, pay a lower premium, and their shareholders enjoy significant announcement period gains. Finally, results reveal that targets' announcement period returns are negatively related to acquirers' pre-bid host-country experience, suggesting that targets loose when acquirers are versed with the target's environment.

The findings of all three empirical chapters, taken as a whole, support the notion that country-pair political relations, country-specific political constraints on policy-making and acquirers' pre-bid host-country experience contribute in explaining at least in part, the direction of the bid activities, the success/failure, including the duration of deal completion after the bid announcement. The three chapters also contribute in explaining the value creation/destruction during the announcement of the bids. The findings of this thesis carry important implications for investors, managers, employees, lenders and policymakers for decision-making and allocating capital efficiently.

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List of Abbreviations

ACAR	Acquirer market's Cumulative Abnormal Return
Acq	Acquirer
ADTD	Acquirer Developed and Target Developed
ADTE	Acquirer Developed and Target Emerging
AETD	Acquirer Emerging and Target Developed
AETE	Acquirer Emerging and Target Emerging
Aleverage	Acquiring Firm's Leverage
AMTBV	Acquiring Firm's Market-to-Book Value
AR	Abnormal Return
AROA	Acquiring Firm's Return on Assets (Profitability)
ASize	Acquiring Firm's Size
Avg	Average
CAR	Cumulative Abnormal Return
CBAs	Cross-Border Mergers and Acquisitions
CEPII	Centre d'Etudes Prospectives et d'Informations Internationales
CIA	Central Intelligence Agency
Comtrade	Commodity Trade Statistics
CPR	Country-Pair Political Relations
FDI	Foreign Direct Investment
GDELT	Global Data on Events, Location and Tone
GDPgr	Gross Domestic Product Growth
GDP	Gross Domestic Product
GDPcap	Gross Domestic Product Per Capita
M&As	Mergers and Acquisitions
MTBV	Market-to-Book Value
NB	Number of Bilateral Cross-Border Mergers and Acquisitions
PCs	Political Constraints
ROA	Return on Assets
SDC	Securities Data Corporation's
TCAR	Target market's cumulative abnormal return
Tgt	Target
TLeverage	Target Firm's Leverage
TMBV	Target Firm's Market-to-Book Value
TROA	Target Firm's Return on Assets (Profitability)
TSize	Target Firm's Size
UK	The United Kingdom
UN	The United Nations
USA/US	The United States of America
USD	United States Dollar
VB	Volume of Bilateral Cross-Border Mergers and Acquisitions
WDI	World Development Indicators

1. Introduction

Mergers and Acquisitions¹ (M&As), the mechanisms that allow one firm to take control of the assets of another firm, are one of the most commonly occurring strategies that firms resort to for restructuring and strategic expansion. The growth of globalisation of business² has extended these opportunities to go beyond borders, where firms can engage in cross-border mergers and acquisitions (CBAs). Precisely, CBAs are means through which firms headquartered in one nation can take control of the assets of firms headquartered in other nations (Shimizu, Hitt, Vaidyanath and Pisano, 2004). This investment strategy, among other factors, enable firms with rapid entry into foreign markets, help spread risk across different geographical regions, efficiently allocate corporate resources globally and help improve market performance (Xie, Reddy and Liang, 2017; Shimizu *et al.*, 2004). In this way, CBAs are important for firms and the global economy.

The importance of this strategy can be confirmed through the growing number and value of CBAs' bids/deals announced each year. In 2021, CBAs enjoyed an unprecedented rise, topping to USD 2.1 trillion, which is comfortably above the previous records of USD 1.8 trillion set in 2007 (Alex, 2022). Nevertheless, despite their popularity and advantages, a significant number of CBA bids either frequently fail to get initiated³ or fail to complete⁴ after their initial announcement (Lawrence, Raithatha and Rodriguez, 2021; Dikova, Sahib and Van, 2010). They also frequently

¹ This thesis applies the terms “merger”, “acquisitions” and “takeover” interchangeably. Although there is the formal distinction between the terms, the key to this thesis is the combination of entities and business activities and the change in control of another firm’s assets.

² Following Scholte (2008), this chapter considers globalisation of business as the ability of business entities to physically, legally, linguistically, culturally and psychologically – participate in business globally.

³ Initiation is the probability that a company from an acquiring country announces an acquisition of a company in a target country (Lawrence, Raithatha and Rodriguez, 2021).

⁴ Completion is the probability that deal will be completed after its public announcement (Lawrence *et al.*, 2021).

get delayed⁵ (Lawrence *et al.*, 2021); for example, in 2021, bids worth USD 208 billion were terminated, and as reported in early 2022, bids worth USD 1.9 trillion were pending yet to be finalised (Grace, 2021).

All the above entail a cost to various stakeholders, including the firms, their investors, managers, employees, lenders, policymakers, and the broader economy. For instance, a breach of a CBA contract may lead to legal battles and substantial penalties (Luo, 2005) or loss of a substantial upfront amount (Rosenkranz and Weitzel, 2005). Besides the direct monetary loss, cancelling an announced bid can severely impair the credibility and reputation of the acquiring firm (Luo, 2005), which can also be extended to the target firm⁶. Such encumbrances can also lead nations to let pass the efficient allocation of resources. Moreover, longer duration, i.e., more days from the bid's public announcement to their completion date, can also have negative repercussions, at least for the bidding firm. For example, a lengthy process may distract managers from other investment opportunities (Boeh, 2011). The lengthy durations also allow room for competitors to initiate a bidding contest, which may increase the bidding price (Luypaert and De Maeseneire, 2015).

Further to the above drawbacks, CBAs often also fail to generate value (Aw and Chatterjee, 2004). According to neoclassical economics, managerial decisions should maximise the firm value or shareholders' wealth. In other words, CBAs should create value, which equals the total synergy expected from the acquisition minus the premium paid by the acquirer (Schijven and Hitt, 2012). However, the extant empirical evidence suggests this may not always be true. In fact, the most interesting, intriguing,

⁵ Measured as per the average time it takes to complete an acquisition. It is also referred mainly as duration (Lawrence *et al.*, 2021).

⁶ For example, the withdrawal of AMP's bid by Ares Management, led the shares of AMP to fall sharply (more than 10%) as AMP's reputation was questioned by its investors (Jamie, 2021).

and puzzling question raised by the literature on CBAs is whether these bids/deals are associated with improved market performance of the firms involved in the transaction.

Given the above footings, understanding the factors affecting this investment strategy and its related outcomes is crucial. Therefore, it is not surprising to see extensive academic and professional literature investigating various antecedents on this strand of corporate financial decision and its related outcomes. Various underpinnings have been applied in this process from various taxonomies, the findings rather impossible to be presented in detail within one academic thesis. In synopsis, among the factors, country-specific factors have received protruding attention. Under the nexus of country-specific influences, institutional and regulatory factors are highly dominant. For example, Rossi and Volpin (2004) find that the volume of M&A activity is significantly larger in countries with stronger shareholder protection and better accounting standards. Alimov and Officer (2017) and Alimov (2015) document the importance of labour regulations and international property rights, respectively.

Conversely, economic and financial factors have also been acknowledged in the literature on CBAs. Giovanni (2005), for example, reports that the size of financial markets (stock market capitalization) has a strong positive association with domestic firms investing abroad. Erel, Liao and Weisbach (2012) provide that exchange rate stability, disclosure quality, geographic proximity and the size of the stock market influence CBA activities and value creation. Kang and Kim (2008), using a large sample of partial block acquisitions, find that block acquirers strongly prefer proximity with target firms. Ahern, Daminelli and Fracassi (2015) suggest that cultural distance influence the decision of CBAs.

Alongside the above factors, various footings of the political environment have also attracted attention. For example, Hogetoorn and Gerritse (2020) suggest that terrorism reduces inbound CBAs. On the contrary, Ouyang and Rajan (2017) found that bilateral CBAs are not impacted by terrorism. Likewise, Luu, Nguyen, Ho and Nam (2019) suggest that political corruption can be a significant market barrier to foreign investors. On the other hand, Weitzel and Berns (2006) do not support this notion. Studies such as that of Cao, Li and Liu (2017) document how political uncertainty from national elections influences CBAs. In addition to the political factors, studies such as Dikova, Sahib and Van (2010) and Basuil and Datta (2015), among others, advocate the importance of firm experience for CBAs (all these factors, along with some other notable factors, have been tabulated in Appendix 1.1). While the studies mentioned here provide valuable insights into the importance of the political environment and firm experience on CBAs, they as noted, postulate unsettled prediction. Moreover, some influences from the political environment and firm's experience on CBAs and its related outcomes have received little to no attention. As such, this thesis, in three separate but interconnected empirical chapters, examines if and how the three underexplored drivers help explain the observed direction of CBAs bids, success/failure of the likelihood and duration of deal completion and market value creation/destruction during the CBAs' announcements. The three drivers include (1) country-pair political relations, (2) country-specific political constraints on political actors and (3) acquirers' pre-bid host-country experience. Before explaining the individual motivations of the three investigations, their research questions and how they differ from other studies, including those mentioned here above, the section that follows here below provides the definition and variations of political environment,

highlighting the distinction between country-pair and country-specific political factors.

1.1 Political Environment (A General Overview)

The political environment is among the arrays of institutional factors⁷. It falls under the nexus of formal institutions that firms consider in their strategic decisions due to risk or uncertainty attached to it (depending on its predictability⁸) (De Mortanges and Allers, 1996). Political risk does not have a single or universal definition (Fitzpatrick, 1983; Kobrin, 1979); however, in general, it refers to uncertainty surrounding events and processes in the political environment that have repercussions on the business community (De Mortanges and Allers, 1996). These risks can occur as micro, relating and directed to the outcomes of specific subunits or industries. They can also be in from macro, affecting most foreign subunits (Alon and Herbert, 2009; Simon, 1982; Robock, 1971).

Robock (1971), Simon (1984) and Alon and Herbert (2009), among others, document that risks with regard to micro aspects are directed at business activities with specific characteristics (such as the type of industry or firms with specific projects). The nationality of the firm can also be one characteristic differentiating firms (Desbordes, 2010). Specifically, a firm's nationality can associate them with the political actions of their country of origin (i.e., actions from the country-pair political relations), which can make them face the consequences of any adversarial political

⁷ Institutions are viewed as humanly devised formal and /informal constraints on human behaviour (North, 1990).

⁸ Although there is a formal distinction between risk and uncertainty, both terms frequently replace each other. The general agreement is that both political risk and uncertainty have an implication of unwanted consequences of political activity (Kobrin, 1979). In its strict sense, uncertainty refers exclusively to the unpredictability of the situation, i.e., changes that are difficult to predict, while risk can be predicted (Miller, 1992).

actions of their home country (Alon and Herbert, 2009). Nevertheless, one should also note that political actions can also be co-operative, which can have a positive influence. The micro aspect of the political environment, especially from country-pair political events (i.e., the bilateral aspect of the political environment) on CBAs, is still in its infancy; one of the chapters in this thesis addresses this area.

Political risk can also occur as macro, which can affect all foreign business operations and investments in that country in much the same way (De Mortanges and Allers, 1996). These risks stem from country-specific political institutions, such as political corruption (Brouthers, Gao and McNicol, 2008; Cuervo-Cazurra, 2006; Habib and Zurawicki, 2002), expropriation risk (Duanmu, 2014; Kobrin, 1979) or in the form of political violence (Witte, Burger, Ianchovichina and Pennings, 2017; Burger, Ianchovichina and Rijkers, 2016). Some questions concerning country-specific political institutions (i.e., the unilateral aspect of the political environment) (especially political constraints on political actors) also remain to be addressed with regard to CBAs (as discussed in the motivation section below).

Both country-pair and country-specific political factors have the power to set the grounds for investment for firms' foreign ventures, and they do not necessarily correlate (Arikan and Shenkar, 2013)⁹. For example, despite a country having less country-specific political risk, firms wishing to enter such a country may have their nation involved in political tensions with them; firms may thus face country-dyad political risk. In this thesis, the first two empirical chapters (Chapters 3 and 4) investigate the impact of the potential areas from the political environment identified

⁹ Although the actions generated from country-dyad and country specific political risk may be similar in nature (Alon and Herbert, 2009), one for example, is the interventions by the government but both risks do not necessarily correlate.

above (country-pair and country-specific political environments) on various key aspects of CBAs. The third empirical chapter (Chapter 5) highlights how acquirers' pre-bid experience in the target's domicile may help them in their subsequent acquisitions in that country, especially in light of the number of challenges they face, including the challenges from country-pair and country-specific political environment. Hereunder, there is a discussion on the motivation, research question and findings in brief of the three empirical chapters (detailed explanations are provided in their respective chapters).

1.2 Motivation, Key Research Questions and Findings

1.2.1 Country-pair Political Relations and Cross-border Mergers and Acquisitions

The first empirical chapter (i.e., Chapter 3) of this thesis investigates how country-pair political relations (the micro aspect of the political environment) influence CBA bid activities and their outcomes. Country-pair political relations (henceforth, CPR) in this chapter denotes political relationship between two nations as a result of the political activities between them. Even though CBAs interact and function amid the prerogatives of both country dyads, inter-country relational factors have attracted limited attention, specifically those with regard to political activities between the country dyads. Studies on CBAs have thus far focused overwhelmingly on country-specific-factors and political events (i.e., on the unilateral aspect of political environment as explained in the overview above) (see also the review by Xie *et al.*, 2017; Shimizu *et al.*, 2004). Those that have focused on inter-country relational factors have concentrated on historical ties, such as colonial ties (Chowdhury and

Maung, 2018). Others, such as Bertrand, Betschinger and Settles (2016) and Duanmu (2014), among others, examine country-dyads' alignment on views concerning third-party issues. The study of Li, Arikan, Shenkar and Arikan (2020a) documents the influence of selected historical events (i.e., the most adversarial events) between country-pairs on acquirers' CBAs' announcement period returns.

While the studies mentioned here above provide valuable insights into the inter-country relational factors on CBAs, they do not account for all interactions surfaced through actual country-pair political events, i.e., conflict events (emerged as military or non-military conflict events) and political co-operations. This is a crucial omission given that in today's world one frequently witnesses various spectrums of political events, which have hindrances and provisions for country-pairs' business activities. For example, both nations in hostility (emerged as military or non-military conflict events) undertake detrimental actions to prevent benefits from going to antagonistic nations, which creates deadweight costs and uncertainties (Li, Jian, Tian and Zhao, 2021; Davis, Fuchs and Johnson, 2019)¹⁰. Nonetheless, CPR can also be co-operative (formed by co-operative political events), or they can be neutral. Co-operative events have been documented to increase bilateral economic activities, such as bilateral trade (Massoud and Magee, 2012). The important point here is that all political interactions exhibit an influence on the country-dyad's political relationship and, conversely, on the economic landscape. We are still far from being able to explain these arrays of CPR on CBA's bid direction and its influence on deal completion and duration after the bid announcement, a stage critical for acquisition. Moreover, its

¹⁰ Anecdotal evidence for these are also found everywhere see for example how Chinese investment in Australia plummeted following diplomatic tensions (2021). Turkey-Saudi Arabia tensions (2021) or the tensions between USA and China (2021/2022) are also a vivid reminder of how the fluctuations in political relations can impact the economic landscape between the nations.

relevance to the bidder's and target's market performance is far from complete¹¹. Some scholars have called for such investigations as insights on this would help firms and stakeholders better decision-making and policy implications. These factors motivate the chapter and lead to the first key research question of this thesis – *How do fluctuations in the overall CPR occurring from conflict and co-operative political events explain the cross-sectional and temporal variations in CBAs' activities and its related outcomes?* The broad question forms seven specific questions provided in the chapter.

The chapter sources the data for CPR from a time-varying news-based index that provide comprehensive data on political events between the country-dyads - The Global Data on Events, Location and Tone (GDELT) (Leetaru and Schrodtt, 2013). Employing this and CBAs of 45 countries between 1992 and 2018, the chapter provides several novel and robust findings as summarised below (here I provide findings in brief, a detailed discussion is found in the chapter).

Key Findings

The empirical investigation document a statistically significant and positive relationship between CPR and bilateral CBAs bids (in terms of both number and value). CPR in the chapter is the net of country-pair conflicts and co-operations and if the nations were neutral. Higher levels of CPR indicate co-operative relations between country-dyads, and lower levels show adversarial relations. As such results suggest that CBAs increase between the dyads when CPR between them are co-operative and

¹¹ Desbordes (2010) is one notable literature who document the impact of overall CPR, however only on US firm's rate of return for their FDI in developing countries. Nigh (1985) is another notable literature documenting the influence of political events between US and Latin America in the 1970's and 80's and their influence on FDI flow. This chapter, as mentioned above, different from this, addresses CPR on CBAs specific questions and its value relevance to the acquiring and target firms during the announcement period and focuses on 45 countries.

decreases when adversarial. Furthermore, the investigation of CBAs' deal completion after the announcement of the bids documents a statistically significant and positive relationship between CPR and the likelihood of deal completion. These findings underscore the difficulties of acquisition completion during adversarial relations and the ease of their completion during co-operative relations. Furthermore, the investigation of the duration of the deal completion (i.e., the number of days from the announcement of the bid to the deal completion) documents a negative relationship. The findings reiterate the difficulties of acquisitions between country-dyads under antagonistic situations and how friendly relations augment the strategic activity.

On the announcement of the deal, results show a positive effect of CPR on market returns of acquirers' and targets' firms (i.e., acquirers' and targets' cumulative abnormal return). The coefficients are statistically and economically significant. These results underscore the positive effect of co-operative relations and that the market does not appreciate where the merger deal can be worse of. Further to addressing the broad question using the overall CPR, the chapter addresses the broad question using distinct variables of conflicts and co-operations as both are qualitatively different. The examination could provide further insights. Results document asymmetrical influence. Finally, the chapter addresses the broad question using only the conflict events to highlight the impact of military and non-military conflict, as these two are also qualitatively different. Results reveal that military rather than non-military conflict events have a stronger influence in explaining CBA activities and their related outcomes.

1.2.2 Political Constraints and Cross-border Mergers and Acquisitions

While the first empirical chapter provides a comprehensive insight on country-pair political factors on CBA, as noted earlier, political environment with regard to country-specific political factors, i.e., the macro aspect of political environment, are equally important for foreign ventures, and their insights fundamental. As such, for a complete overview of the influence of the political environment on CBAs, the second empirical chapter (i.e., Chapter 4) of this thesis examines some of the unanswered questions with regard to the influence of country-specific political institutions, precisely, the influence of political constraints at the target and the acquirer firm's domicile on CBA activities and its outcomes.

Political constraints (henceforth, PCs) denote political actors' discretion (i.e., the level of freedom) in policy making and other such matters and are an important part of a country's political institution. Extant literature suggests that lower levels of PCs indicate, among many factors, lower levels of policy commitment of nations (Boubakri, Mansi and Saffar, 2013; Henisz, 2000a), inefficiency in the financial sector (Qi, Roth and Wald, 2010), information asymmetry and higher levels of government's predatory behaviour (Boubakri, Ghoul and Saffar, 2015; Boubakri *et al.*, 2013; Henisz, 2000a). These hindrances have been shown to influence firms' strategic decisions. For example, Boubakri *et al.* (2013) indicate that firms decrease risk-taking under lower levels of PCs. Ashraf (2017) reports the same inference but for bank risk-taking. The prominent reason firms do this is to protect themselves from the voids of lower levels of PCs. Since firms consider PCs in their decision-making and devise protectionism under lower levels of PCs, one can ask how PCs influence firms' CBAs' decisions. On the face of it, lower levels of PCs at a domicile may deter inbound acquisitions;

moreover, it may also lead to outbound acquisitions to help firms escape the voids. This inference is rightly so as Denis, Denis and Yost (2002) and Luo and Tung (2007) provide that firms can alter their costs of institutions at home by engaging in internationalisation (i.e., hedging/diversifying) and benefit from the environment at host countries. While these are possible investment strategies, we do not know if this is the case, and if so, how do such strategies impact the success/failure of the likelihood and duration of the deal completion after the bid announcement. Moreover, their influence on the market value creation/destruction during the announcement period of acquirers' and targets' firms also remain to be investigated. This being fundamental as theoretically alternative views are also possible. For example, Aguilera, Duran, Heugens, Sauerwald, Turtorea and VanEssen (2021) points out that higher levels of PCs can reduce a nation's ability to meet the needs of its stakeholders; this, therefore, may deter inbound CBAs or negatively impact its outcome. PCs at the acquirer's domicile also advocates unclear view for outbound investments. As mentioned above, lower levels of PCs entail voids and may encourage firms to conduct outbound acquisitions. On the contrary, the voids of lower levels of PCs at a domicile may fail to flourish its domiciled firms to conduct outbound acquisitions or lead them to engage in value-destroying acquisitions.

In sum, whether and in which direction PCs at acquirers' and targets' domiciles affect CBAs' bid decisions and under which direction they would be more successful in their completion and value creation is an empirical question¹². These factors motivate the chapter and lead to the second key research question of this thesis

¹² Previous studies on the role of PCs have mostly focused on entry mode decisions for inbound FDI and have not looked at the questions this chapter examines and especially from the point of both domiciles. Notable work here includes that of Henisz (2000b), among others.

– *How do the varying degrees of PCs at the targets' and acquirers' domiciles, in part, explain cross-country and temporal differences in CBAs' activities and their related outcomes?*

Furthermore, the key to this chapter is also to address how other institutional qualities and the legal origin of the of the targets' domiciles, including the heterogeneity of the economic development of the merging firms' domiciles, influence PCs in explaining the activity and outcome of CBAs. This being fundamental as extant literature provides that these factors (institutional quality, legal origin and the economic development) can moderate the influence of PCs for firm's strategic decisions (full rationale on this is explained in the chapter). All these broad questions form seven specific questions, which are provided in the chapter.

The chapter's investigations are conducted using PCs from a time-varying internationally comparable political constraint index of Henisz (2017 data release) for the primary analysis. Using this and CBAs' bids/deals from 45 countries (including both developed and developing countries) between 1992 to 2017, the chapter finds several novel and robust findings summarised below.

Key Findings

Reconciling the two contradictory views, the examination of target domiciles inbound CBA bids document that countries with higher levels of PCs attract foreign acquirers (both in terms of number and value). These results are consistent with the prediction that the advantages of a host nation's institutions motivate inbound investments (this in the chapter is referred as *the investment motivation view*). The bilateral country-pair investigation further finds that lower levels of PCs in acquiring firms' domiciles encourage outbound CBA. These findings indicate that firms alter

costs at their domicile by internationalisation (referred to as the *hedging view* in the chapter). The examination of the role of PCs on the completion of bids after their announcement advocate the importance of higher levels of PCs of both merging firms' domiciles. The investigation also underscores that higher PCs at the targets' domiciles reduce the deal completion duration.

On the announcement of the deal, results show a positive effect of PCs at targets' domiciles on market returns of target firms (i.e., targets' cumulative abnormal returns). This supports the *Investment motivation view*. Results also report an inverse relationship between PCs at acquirers' domiciles on market returns of acquirers' firms (i.e., acquirers' cumulative abnormal returns). These results advocate that acquirers can create wealth by purchasing target firms domiciled in nations with higher PCs (as predicted by the *hedging view*). These results are reiterated when results show that comparative levels of PCs between the domiciles indicate a positive relationship when PCs at targets' domiciles are higher than those of the acquirers' domiciles.

Furthermore, the chapter documents that the levels of economic development of the merging firms' domiciles impact the influence of PCs on CBAs. The chapter also underscores that the impact of PCs on CBA reduces when it interacts with higher levels of other institutional qualities at the target firm's domicile. Finally, results underscore that the influence of PCs on CBAs reduces when the targets' domiciles have a common law legal origin.

1.2.3 Acquirers' Pre-bid Host Country Experience and Cross-border Mergers and Acquisitions

The third empirical chapter (Chapter 5) quantifies the influence of acquirers' experience and embeddedness at a domicile on its subsequent acquisition in the same domicile. This chapter is motivated by the fact that encumbrances highlighted in the above two empirical chapters, including various other encumbrances, such as differences in language and religion, among others (Li, Wang, Ren and Zhao, 2020b; Collins, Holcomb, Certo, Hitt and Lester, 2009) can lead to acquirer's lack of knowledge about the target, the target domicile's regulations and policies. It can also obstruct the acquirers from forming relationships in critical networks at the target's domicile. Nonetheless, literature on organisational learning appreciates that the presence of subsidiaries in locations plays a fundamental and systematic role in influencing the perceptions of risk for rightful decision-making (Buckley and Munjal, 2017; Makhija and Stewart, 2002). Moreover, Collins *et al.* (2009) underscore that acquisition in a host country is a strong predictor of subsequent acquisition in that host.

On the face of it, subsequent acquisition in nations where acquirers are already present provides a more cautious investment strategy given the opportunity rather than plunging into a new market with deep ends. While this is an option for acquirers, we still do not know if such a strategy would benefit them. Precisely, studies have not yet provided evidence on how acquirers' presence in the target's domicile (hereafter, pre-bid host-country experience) impact acquirers' subsequent acquisitions' success/failure in its completion after the bid announcement, a stage where most mergers fail. Moreover, its implication on market value creation/destruction remains unanswered. This is a crucial oversight as acquirers have

no guidance, especially since both positive and negative outcomes are theoretically possible, as provided here below.

One strand (as highlighted in the text above) supports the notion that subsidiaries in locations play a fundamental and systematic role in influencing risk perceptions. Johanson and Vahlne (1977) and Johanson and Vahlne (2009), among others, also advocate this and highlight the benefit of host-country learning. Borrowing from this, one can posit that acquirers' pre-bid host-country experience may help acquirers engage in value-enhancing and successful CBAs. In contrary to this, the other strand (social connection literature) (Roll, 1986) point towards the hubris hypothesis and other such factors; it posits that manager's familiarity of a particular market can lead them to engage in less successful or value-destroying mergers. As acquirers' pre-bid host-country experience can increase such familiarity, one can deduce the possibility of similar outcomes.

Based on the explanation above, whether subsequent acquisitions in nations where acquirers are present is a beneficial strategy is an empirical question and of policy relevance for acquirers and their stakeholders. This also being relevant as most of the studies on CBA learning hitherto have examined the impact of general experience on CBAs (Dikova et al., 2010) or on industry- and region-specific experience (Basuil and Datta, 2015) (for more see Langosch and Tumlinson, 2022)¹³. Many questions with regard to the influence of acquirer's host-specific experience on CBAs outcomes are yet to be examined. These factors motivate the chapter and lead

¹³ Literature that appreciate host-country experience include Vermeulen and Barkema (2001), who use certain firms from the Dutch market to analyse how host-country experience would help future investments survival in the country. Collins *et al.* (2009) document how previous M&A predicts subsequent M&As in the host. Doukas and Travlos (1988) is the only investigation that accounts for acquirer's presence in the host-country prior to the bid, however they only examine this for a limited sample of US acquirers market return in the 1970s.

to the third key research question of this thesis – *Do acquirers with pre-bid experience and embeddedness in the target's domicile receive better CBAs outcomes in that domicile?* The broad question forms five specific questions, which are provided in the chapter. Acquirer's pre-bid host-country experience is accounted as acquirer's FDI in the host country in the year prior to the current bid. Using this and CBAs bids/deals from 6 countries between 2005 to 2018, the empirical examinations, robust to various specifications, find the following (here I provide findings in brief, a detailed discussion is found in the chapter).

Key Findings

Investigation of the likelihood of CBAs' completion and duration after the announcement of the bids show that acquirers with pre-bid experiences are more likely to complete the CBA deal. The same acquirers face a lower duration of the deal completion compared to acquirers without such an experience. Furthermore, on the bid announcement, the chapter document that acquirers with pre-bid host-country experience outperform those without such an experience. Moreover, results document that when acquired by firms with pre-bid host experience, the target firms receive a lower premium and lower announcement period gains. These findings in overall support the literature on the benefits of learning in host-country rather than the hubris hypothesis of takeover and other related literature, which suggests the contrary.

1.3 Contributions

Overall, the three empirical chapters of this thesis broaden the understanding on how inter-country political relations, country-specific political constraints and acquirer's pre-bid host-country experiences explain at least in part CBA activities and its related outcomes. The three chapters also contribute to the understanding of the three respective areas and various other strands. Hereunder are key contributions; other contributions and practical implications are provided in the respective chapters and in the concluding chapter.

1.3.1 Country-pair Political Relations and Cross-border Mergers and Acquisitions

The first empirical chapter (Chapter 3) contributes to the literature examining the factors (especially from the political environment) affecting CBAs and its related outcomes. Some of the notable studies in this strand include that of Hogetoorn and Gerritse (2020), Ouyang and Rajan (2017), Luu et al. (2019), Weitzel and Berns (2006) and Cao et al. (2017), among others, as mentioned in the text above. To recap, Hogetoorn and Gerritse (2020) and Ouyang and Rajan (2017) investigate the influence of terrorism in the target's domicile on inbound CBAs. Luu *et al.* (2019) and Weitzel and Berns (2006) investigate the impact of country-specific political corruption on CBAs. Cao *et al.* (2017) document the influence of political uncertainty (from national elections) on nation's CBAs. While these studies provide valuable insights on the influence of political environment on CBAs, they focus on the unilateral constructs of political environment (i.e., on country-specific political factors), Chapter 3 of this thesis shows the relevance of political environment on CBAs, however different from

the unilateral construct, the chapter provides evidence of the relevance of bilateral-construct of the political environment (i.e., inter-country political factors) on CBA. Hitherto, as mentioned in the text above, only a few selected inter-country relational factors have been addressed with regard to their effect on CBAs, to recap, Chowdhury and Maung (2018) provides evidence on the relevance of historical ties (i.e., colonial ties) between country-dyads on CBAs. Other studies, such as Bertrand *et al.* (2016), among others, examine the influence of country-dyads' alignment on views concerning third-party issues on acquisition premium¹⁴. The study of Li *et al.* (2020a) document that historical adversarial military events between country-pair lower acquirers' announcement period returns. The focal chapter extends this body of literature by showing the relevance of inter-country relational factors on CBAs, however, different from the above constructs, the third chapter provides evidence of the relevance of the overall CPR (encompassing all actual country-pair political events – i.e., all country-pair conflict events, co-operative events and if the country-pair were politically neutral) as an essential factor that contributes in explaining CBA activity and its related outcomes (i.e., on the bilateral CBA activity, the likelihood and the duration of acquisition completion, the announcement period market returns of the acquirer and the target firms)¹⁵. The chapter also deviates from previous studies by providing evidence of the influence of conflict and co-operative country-dyad political events (rather than the net impact) on CBAs and its related outcomes and documenting

¹⁴ Precisely, Bertrand *et al.* (2016), examines the influence of country-dyads alignment on views related to central UN-led policies on acquisition premium for a very small sample. Duanmu (2014) using similar measure of diplomatic risk (i.e., the alignment of country-dyads views concerning third-party) examines how home-host political relations moderates the negative impact of expropriation risk on firms' FDI. The firms are based in China in their sample.

¹⁵ This chapter also complements the work of Desbordes (2010) who document the impact of overall CPR on US firm's rate of return for their FDI in developing countries. This chapter, as mentioned above, different from this, addresses CPR on CBAs specific questions and its value relevance to the acquiring and target firms during the announcement period and focuses on 45 countries.

an asymmetrical influence between the two types of events on CBAs. The chapter also deviates from the aforementioned studies by underlining the influence of military and non-military conflict events on CBA and its related outcomes.

1.3.2 Political Constraints and Cross-border Mergers and Acquisitions

The second empirical chapter (i.e., Chapter 4) contributes to the literature that examines the effect of country-specific political factors (i.e., unilateral constructs of political environment, precisely PCs) on corporate investment (Boubakri *et al.*, 2013; Boubakri *et al.*, 2015). Specifically, the empirical chapter supports and extends the arguments of Boubakri *et al.* (2013) and Boubakri *et al.* (2015), as they find that PCs impact firms risk taking and growth, respectively. The chapter extends this body of literature by showing the relevance of PCs on another important corporate investment i.e., on CBA activity and its related outcomes and that even in a global context. Moreover, the chapter adds to previous studies investigating the influence of political factors on CBAs, studies such as that of Hogetoorn and Gerritse (2020) and Weitzel and Berns (2006), among others. These studies pay attention to target-domicile's constructs of political environment such as terrorism and political corruption, respectively. The current empirical chapter different from these components of the political environment, provides evidence of the influence of PCs (an important part of political institution) and that even of both merging parties' domiciles (i.e., of the target's and acquirer's domicile) on CBA activity and its related outcomes. The chapter documents that firms domiciled in a nation with lower levels of PCs may relocate their assets through CBAs to nations with better PCs and they benefit during

the announcement period under such conditions¹⁶. Moreover, the chapter deviates from the above-mentioned studies by underlining that heterogeneity with regard to economic development, target nation's institutional setup and its legal origin, moderate the influence of PCs on CBAs.

1.3.2 Acquirers' Pre-bid Host Country Experience and Cross-border Mergers and Acquisitions

The third empirical chapter (i.e., Chapter 5) contributes to the organisational learning literature and precisely to the study of CBAs' learning literature of Basuil and Datta (2015). Because of ambiguous findings in the literature on the influence of firm's experience on CBAs outcome¹⁷, Basuil and Datta (2015) suggest investigating the influence of similar experience (i.e., context specific experience – with regard to industry and region) on subsequent acquisition and document a positive relationship between industry- and region-specific acquisition experience on subsequent acquisition's long-term shareholder value creation. The fifth chapter of this thesis extends this body of literature by showing the relevance of similar experience, however, different from the constructs (industry and region), the chapter documents the relevance of host-specific experience of the firm on the outcomes of subsequent CBAs¹⁸ in the same host nation. Moreover, the chapter deviates from the aforementioned study which investigate only a small number of US service-sector

¹⁶ Previous studies on the role of PCs as noted earlier have focused on entry mode decisions for inbound FDI and have not looked at the questions this chapter examines and especially from the point of both domiciles. Notable work here includes that of Henisz (2000b), among others.

¹⁷ Dikova *et al.* (2010) for example finds that previous learning of US acquirers reduces the impact of institutional distance on subsequent acquisitions. Similarly, Markides and Oyon (1998) finds that US acquirer's previous international experience influences announcement period gains of subsequent acquisitions. This is however not always the case, some studies report negative and some report insignificant influence of experience on the outcomes of CBAs (see the meta analysis by Langosch and Tumlinson, 2022).

¹⁸ i.e., on the likelihood and duration of deal completion and the announcement period gains of the acquirer and the target firms.

acquirers, the chapter in this thesis investigates this for acquirers from six nations including US acquirers, the chapter also provides a sub-sample investigation between US and non-US acquirers (as reported in the robustness section of the chapter) documenting the relevance of pre-bid host country experience on subsequent acquisitions, irrespective of the sample. The chapter also deviates from previous studies which measure firm's experience only in form of firm's previous acquisition, the focal chapter considers firm's experience as firm's pre-bid presence in the target's domicile be it either as greenfield, joint ventures or acquisition. This is mainly because literature provides that learning in a specific domain makes the firm to be embedded to that domain and may contribute to the outcomes in the same domain, as such, a firm with an FDI (irrespective of the form) in the target's domicile before the bid may be more capable to garner additional value for subsequent investments (to this end, CBAs) vis-à-vis those without.

1.4 Thesis Structure

The rest of this thesis is organised as follows. Chapter 2 describes the data sources, sampling criteria, data collection, variable identification common to all the empirical chapters. Chapter 3 investigates the role of country-pair political relations on CBAs. Chapter 4 examines the role of political constraints on CBAs. The effect of acquirers' pre-bid experience in the target domicile on CBAs is investigated in Chapter 5. With Chapter 6 concluding the thesis.

Appendix 1.1: Determinants of CBAs Summarised

The table presents a summary of research findings regarding the determinants of CBAs and their related activities discussed in the introduction section above.

Author (Year) and Variable	Context	Key Findings
Institutional and Regulatory Factor		
Rossi and Volpin (2004) Investors' protection and accounting standards	1990-1999 Globally	Target nations' inbound CBAs (volume) are positively related to better accounting standards and investors' protection at the targets' domiciles.
Bris, Brisley and Cabolis (2008) Investors' protection	1989-2002 Globally	Tobin's Q of an industry increases when firms are acquired by foreign firms coming from countries with better shareholder protection and better accounting standards.
Huizinga and Voget (2009) Tax Rules	1985-2004 Europe, Japan and USA	Countries with high international double taxation attract smaller numbers of inbound acquisitions.
Erel, Liao and Weisbach (2012) Quality of accounting disclosure	1990 and 2007 48 Countries	The quality of accounting disclosure increases the likelihood of mergers between two countries.
Alimov (2015) Labour laws	1991-2009 28 OECD countries	Countries that tighten employment regulations attract more foreign acquirers, especially those from countries with relatively more flexible labour regulations.
Alimov and Officer (2017) Intellectual property rights protection	1985-2012 50 largest countries in terms of M&As	Inbound CBAs increase when a country reforms and strengthens intellectual property rights. Stronger intellectual property rights is also positively related to the combined announcement period gains.
Economic and other Related Factors		
Giovanni (2005) Financial market	1990-2001 Globally	The size of financial markets positively correlates with domestic firms investing abroad.
Kang and Kim (2008) Geographical proximity	1990 and 1999 USA and only block acquisitions	Block acquirers have a strong preference for geographical proximity with target firms.
Hyun and Kim (2010) Financial market, legal and institutional quality	1989-2006 OECD	Legal, institutional quality and financial market development increase inbound CBAs volume.
Erel <i>et al.</i> (2012) Exchange rates, geographic proximity, size of stock market valuation	1990-2007 48 countries	Geographical proximity increases bilateral CBAs. Moreover, firms in a nation with an increase in stock market valuation, and currency appreciation, tend to be purchasers, while firms from weaker-performing economies tend to be targets.
Informal Institutions (Culture)		

Dikova, Sahib and Van (2010) Formal and informal institutions	1981-2001 USA and Service Industry only	Institutions (formal and informal) explain the variation in the likelihood and duration of acquisition deal completion; however, this can be moderated by organizational learning.
Ahern, Daminelli and Fracassi (2015) Culture distance	1985-2008 Globally	Greater cultural distance lowers bilateral mergers and combined announcement returns.
Deal-Level and Firm-Level Factors		
Moeller and Schlingemann (2005) Diversification	1985 and 1995 USA	Unrelated cross-border acquisitions have lower announcement returns and operating performance than any other acquisition form.
Zou and Simpson (2008) Industry level characteristics	1991–2005 China	Factors such as the industry's size, profitability levels, economic policy reforms, and technology intensity enhance the acquisition activity.
Huang, Officer and Powell (2016) Method of payment	1990 to 2010 46 countries	Stock as the payment method is associated with a lower likelihood of deal completion.
Inter-country Relational Factors		
Bertrand, Betschinger and Settles (2016) Similarity in voting on third-party issues	1990–2008 for 772 cross-border deals across the globe.	The similarity of voting patterns leads to lower initial acquisition premiums.
Chowdhury and Maung (2018) Colonial ties and similarity in legal origin	2000-2015 177 host countries	Historical ties increase the total number of CBMAs.
Li, Arikan, Shenkar and Arikan (2020) Historical country-dyadic military conflicts	1988 and 2011 7321 CBAs across the globe	The weighted number of prior country-dyadic military conflicts reduces acquirer returns following CBA announcements.
Political Institution		
Weitzel and Berns (2006) Corruption	1996 to 2003 4979 CBAs	Local corruption is not a market barrier to foreign investors.
Ouyang and Rajan (2017) Terrorism	2000-2011 59 host countries	Bilateral CBAs are not impacted by terrorism at the host or home.
Cao <i>et al.</i> (2017) General elections	2001-2013 47 host countries	Elections in a country encourage firms to acquire targets abroad, while elections in target countries deter foreign firms' inbound acquisition.
Hogetoorn and Gerritse (2020) Terrorism	2000 to 2015 116 Host countries	Terrorism reduces inbound CBAs.
Experience		

Doukas and Travlos (1988) Host-specific experience	1970 USA	Shareholders of firms not operating in the target firm's country, those internationalising for the first time, experience significant positive announcement period return. Those operating in the target firm's country experience insignificant negative abnormal returns.
Vermeulen and Barkema (2001) Host-specific experience	1993 25 Largest companies listed in Amsterdam Stock Exchange	Previous experience in the host helps the survival of future investments in that host.
Collins, Holcomb, Certo, Hitt and Lester (2009) Acquisition experience	2002 USA	Prior acquisition experience in local and international settings influences the likelihood of subsequent acquisitions.
Dikova <i>et al.</i> (2010) Completion experience	1981-2001 Service Industry only	Experience helps in increasing the likelihood of deal completion of the subsequent acquisition, but when institutions are closer,
Basuil and Datta (2015) Industry and regional acquisition experience	1991–2006 USA firms as acquirers in the service sector industry	Using the BHAR (buy-and-hold abnormal returns) methodology, authors find that higher levels of industry-specific and region-specific acquisition experience translate into greater shareholder value creation for acquiring firms in subsequent acquisitions.
Other Factors		
Ferreira, Santos, de Almeida and Reis (2014) Presence of foreign institutional investors	2000-2005 26 countries	Ownership of foreign institutional investors increases the probability of cross-border mergers, and these mergers are successful, and the bidder takes full control of the target firm.
Fresard, Hege and Phillips (2017) Industry specialisation	1990-2010 46 countries	Acquiring firms are usually more specialized in their industry than the target firms, and these acquirers receive higher economic gains than less specialised acquirers.

2. Sample Selection, Data Collection, Variable

Identification and Measure

There are some commonalities in data sources, sampling criteria, methods of analysis and control variables used in the three empirical chapters of the thesis. Therefore, this chapter discusses the main data sources, the sample and how the dependent variables are measured. This chapter also provides the definitions of all control variables included in the multivariate analysis of the three empirical chapters, along with their motivations. There are, however, differences in the key explanatory variables of each empirical chapter and they are discussed in the respective empirical chapters. This chapter is organised as follows; Section 2.1 outlines the data sources and sample selection criteria. Section 2.2 outlines the measurement of the dependent variables. Finally, section 2.3 defines and discusses the relevance of the control variables included in the investigations of the empirical chapters.

2.1 Sample and its Selection Criteria

This subsection discusses the sample of data used for the investigations of this thesis (common to all three empirical chapters). The data is collected from various sources. The data for M&A bids and deals are obtained from the Securities Data Corporation's (SDC) database. I collected all the announced CBAs bids between January 1, 1992 to December 31, 2018. The sample period starts in 1992 because it is the first year the data quality in the SDC database became reliable¹⁹. The sample ends in 2018 because this was the latest availability at the time of data collection. For the

¹⁹ For a discussion on completeness of SDC data see Netter, Stegemoller and Wintoki (2011); they point that SDC covers deals of any value, including unreported values, only after 1992 (see also the SDC online help).

first empirical chapter (i.e., Chapter 3 – country-pair political relations and CBAs), the investigation is carried out till 2018.

For the second empirical chapter (i.e., Chapter 4 – Political Constraints and CBAs), the sample consists of M&As bids announced between January 1, 1992 to December 31, 2017. The sample period starts in 1992 for the same reason stated above and ends in 2017 because the key explanatory variable – Political Constraints, is available till 2016.

For the third empirical chapter (i.e., Chapter 5 – Acquirers' pre-bid host country experience and CBAs) the sample is from 1st January 2005 to 31st December 2018. The sample period starts in 2005 because our independent variable (direct investment experience) is partly extracted from annual reports. Past annual reports have not been very comprehensive; for example, Leuz and Verrecchia (2000) provide that US reporting has been comprehensive, but Germans include more disclosure after the year 2000. To be safe to have comprehensive reporting in all the countries, the sample begins in 2005. The sample ends in 2018 for the same reason stated above that this was the latest availability at the time of data collection.

After collecting the above data for the reasons sighted in Erel *et al.* (2012) and other related studies (such as Alimov and Officer, 2017; Alimov, 2015), the sample excludes leveraged buyouts, spin-offs, recapitalisations, repurchases, self-tender offers, acquisitions of remaining interest, exchange offers and privatisations. The sample also excludes bids in which the acquirer or the target is a government agency. The sample also excludes transactions smaller than USD 1 million. Cross-country differences in regulations can make it hard to identify minority stakes (Rossi and Volpin, 2004). Therefore, to make sure that the acquirer exercises control over the

target, the sample includes transactions for which the acquirer owns at least 50% (this is, however, only for completed deals, for deals not completed, this restriction cannot be imposed).

After imposing the screening process, the investigation in the first and second empirical chapter limits the sample to deals involving acquiring and target firms from 45 largest countries in terms of their participation in M&A activity. The 45 nations participate in at least 50 number of total M&As and have a value of more or equal to 1000 USD Millions during the whole sample period of investigation. For the final empirical chapter, the investigation limits the sample to deals involving acquiring firms from 6 largest countries in terms of their participation in M&A activity. The focus has been on 6 countries as the key independent variable - acquirers host-specific experience before the bid (i.e., pre-bid host country experience) is partly extracted from annual reports; the quality of disclosure in the annual reports varies across countries (Skouloudis, Evangelinos and Kourmoussis, 2010; Palea, 2013) and this caused the limitations on the accuracy of the information in the annual reports in other countries. The data description after employing these screens is discussed in the respective individual empirical chapters.

2.2 Measure of the Dependent Variables

2.2.1 Cross-border Mergers and Acquisition Bids - Number and Value

For investigating inbound CBAs of domiciles, the second empirical chapter, i.e., Chapter 4 (Political Constraints and CBAs), uses the number and Volume (i.e., value) of CBA bids. These variables are constructed for each country, year and industry. The industry classification is based on Fama and French (1997) 48 industry

portfolios (FF-48). Further to this and following (Erel *et al.*, 2012), for the main analysis, first, the “*Number of CBA_{j,tgt,t}*” is measured as the total number of international acquisitions (i.e., CBAs) per industry-country-year divided by the total number of domestic and CBAs per industry-country-year, see equation (2.1).

$$\begin{aligned} & \text{Number of CBA}_{j,tgt,t} \\ = & \frac{\text{Total number of CBA}_{j,tgt,t}}{\text{Total number of all acquisition (domestic and CBA)}_{j,tgt,t}} \end{aligned} \quad (2.1)$$

Where *j* stands for industry, *tgt* for target country and *t* for year. The “*Volume of CBA_{j,tgt,t}*” is calculated as provided in equation (2.2).

$$\begin{aligned} & \text{Volume of CBA}_{j,tgt,t} \\ = & \frac{\text{Total dollar value of CBA}_{j,tgt,t}}{\text{Total dollar value of all acquisitions (domestic and CBA)}_{j,tgt,t}} \end{aligned} \quad (2.2)$$

Additionally, following Alimov (2015) and Alimov and Officer (2017), the number and value of CBA bids are calculated as the natural logarithm of (one plus) the total number or volume of inbound CBA per industry-country-year in the target domicile²⁰, as shown in equation (2.3).

$$\begin{aligned} & \text{Number or Volume of CBA}_{j,tgt,t} \\ = & \ln (1 + \text{Total number or Volume of CBA}_{j,tgt,t}) \end{aligned} \quad (2.3)$$

20 This is because in equations (2.1) and (2.2) the numerator (CBA) may not be affected by the key variable (for example in the second empirical chapter – the PCs), while part of the denominator (i.e., domestic acquisitions) may be affected by the key variable. This may lead to a mechanical observed relationship.

2.2.2 Bilateral Cross-border Mergers and Acquisition Bid - Number and Value

The first and second empirical chapters – i.e., Chapters 3 and 4 (Country-pair political relations and Political Constraints and CBAs) use the number and volume (i.e., value) of bilateral CBA activities as the dependent variable to investigate the bilateral CBAs between country-pairs. In order to measure the number of bilateral acquisitions between acquirer and target country at time t ($NB_{tgt,acq,t}$), the chapter follows Bris *et al.* (2008). It divides the total number of bilateral acquisitions between country-dyads per month (t) (in empirical chapter 2 per year) by firms ($Firms_{tgt,t}$) in the target country (these firms are per 100 listed firms) (see equation (2.4)).

$$NB_{tgt,acq,t} = \frac{Total\ NB_{tgt,acq,t}}{Firms_{tgt,t}} \quad (2.4)$$

Where tgt stands for the target country, acq for the acquirer's country and t for month/year. $Firms_{tgt,t}$ is expressed in 100. This equation can be read as the number of acquisitions between the country dyads per 100 listed potential targets in the target nation²¹. The number of listed firms is obtained from Datastream. The volume of bilateral acquisitions ($VB_{tgt,acq,t}$) is similarly computed as equation (2.5) below:

²¹ This can also be read as the percentage of listed companies and can make the interpretation of coefficient more tractable. It also allows to mitigate the size bias across and within countries and allows capturing the relative intensity of CBA activities

$$VB_{tgt,acq,t} = \frac{Total\ VB_{tgt,acq,t}}{GDP_{tgt,t}} \quad (2.5)$$

Where $VB_{tgt,acq,t}$ is the volume of bilateral acquisitions (i.e., value in USD) between country-pair per month (t) (per year (t) in empirical chapter 2) divided by the target country's GDP (in billions of USD)²². This variable can be read as the volume of cross-border bilateral acquisitions (in millions of USD) associated with one billion economic activities (GDP) in the target domicile. GDP is retrieved from the World Bank's World Development Indicators (WDI).

Additionally, for Robustness, following Alimov (2015) and Alimov and Officer (2017), I calculate the number and volume of CBA bids as the natural logarithm of (one plus) the total number or volume of bilateral CBA per -country-month (per -country-year in the second empirical chapter) as shown in equation (2.6) below.

$$\begin{aligned} & \text{Number or Volume of Bilateral CBA}_{tgt,acq,t} = \\ & \ln(1 + \text{Total number or Volume of Bilateral CBA}_{tgt,acq,t}) \end{aligned} \quad (2.6)$$

2.2.3 Announcement Period Returns

All the empirical chapters – i.e., Chapters 3, 4 and 5 (Country-pair political relations, Political Constraints and acquirers' pre-bid host country experience and CBAs) for investigating the market returns use the cumulative abnormal returns as the dependent variable. This is calculated as follows. Following the studies on M&As

²² For the same reason mentioned for scaling number of bilateral CBAs by firms, this scales the CBA volume bids by GDP.

Fuller, Netter and Stegemoller (2002), the announcement period excess returns of acquirers and targets' shareholders are estimated using the market-adjusted model²³ as in equation (2.7):

$$AR_{i,t} = R_{i,t} - Rm_t \quad (2.7)$$

Where, $AR_{i,t}$ is the abnormal return of company i (acquirer or target) on day t; $R_{i,t}$ is the return of company on day t, and Rm_t is the market return on day t (measured as value-weighted index return for the markets in which the firm is listed). The cumulative abnormal return (CAR) is the sum of the abnormal returns over the 5-days (-2 to +2) surrounding the day of the announcement ($t = 0$), as defined in equation (2.8).

$$CAR_i = \sum_{t=-2}^{t=+2} AR_{i,t} \quad (2.8)$$

2.2.4 Acquisition Premium

Chapter 5 (acquirers' pre-bid host-country experience and CBAs) uses the bid premium as the dependent variable to investigate the relationship between acquirers' pre-bid host-country experience and acquisition premium. Hence, following Rossi and Volpin (2004), I measure the bid premium as the difference between the offer price and the target's stock price divided by the latter, as shown in equation (2.9).

²³ Just like as Fuller *et al.* (2002) I do not estimate market parameters based on a time period before each bid, since for frequent acquirers, there is a high probability that previous takeover attempts would be included in the estimation period, thus making beta estimations less meaningful. Additionally, it has been shown that for short-window event studies, weighting the market return by the firm's beta does not significantly improve estimation.

$$Bid\ Premium = \frac{Offer\ Price_t - Price_{(t-28)}}{Price_{(t-28)}} \quad (2.9)$$

Where, $Offer\ Price_t$ is the price offered by the acquirer to the target firm and $Price_{(t-28)}$ is the price of the target 28 days before the announcement date. Premiums are known to be noisy by nature. The stock price 28 days before the announcement is an attempt to capture the relatively long-term movement in the value of the target and observe a stock price unaffected by leaked information and rumours (Schwert, 1996). The data is sourced from SDC.

Further tests on premium are also performed; for example, following Golubov, Petmezas and Travlos (2012) and Officer (2003), the bid premium is winsorised if the value is outside the range of 0 and 2. Additionally, following Maung, Shedden, Wang and Wilson (2019), negative premiums are dropped (rationale is further elaborated in the robustness section of the empirical chapter, i.e., in chapter 5).

2.3 Control Variables

Drawing on the existing literature explained underneath and depending on the multivariate analysis examined, the multivariate regression of this thesis (for all empirical chapters) includes several control variables. This ensures that the results obtained are due to the impact of the key variables each empirical chapter examines. Specifically, the control variables are divided into five categories: Country-level, country-pair-level, bid/deal-level, firm-level and industry-country-level characteristics, as explained below.

2.3.1 Country-level Characteristics

The first and second empirical chapters – i.e., Chapters 3 and 4, for all the multivariate analyses investigated (i.e., the analysis of the target nations' inbound CBAs bids, bilateral CBAs bids, the likelihood and duration of CBAs' deal completion, acquirer and target firms' announcement period gains) control for the following country-level characteristics.

Growth rate of GDP

The first country-level characteristic is the growth rate of the gross domestic product (*GDPGr*). Existing studies (such as Hyun and Kim, 2010; Pablo, 2009) find that a high-growth environment (i.e., high *GDPGr*) at the target firms' domiciles attracts inbound CBA bids as it gives acquirers a higher probability of growth and expanding opportunities that they lack or have exhausted at their domicile. This indicates that high *GDPGr* at the target firms' domiciles can provide better CBA outcomes and value creation. According to this view, one can expect *GDPGr* of the target firms' domiciles to be higher than that of the acquiring firms' domiciles²⁴; therefore, a positive relationship is predicted between *GDPGr* and CBA outcomes and value creation. *GDPGr* is measured as the growth rate of GDP (i.e., the annual percentage change of GDP, where GDP is measured in US dollars). *GDPGr* is sourced from the World Bank Development Indicator (WDI) for the year prior to the announcement.

²⁴ Many of my investigations in the thesis are at the bilateral analysis level, therefore in many investigations the difference of the variable of target and acquirer's domicile is considered.

GDP per capita

Furthermore, gross domestic product per capita (*GDPCap*) can also influence CBAs. Sabir, Rafique and Abbas (2019) provide that higher levels of *GDPCap* show the population's ability to purchase goods and services, showing higher levels of economic development and wealth at the target firm's domicile. Given this, higher levels of *GDPCap* can attract inbound CBAs and indicates better CBAs outcomes. According to this view, one can expect *GDPCap* of the target firms' domiciles to be higher than that of acquiring firms' domiciles. Therefore, a positive relationship is predicted between *GDPCap* and CBA outcomes and value creation. *GDPCap* is measured as the natural logarithm of GDP per capita (GDP per capita is measured in US dollars); it is sourced from the WDI for the year prior to the announcement.

Trade Openness

Rossi and Volpin (2004) provide that higher levels of trade openness indicate that the country is flexible to foreign investments and, conversely, to CBAs. This can therefore influence CBAs' outcomes and value creation. As such, the multivariate analysis controls for trade openness (*Trade*). One can expect *Trade* of the target firms' domiciles to be higher than that of acquiring firms' domiciles; therefore, a positive relationship is predicted between *Trade* and CBA outcomes and value creation. It is measured as the ratio of the sum of the imports and exports value to GDP also sourced from WDI for the year prior to the announcement.

Exchange Rate

Furthermore, the analysis controls the currency exchange rate (*Exchange Rate*). Acquirers are deterred acquiring in nations whose currency gets expensive (Erel

et al., 2012). According to this view, one can expect the *Exchange Rate* of the target firms' domiciles to be lower than that of the acquiring firms' domiciles. A negative relationship is therefore predicted between *Exchange Rate* and CBA outcomes and value creation. It is measured as an exchange rate in USD (for non-US firms) sourced from Penn World Tables for the year prior to the announcement.

Quality of Institution

Erel *et al.* (2012) provide that institutional quality impacts CBA decisions and outcomes. The multivariate analysis of the first and second empirical chapters incorporates institutional quality of domiciles of the target and acquirer firms. Specifically, it controls for three time-varying institutional indicators sourced from International Country Risk Guide's (ICRG) database (ICRG, 2019) for the year prior to the announcement. The first two are macro-governance measures - *Corruption* and *Law and Order*, and the third is a foreign investment-specific business environment, also known as the investment profile index (*Business Environment*). *Corruption* is explicitly the extent to which public power is exercised for private gain and has a negative effect on inbound FDI in general as it can add to the transaction cost (Wei and Shleifer, 2000); as such lower levels of corruption can make target firms' domiciles attractive (Hewko, 2002). According to this view, one can expect the target firms' domiciles to have lower levels of Corruption; as higher levels in the index denote lower levels of corruption²⁵, a positive relationship is predicted between *Corruption* and CBA outcomes and value creation.

²⁵ The scaling of corruption by ICRG is 0–6, where a higher value denotes a lower level of corruption.

The quality of law enforcement (*Law and Order*) of a country correlates with the stability of a country and is seen to reduce transaction costs for economic actors and foreign investors, which as a result, attracts foreign investors (Hewko, 2002). It also indicates better CBA outcomes and value creation. According to this view, one can expect the target firms' domiciles to have a better *rule of law*, as higher levels in the index denote higher levels of the rule of law²⁶; hence, a positive relationship is predicted between *Law and Order* and CBA outcomes and value creation.

Business environment reflects the government's attitude toward foreign investment; a better business environment can motivate foreign investors to invest (Erel *et al.*, 2012). According to this view, one can expect target firms' domiciles to have a better business environment, as higher levels in the index denote a better business environment²⁷; thus, a positive relationship is predicted between *Business Environment* and CBA outcomes and value creation.

The fourth chapter (i.e., the second empirical chapter on political constraints) additionally incorporates bureaucratic quality²⁸. Following Aldhawayan, Paudyal, Rao and Thapa (2022), the second empirical chapter sums the three components of the governance measure, that is, law and order, corruption and bureaucratic quality, and normalises it on a scale of 0–1, the variable is referred to as *Quality of Institution*, with the higher score indicating countries with higher institutional quality and vice-versa. As highlighted above, better institutions attract investors; a positive relationship is predicted between the *Quality of Institution* and CBAs' outcomes and value creation.

²⁶ The scaling of law and order by ICRG is 0 - 3, where higher value of law and order denotes lower risk. A higher rating indicates better judicial system, lower rating on the other hand indicates high crime rate or how laws are ignored without effective sanctions.

²⁷ The scaling of business environment by ICRG is 0 - 12, with a higher value reflecting lower projected risk for foreign investors. This index is the sum of (1) contract viability, (2) payment delays and (3) repatriation of profits. Each component is scored on a scale from 0 - 4 (high to low risk).

²⁸ The scaling of bureaucracy by ICRG is 0 - 4, with higher value denoting lower levels of bureaucracy.

Financial Sector Development

The fourth chapter (i.e., the second empirical chapter on political constraints) further controls stock market capitalisation (*Market Cap*) and credit market development (*Credit Mkt Dev*). Giovanni (2005) and Hyun and Kim (2010) provide that acquisition activity in a country is positively impacted by the financial sector development of the country (i.e., stock market and credit market development). According to this view, one can expect *Market Cap and Credit Mkt Dev* of the target firms' domiciles to be higher than that of the acquirer firms' domiciles. In line with this, a positive relationship is predicted between *Market Cap and Credit Mkt Dev* and CBA outcomes and value creation. Stock market capitalisation (*Market Cap*) is measured as the market capitalisation of all listed firms scaled by GDP, and credit market development (*Credit Mkt Dev*) is measured as the total private credit scaled by GDP. All these are sourced from WDI for the year prior to the announcement.

2.3.2 Bilateral Country-pair-level Characteristics

All the empirical chapters of this thesis (i.e., Chapters 3, 4 and 5) for all the multivariate analyses investigated control for the following country-pair characteristics.

Bilateral Trade

Giovanni (2005) provides that firms tend to invest more in countries they trade with; as such, acquirers are likely to acquire in a nation with higher trade relationships. To ensure this does not drive the results, the empirical chapters control the economic ties between country dyads using bilateral trade (*Bilateral Trade*). Based

on the view explained, a positive relationship is predicted between *Bilateral Trade* and CBA outcomes and value creation. It is measured as the value of imports by the acquirer firm's domicile from the target firm's domicile as a percentage of the total imports by the acquirer firm's domicile for the year prior to the announcement. The data is obtained from United Nations Commodity Trade Statistics (Comtrade)²⁹.

Other Country-Pair Characteristics

The analysis also controls for geographical and cultural proximity using dummy variables (*Same Border, Same Language and Colonial Tie*). The second and third empirical chapter further controls for the *Same Religion*. All these are controlled because a large body of studies (Erel *et al.*, 2012; Alimov, 2015; Alimov and Officer, 2017) explain that the closer the nations of acquirers and targets in terms of geographical proximity and cultural ties, the lower the transaction cost and better CBA outcomes and value creation. Based on this explanation, a positive relationship is predicted between the *Same Border, Same Language, Colonial Tie* and *Same Religion* and CBA outcomes and value creation. The dummies for *Same Border* are created from Centre d'Etudes Prospectives et d'Informations Internationales (CEPII³⁰). The dummies for the *Same Language, Colonial Tie and Same Religion* are sourced from the Central Intelligence Agency (CIA³¹).

2.3.3 Bid/Deal-level Characteristics

All the empirical chapters, for the multivariate analysis of the likelihood of the deal completion, duration of the deal completion, acquiring and target firms'

²⁹ Available at: <https://comtrade.un.org/>

³⁰ Available at: http://www.cepii.fr/cepii/en/bdd_modele/presentation.asp?id=6

³¹ Available at: <https://www.cia.gov/the-world-factbook/countries/>

announcement period gains (and the last empirical chapter for acquisition premium), control for the following bid/deal level characteristics.

Transaction Value

The first is the *Transaction Value*. Alexandridis, Fuller, Terhaar and Travlos (2013) explain that large transaction values have unobserved complexity inherent in them, which could impact the successful completion of CBA. Large-sized deals require greater intra-firm coordination (Ellis, Reus, Lamont and Ranft, 2011) and substantial managerial involvement and interactions with the regulatory authorities (Doan, Rao Sahib and van Witteloostuijn, 2018). Given this argument, the deal may not reach the completion stage as it is highly likely to fail in its intra-firm coordination. As such, a negative relationship is predicted between *Transaction Value* and the likelihood of deal completion. The intra-firm coordination is also likely to take a longer duration for the deal to complete, hence, a positive relationship is predicted between transaction value and duration of the deal completion. Concerning the relationship between *Transaction Value* and announcement period gains, a large number of studies (such as Loderer and Martin, 1990; Grinstein and Hribar, 2004; Roll, 1986; Alexandridis *et al.*, 2013), all for various reasons³², highlight that larger transaction value can be negatively related to announcement period gains of the bidder.

The target shareholders may gain more with a larger transaction size, as literature (Loderer and Martin, 1990; Grinstein and Hribar, 2004) provide that higher transaction value leads to higher acquisition premium, thus higher gains for the

³² Due to overpayment (Loderer and Martin, 1990), the empire-building (Grinstein and Hribar, 2004), hubris (Roll, 1986) and the integration complexity (Alexandridis *et al.*, 2013).

targets³³. This argument predicts a negative relationship between *Transaction Value* and acquirers' announcement period return. A positive relationship is expected between *Transaction Value* and acquisition premium and targets' announcement period return. *Transaction Value* is measured as the natural logarithm of the transaction value (i.e., Ln (Transaction Value in Million USD)) reported by SDC.

Diversification Impact

Next, diversification impact (*Same Industry*) is controlled. Barbopoulos, Paudyal and Sudarsanam (2018) provide that if both target and acquirer are in the same industrial sector, their integration becomes easier. Given this argument, a positive relationship is predicted between *Same Industry* and the likelihood of deal completion and a negative relationship with deal completion duration. Regarding their effect on announcement period gains, the debate on whether corporate diversification enhances or destroys shareholders' wealth is still ongoing (Barbopoulos *et al.*, 2018)³⁴; Given this argument, both a positive and negative relationship is predicted between *Same Industry* and the acquisition premium, acquirers' announcement period return and targets' announcement period return. Concerning its measurement, the investigations include a dummy variable equating to one if the bidder and the target have the same FF-48 industry classification and zero otherwise. The data is sourced from SDC.

³³ This is because (1) large transaction value can lead managers to overestimate the acquisition benefits and thus overpay (2) Besides, all else equal, large targets may have stronger negotiating power and thus extract higher offers from acquirers (Alexandridis *et al.*, 2013).

³⁴ If both, target and acquirer are in the same industrial sector, their integration may be easier, and the synergy gains higher. However, firms acquiring targets in an unrelated business may also gain from diversification, as it causes a reduction in the volatility of the cash flow of the combined firm and the cost of capital (Barbopoulos *et al.*, 2018).

Method of Payment

Franks, Harris and Mayer (1988) posit that cash acquisitions have lower levels of complexity; this could increase the likelihood of deal completion and lower the deal completion duration³⁵. Given this argument, a positive relationship is predicted between *Cash* and the likelihood of deal completion and a negative relationship with deal completion duration. Regarding acquirers' returns, earlier literature shows that payment methods can impact the value creation of M&As. For example, Fuller *et al.* (2002) document that an acquirer with more confidence in the outcome of an M&A is likely to pay in cash because they believe that stocks will eventually be worth more. The acquirers' market is thus more likely to react positively to cash payment.

The target firms benefit more from stock payment because acquirers require financial expertise in stock payment, and for any misalignment of interests, they are likely to pay a greater premium (Porrini, 2006). On the contrary, target firms may also benefit from cash payments as they can ask for larger cash payments to meet the tax requirements (Davidson and Cheng, 1997). Given this argument, a positive relationship is predicted between *cash* and acquirers' announcement period return. A positive and negative relationship is expected between cash and acquisition premium and targets' announcement period return. With regard to its measurement, the investigations include the payment variable (*Cash*), which is a dummy variable that equals one if the bid/deal is paid at least 50% in cash and zero otherwise.

³⁵ Stock bids have asymmetric information problem inherent in them (Franks *et al.*, 1988). Moreover, stock payments have issues of security registration and the requirements of approval by the bidder's shareholders, all which can complicate the deal (Fishman, 1989).

Tender Offer

Offenberg and Pirinsky (2015) provide that tender offers (*Tender Offer*) have a higher likelihood of deal completion and lower duration. Therefore, a positive relationship is predicted between *Tender Offer* and the likelihood of deal completion and a negative relationship with deal completion duration. Datta, Pinches and Narayanan (1992) provide that the target firm's shareholders can benefit more from a tender offer as it alerts other firms and thus attracts other bidders and can initiate a competing bid which can lead to the higher payment of premium by the bidding firm. Based on this view a negative relationship is predicted between a *Tender Offer* and acquirers' announcement period return and a positive relationship with acquisition premium and targets' announcement period return. With regard to its measurement, a dummy variable one is assigned if the bid/deal is identified as a tender offer in SDC and zero otherwise.

Competing Bids

Competitive bids have many bidders, this can lead to increased bargaining power of the target firms, which can make the bids expensive and complicate the process, this may reduce acquirers ability to meet the terms and hence reduce the likelihood of deal completion and increase the negotiation time (Jennings and Mazzeo, 1993). However, counter intuitively, acquirers may also be willing to accept the terms of targets in order to avoid losing the acquisition in the face of competition and may lead to a faster completion of the deal. Based on this, both, a negative and positive relationship is predicted between *Competing Bids* and the likelihood and duration of deal completion. Furthermore, the winners' curse hypothesis (Varaiya and Ferris, 1987) provides that competitive bids usually lead to a higher target valuation, which

can lower acquirers' returns. Based on this, a negative relationship is predicted between *Competing Bid* and acquirers' announcement period return and a positive relationship with the acquisition premium and targets' announcement period return. About its measure, a dummy variable one is assigned if the bid is identified with more than one bidder in SDC and zero otherwise.

Toe Hold

The third empirical chapter additionally controls for acquirer's pre-ownership stake in the target (i.e., toehold). Toehold can help acquirers access internal information and develop relation with the target management (possibly including their views on the M&As), which should resolve social uncertainty (Barbopoulos, Cheng, Cheng and Marshall, 2019). Given this, toehold may increase acquirers ability to meet the terms of the target and its domicile's institution and hence increase the likelihood of deal completion and reduce the negotiation time. Based on this argument, a positive and negative relationship is predicted between *Toehold* and the likelihood and duration of deal completion, respectively. Furthermore, Barbopoulos *et al.* (2019) provides that toehold reduce acquisition premium and market return for the target firms during the announcement period. Barbopoulos *et al.* (2019) also report a positive relationship between toehold and acquirer's return. Based on these findings, a negative relationship is predicted between *Toehold* and acquisition premium and targets announcement period return, and a positive relationship is predicted between *Toehold* and acquirer's announcement period return. About its measure, a dummy variable one is assigned if the acquirer has a pre-ownership stake as a toehold in the target as reported in SDC and zero otherwise.

2.3.4 Firm-level Characteristics

For the investigation of the announcement period gains of acquirers and targets, all the empirical chapters (and for the likelihood and duration of the last empirical chapter) control for firm-level variables of the acquiring and target firms that literature has shown to impact announcement period gains.

Firm size

The first firm-level characteristic controlled for is the size of acquirers' and targets' firms (i.e., *Firm Size*). About its relationship to deal completion, conventional wisdom suggests that larger acquirers can have a higher capacity to complete the deal in a shorter period. However, Moeller, Schlingemann and Stulz (2004) provide that it takes longer for larger firms to complete the deal; they reason that regulatory issues are typically more important for large firms. Based on this conventional wisdom and argument, a negative and positive relationship is predicted between *Firm Size* of acquirers and the likelihood of acquisition completion and acquisition duration.

Furthermore, Moeller *et al.* (2004) find that larger acquirers pay higher premiums and make acquisitions that generate negative dollar synergies³⁶. Concerning target firm size, Loderer and Martin (1990) provide that acquirers are more likely to overpay when acquiring large targets, which the target market would appreciate. This argument predicts a negative relationship between the *Firm Size* of acquirers and acquirers' announcement period returns. Furthermore, a positive relationship is predicted between *Firm Size* of targets and their announcement period return and

³⁶ They interpret this size effect as evidence supporting the managerial hubris hypothesis (Roll, 1986).

premium. In the last empirical chapter, firm size of acquirers and targets are referred to as *ASize* and *TSize*, respectively. Firm Size is measured as the natural logarithm of the firm's total assets for the year before the announcement. The data is sourced from Datastream.

Market-to-book value

Firm-level control variables also include market-to-book value of acquirers' and targets' firms (*MTBV*). Moeller *et al.* (2004) suggest that firms with a high-market-to-book ratio are keener on acquiring; as such, one can expect them to engage in an acquisition which can be completed and take a lower duration. Based on this argument, a positive relationship is predicted between *MTBV* and acquisition completion and a negative relationship to acquisition duration.

Furthermore, Moeller *et al.* (2004) provide that CEOs of high-growth firms with high free cash flows may pursue less than optimal acquisitions. They find that acquirers' shareholders lose during the three-day announcement period, principally in acquisitions by overvalued acquirers (high market-to-book). In contrast, Conn, Cosh, Guest and Hughes (2005) find that acquirers with low book-to-market ratios ('glamour' firms) underperform when they make public acquisitions. Based on this argument, both a positive and negative relationship is plausible between *MTBV* of acquirers and acquirers' announcement period returns. DeLong (2001) provides that target firms with high-growth opportunities provide positive growth prospects, which increases their bargaining power and thus can lead acquirers to overpay them. Based on this argument, a positive relationship is plausible between *MTBV* of targets' firms and acquisition premium and targets' announcement period returns. In the last empirical chapter, the acquirer and target firm's *MTBV* are referred to as *AMTBV* and *TMTBV*,

respectively. I measure *MTBV* as the market value of common equity divided by the book value of common equity for the year prior to the announcement. The data is sourced from Datastream.

Leverage

The analysis further controls for leverage (*Leverage*) of acquirers' and targets' firms. Highly leveraged firms are most likely to have lower levels of operating liquidity. As such, highly leveraged firms may pay for acquisition through stock, which literature shows lower the chance of deal completion and increases deal duration (Fishman, 1989). Based on this argument, a negative relationship is predicted between acquiring firms' *Leverage* and the likelihood of deal completion and a positive relationship to the duration of the deal completion.

Furthermore, Hu and Yang (2016) find that highly leveraged acquirers pay a lower premium and earn positive abnormal returns at the announcement. Based on this argument, a positive relationship between acquirer firms' *Leverage* and acquirers' announcement period return can be predicted. Hu and Yang (2016) further provide that firms with lower leverage tend to be targets acquired by foreign firms (i.e., targets with low levels of leverage attract bidders). Based on this, target firms may have a higher bargaining power; thus, a positive relationship is predicted between target firms' *Leverage* and acquisition premium and targets' announcement period return. In the last empirical chapter, the acquirers' and targets' *Leverage* is referred to as *ALeverage* and *TLeverage*, respectively. Leverage is measured as book debt over book assets for the year prior to the announcement. The data is sourced from Datastream.

Profitability

Finally, under the firm-level characteristics, the analysis controls for profitability (*ROA*) of the acquirers' and targets' firms. Morck, Shleifer and Vishny (1990) provide that acquirers with poor performance tend to use acquisitions to cover up their bad performance; as a result, they gain less during the announcement period. I also expect poorly performing firms to have lower strength in completing the CBAs. Furthermore, Matsusaka (1993) states that an acquisition is considered more disciplined and fruitful when targets are profitable on average. As a result, targets with higher *ROA* may gain higher bargaining power. Based on this arguments, a positive relationship is predicted between acquirers' *ROA* and the likelihood of acquisition completion, acquirers' announcement period return and negatively to the duration of deal completion. As stated that targets with higher *ROA* may gain higher bargaining power, hence, a positive relationship is predicted between *ROA* of targets and premium and targets' announcement period return. In the last empirical chapter, the *ROA* of acquirers' and targets' firms are referred to as *AROA* and *TROA*, respectively. *ROA* is measured as earnings before interest, tax and depreciation (EBITDA) divided by the book value of total assets for the year prior to the announcement. The data is sourced from Datastream.

2.3.5 Industry-country-level Characteristics

For the first and second empirical chapters – i.e., Chapters 3 and 4 (for the likelihood of deal completion and duration of deal completion) and chapter 4 (for the target domicile's inbound acquisitions), some of the investigations analyse all private and public listed firms. As such, the investigation cannot control for firm-level

characteristics as firm-level data is only available for public listed firms. The investigations, instead, control for industry-country-level characteristics. Studies such as Alimov (2015) and Ahmad and Lambert (2019) do so under such circumstances; they posit that industry has the power to predict the characteristics of firms present in that industry, which can impact CBAs. For instance Alimov (2015) provide that larger, more profitable industries and industries with higher growth rates and lower current indebtedness of the industry are more likely to make the domiciled firms appealing and likely to attract bidders and can lead to better acquisition outcomes. Therefore, the multivariate regressions include each country's industry median of firm-level variables that could impact CBA activities.

Given the explanation above, a positive relationship is predicted between industry median *Firm Size*, *ROA*, *MTBV* and CBA outcomes and value creation and a negative relationship is predicted between industry median *Leverage* and CBA outcomes and value creation. The Fama and French (FF-48) industry median firm size (*Firm Size*) is measured as the natural logarithm of total assets. Median profitability (*ROA*) is measured as EBITDA divided by the book value of total assets. The median market-to-book value (*MTBV*) is measured as the market value of common equity divided by the book value of common equity. The median leverage ratio (*Leverage*) is measured as book debt over book assets for the year prior to the announcement. The data for all these variables are sourced from Datastream.

3. Country-Pair Political Relations and Cross-border Mergers and Acquisitions

3.1 Introduction

Cross-border mergers and acquisitions (CBAs) are important internationalisation strategies that firms resort to, because of their ease of access to new markets and their potential resultant synergies, among other factors (Xie, Reddy and Liang, 2017; Sethi, Guisinger, Phelan and Berg, 2003). CBAs also influence the global economic growth (Kiyamaz, 2004). As of 2021, CBAs topped to USD 2.1 trillion globally (Alex, 2022). Given this backdrop, disruptions and provisions in CBAs entail costs and benefits to firms, stakeholders and the global economy; consequently, identifying the factors that impact the activity is of utmost importance³⁷. In today's world, one witnesses fluctuations in country-pair political relations (henceforth, CPR)³⁸ for various reasons³⁹. These fluctuations impact dyad's economic activities and have triggered a demand for a better understanding of their effect on country-pairs' economic activities. Hence, this chapter investigates the association between CPR on key areas of CBAs.

Literature, especially in international trade, has greatly advanced in identifying various spectrums of CPR and their consequences. For example, Long (2008) and Davis, Fuchs and Johnson (2019), among others, document that adversarial

³⁷ Especially given the fact that even though firms have different motives to initiate CBAs, their decisions are influenced by factors that can hinder or promote CBAs (Shimizu, Hitt, Vaidyanath and Pisano, 2004; Cao, Li and Liu, 2017; Coeurdacier, De Santis and Aviat, 2009).

³⁸ CPR in this chapter is the relationship between two nations with regard to political activities between them.

³⁹ These fluctuations are triggered for many reasons, from territorial to policy disputes to material interest, and many others (Choi and Eun, 2018). In the recent times the fluctuations in CPR are also triggered by the pressures of de-globalisation (Witt, 2019). Specifically, globalization is viewed as a threat to nations own position in the global economy (Witt, 2019).

CPR (surfaced either as military⁴⁰ or non-military conflict events⁴¹) between country-dyads create negative repercussions for trade activities. They reason that to avoid externalities generated from trade activities, both nations in hostility pursue protectionist economic policies against each other, which heightens policy uncertainty and deters trade activities (Davis *et al.*, 2019). Moreover, adversarial relations have been established to increase nationalist sentiments (Antonetti, Manika and Katsikeas, 2019; Klein, Ettenson and Morris, 1998); these raise information asymmetry and lower the levels of legitimacy⁴², which also impair trade activities.

Co-existing to country-pair conflicts, Reuveny and Kang (1996), Davis and Meunier (2011) and Desbordes (2010) provide that there are also co-operative political events between country-dyads or nations can also be neutral. Country-pair political co-operations elate country-pair business relationships and trade activities by offering better coordination, favourable economic policies, and opening investment opportunities, among other factors (Agarwal and Golley, 2022; Massoud and Magee, 2012).

Despite the consequences of the spectrums of CPR highlighted here above, studies in CBAs have not accounted for the impact of all of these interactions. Documented inter-country relational factors highlighted in the literature of CBAs have thus far focused on colonial ties (Chowdhury and Maung, 2018) or the

⁴⁰ Military conflicts include events from threat to use of military force to actual use of military force and large-scale war (Li *et al.*, 2020a; Li and Vashchilko, 2010).

⁴¹ Non-military conflicts include lower-levels of frictions- issues that fall well short of military conflicts, they include events such as complaints, and diplomatic spats that one state explicitly initiates against another state (Davis *et al.*, 2019). Some others include demanding rights, demanding release of persons, expelling or deporting of individuals, official protest, media protest, halting negotiation, holding demonstration, recalling of diplomats, and many more (Li *et al.*, 2021).

⁴² Dinc and Erel (2013) and Zeng and Li (2019) provide that economic nationalism and patriotism can shape public attitude toward foreign investments; for example, it can lead investors from specific nations to receive less support from the general public. Other literature supporting this include Riad and Vaara (2011) and Hope, Thomas and Vyas (2011), among others.

similarity/difference of country-dyads regarding third-party issues (Bertrand, Betschinger and Settles, 2016; Duanmu, 2014). Li *et al.* (2020a) investigate the political interactions but focus only on historical events and the most destructive ones. The influence of political environment on CBAs has otherwise predominantly focused on country-specific political risks (i.e., unilateral constructs of political risk), for example political corruption (Lambsdorff, 2003; Luu *et al.*, 2019; Weitzel and Berns, 2006) or the intrastate violence from domestic terrorism (Hogetoorn and Gerritse, 2020). Political environment have also been addressed through the lens of economic nationalism in a nation (Dinc and Erel, 2013) and government interventions during political elections (Cao *et al.*, 2017), again a unilateral aspect of the political environment. To this end, the current chapter extends this line of research, however, the chapter examines the outcome of bilateral aspect of political environment resulting from CPR on CBAs as provided hereunder; the key findings are provided alongside the questions.

Research Questions and key findings

First, as mentioned above, fluctuations in CPR explicate diverse conditions for country-dyad's economic activities, they can inherently be the reason, at least in part, for the variations of CBAs. The chapter thus examines *how the varying levels of CPR between merging firms' domiciles, in part, explain the cross-sectional and temporal variations in the bilateral CBA bids (in terms of both number and value)*. To conduct the investigation, following Desbordes (2010), the chapter measures the overall CPR (which is the net of country-pair conflicts and co-operations and if the nations were neutral)⁴³. The data for this are drawn from a comprehensive time-

⁴³ Where higher levels of CPR show co-operative relations and lower levels indicate adversarial relations.

varying news-based index of global events - Global Data on Events, Location and Tone (GDELT) (Leetaru and Schrodt, 2013) (the section on key explanatory variable provides a detailed explanation on this). The empirical investigation finds a statistically significant and positive relationship between CPR and bilateral CBAs bids (in terms of both number and value). The findings suggest that hindrances in CPR must have led the managers to withhold the investments, and co-operative relations or improved CPR may have increased CBAs between nations. These findings align with Long (2008) and Davis *et al.* (2019), among others, who document that variations in inter-country political relations impact country-pair economic activities. Precisely, Long (2008) traces bilateral trade in the shadow of armed conflict, documenting that bilateral trade between nations are negatively related to any conflict between them. Davis *et al.* (2019) investigates the influence of CPR on bilateral trade; they find that imports of India and China, and exports of India are responsive to CPR. To this end, the current chapter different from international trade provides evidence on the influence of CPR on another important economic activity between nations, i.e., on CBAs.

Second, many acquisitions fail to complete after their public announcement, which can be highly detrimental to the merging firms, and their investigation has been called for. Amongst the reasons for such outcomes, information asymmetry (Thompson and Kim, 2020) and lower levels of legitimacy (Li, Xia and Lin, 2017) have been documented to be one of them. CPR as noted above (and further explained in the hypotheses section), may lead to these encumbrances (information asymmetry and lower levels of legitimacy) and can inherently, in part, be the reason obstructing merger completion. To see if this is the case, the chapter *quantifies the link between*

the varying levels of CPR and the likelihood of CBAs' completion after their bid announcement. As expected, the findings of the empirical investigation document a positive and statistically significant relationship between CPR and the likelihood of deal completion. The findings suggest that co-operative or improved relations between country pairs enhance acquisition completion and adversarial relations impair completion.

Third, literature provides that many acquisitions take several months to complete (Dikova *et al.*, 2010), which in most cases can be detrimental, at least to the acquirers. Lengthy negotiations can be one reason for the delays, again due to information asymmetry and lower levels of legitimacy (Thompson and Kim, 2020; Li *et al.*, 2017). The fluctuations in CPR, as noted above, can heighten such obstacles and in part be a reason for such outcomes; the chapter thus quantifies *if the levels of CPR between the merging firms' domiciles in part explain the duration of CBAs' deal completion (i.e., the number of days taken to complete the deals) after the bid announcement.* Empirical investigation, as predicted, finds a negative relationship between CPR and the duration of the deal completion, suggesting that hindrances in CPR prolong and improvement in CPR reduce the duration of deal completion.

Fourth, it is documented that costs attached to acquisition lower market returns for the acquirers during the announcement period (Roll, 1986). Adversarial relations have many costs attached to them; one, for example, is overpaying the targets, which may impact acquirer's gains. Co-operative or improved relations may lead to favourable terms, which may positively impact acquirer's gains. As such, the chapter quantifies the link between *the varying levels of CPR and acquirers' announcement period market returns.* In line with the prediction, empirical investigation finds a

statistically significant positive relationship between CPR and acquirers' market returns (i.e., acquirers' cumulative abnormal returns – ACAR). Specifically, from Table 3.6, column (4), a 1% increase in average CPR increases ACAR by 0.65% per month.

Fifth, the chapter investigates *whether CPR between merging firms' domiciles has value implications during the announcement period for the target firms*. Results suggest that higher levels of CPR are associated with higher stock returns for the targets' market (i.e., targets' cumulative abnormal returns – TCAR). Specifically, from Table 3.6, column (8), a 1% increase in average CPR increases TCAR by 2.32% per month.

Sixth, while the above investigation provides valuable insights on the overall CPR on CBAs, it assumes that the effect of conflicts and co-operations are symmetrical on CBAs. Nevertheless, these two political events are qualitatively different; their effect on CBAs may not be symmetrical (the plausible explanation is discussed in the hypotheses section). Hence, the chapter examines for the five areas of CBAs mentioned above *if country-pair co-operation and conflict have an asymmetrical impact on CBAs*. Empirical examination, as predicted, reveals that country-pair conflicts' and co-operations' impact on CBAs is asymmetrical.

Finally, the chapter's proxy measure of conflict accounts for factors that appear in the form of military and non-military conflict events. These events are qualitatively different (see footnote 40 and 41) , and their influence could be different. Scholars (Li *et al.*, 2020a) have called for insights into the impact of these different conflict events. As such, using the conflict events only, the chapter examines - *Which between the two types of conflict events has a stronger effect on CBAs?* This question

is investigated for all the areas of CBAs investigated in this chapter. Findings show that in most cases, military rather than non-military conflict events explain the effect of conflict on CBAs outcomes.

All the investigations in this chapter withstand several additional tests and robustness checks, which include the role of hard power, the level of economic development, the role of political alliance, industry types (that is, if the targets belong to politically sensitive industry or high-tech industry), and other alternative specification (all of which are explained in the robustness section of this chapter).

Contributions and Policy Implications

First, the chapter contributes to the literature that examines the determinants of CBA activity and its likelihood of deal completion. The literature on this strand has thus far concentrated on country-specific factors and only selected inter-country relational factors have been examined, for example, colonial ties (Chowdhury and Maung, 2018), among others. Adding to this strand, this chapter documents novel evidence on the relevance of the overall CPR as an essential factor that can influence the direction of CBAs' bids, their completion and duration after the announcement of the bids. The chapter further advances this strand by documenting an asymmetrical impact of conflict and co-operative events on the outcomes of CBAs. The chapter also adds to this strand of literature by providing novel evidence that military conflict events compared to non-military conflict events have a higher deterring impact on the outcomes of CBAs⁴⁴. The findings imply that for smooth CBAs, economies and

⁴⁴ This chapter also complements the work of Desbordes (2010), who document the impact of CPR on US multinational enterprises' rate of return for their FDI in developing countries. This chapter, as mentioned above, addresses CPR on CBAs specific questions and its value relevance to the acquiring and target firms during the announcement period and focuses on 45 countries.

policymakers must work towards lowering any adversarial relations and promoting co-operative relations between country-dyads. The findings also suggest that acquiring firms' managers and investors need to be aware of CPR and make CBAs decisions accordingly, as adversarial relationships can be detrimental to CBA completion.

Second, the chapter adds to the ongoing debate whether CBAs generate market value during the announcement period (Aw and Chatterjee, 2004). To this end, the chapter indicates that managers and investors of the bidding firm must account for CPR during acquisition decisions, as findings show that co-operative relations can enhance the firm performance and adversarial relationships can negatively impact the market value during the announcement period. The findings imply that managers of bidding firms may look for acquiring opportunities during co-operative events and must be careful during adversarial relationships. The chapter also extends this investigation and advocates the relevance of the CPR on target announcement period gains. The findings imply that the target firms should also be careful when bidders come from hostile nations, as results provide that they can also lose during adversarial relationships.

Third, this chapter adds to the study of Li *et al.* (2020a). Precisely, Li *et al.* (2020a) find that historical military conflicts influence acquirers' returns and call for an investigation into non-military conflict events. This chapter's findings, as mentioned above, provide that military conflict events in comparison to non-military conflict events at many points have a stronger influence in explaining the deterring outcomes of adversarial relations on CBAs. The practical implication from these findings is that stakeholders must account for this in CBA's policy making and strategic decisions.

Fourth, the chapter advances inter-country political relationship literature. As stated in the text above, one strand (Davis et al., 2019; Li et al., 2021) provide that country-pair conflicts negatively impact trade activities. The other strand (Agarwal and Golley, 2022) appreciates that co-operative relations between country-pairs have the power to enhance trade activities. To this end, this chapter adds an important economic activity - CBAs and their related outcomes to this strand that are influenced by the spectrums of CPR.

The rest of the chapter proceeds as follows. Section 3.2 discusses related literature and the development of the key testable hypotheses. Section 3.3 describes the key explanatory variable. The empirical results are discussed in Section 3.4, and finally, Section 3.5 concludes the chapter by providing a summary of the chapter and its implication

3.2 Related Literature and Hypotheses Development

The following section presents related literature and hypotheses to guide the empirical analysis. The section provides seven hypotheses. The first five provide the relationship between CPR and the bilateral CBA, the likelihood of CBAs deal completion, the duration of CBAs deal completion, acquirers' announcement period gains and targets' announcement period gains. The sixth hypothesis defines the relationship between conflict and co-operation on CBAs. Finally, the seventh hypothesis defines the relationship of the strength of military and non-military conflict events on CBAs.

3.2.1 CPR and Bilateral Cross-border Mergers and Acquisitions

Literature provides that while pursuing CBAs, managers consider various costs and benefits from firm-, industry- and country-level factors, which relate both to the acquiring and the target firms (Erel *et al.*, 2012; Chari and Chang, 2009; Di Guardo, Marrocu and Paci, 2016). This section forms the relationship between costs and benefits from CPR and bilateral CBAs bids (i.e., the number and value of CBAs bids) between the domiciles. The costs of CPR usually come during adversarial relationships through various factors; one prominent factor is policy interventions. Policy intervention is when government manipulates policies⁴⁵ for various reasons, as highlighted hereunder.

The first is that both nations in hostility may seek to get even with each other (i.e., to retaliate). Studies such as Davis *et al.* (2019) and Li and Vashchilko (2010), among others, provide that nations do this by lowering economic activities coming and going to hostile nations, which they do through changing policies directed towards antagonistic nations. Second, host nations (in our case, targets' domiciles) may alter policies during hostile relations to avoid negative externalities from inbound investments. Such interventions at times occur even without antagonistic relationships; see, for example, the literature on economic nationalism (Dinc and Erel, 2013; Zeng and Li, 2019), which explains that host nations mostly worry about negative consequences that arise from the control of their domestic firms by other nations⁴⁶ and that host nations can manipulate policies because of that⁴⁷.

⁴⁵ This is usually through cross-border trade barriers, exit and entry restrictions, performance requirements, breach of contract and expropriation, among others.

⁴⁶ The basic premise is that when domestic firms are under foreign control, the host government's ability to use domestic firms in the national interest is reduced.

⁴⁷ Precisely host nations can either use their de-jure or de-facto powers. De jure power indicates how countries give governments the opportunity by law to block deals based on national security concerns (Evenett, 2002).

Third, policy intervention by targets' domiciles may occur from the motive of shunning positive externalities going to hostile nations. For example, Heinemann (2012) and Zeng and Li (2019) provide that CBAs allow foreign investors to access various resources and, in some cases, to sensitive and critical technologies that underpin military superiority and economic might. Adversarial relations could thus increase such concerns and enhance target domicile's government intervention. Finally, the policy interventions for prospective acquirers can also come from their home government (i.e., the acquiring firm's government) to avoid benefits going to hostile nations. This is because acquiring firm's government would be concerned that such investments may strengthen the position of the hostile nations (Kastner, 2007)⁴⁸.

Besides direct policy interventions, hostile relations can impact CBAs' ability to achieve their commercial objectives. Studies document several driving factors of CBAs; for example, the resource dependence theory and resource-based view provide that CBAs take place in order to obtain new capabilities present in the target and target's domicile, learn new knowledge or enhance existing resources (Hillman, Withers and Collins, 2009; Deng and Yang, 2015). CBAs along these lines require support from the local population (Morresi and Pezzi, 2014) and local human capital (Ouimet and Zarutskie, 2011). Such support may become harder to obtain during adversarial relationship as such situations can generate nationalist sentiment, distorting the general public's support. All these hindrances can negatively influence acquirers'

For example, under the UK National Security and Investment Act 2021, the UK Government has power in reviewing, and potentially intervening in inward investment transactions that raise national-security concerns. De facto power on the other hand is where government can exert power through influencing in the acquisition transaction (Dinc and Erel, 2013), for example having the advisors withhold important information from the acquirers.

⁴⁸ Studies in FDI (Fors and Kokko, 2001; Kastner, 2007) provides that inbound investments bring capital, technology, create employment and provide managerial capabilities.

willingness to engage in CBAs (forming a deterrence view in the face of adversarial relationships).

The aforementioned hindrances would increase uncertainty or information asymmetry. Theoretical and empirical studies on the political environment and CBAs posit an adverse effect of uncertainty on CBAs. For example, Cao *et al.* (2017) documents the influence of political uncertainty from national elections on CBAs and reports that inbound acquisitions of nations are deterred when they hold national elections. Cao *et al.* (2017) base their reasoning on a large body of theoretical and empirical studies positing a strong negative relationship between uncertainty and corporate investment, precisely, on the seminal work of Bernanke (1983). Specifically, Bernanke (1983) provides an economically convincing theoretical framework illustrating the positive connection between economic policy uncertainty and firms' propensity to delay investments. Similarly, Bloom, Bond and Van Reenen (2007) show that a change in the regulatory environment, i.e., uncertainty in the environment increases real option values, making firms more vigilant when investing or disinvesting.

Moreover, information asymmetry due to adversarial relations between the dyads as mentioned in the text above can generate transaction cost. Theoretical and empirical studies on the political environment posit an adverse effect transaction costs from unfavourable political environment on CBAs, for example from the cost of information asymmetry generated by through corruption (Lambsdorff, 2003; Luu *et al.*, 2019; Ghosh, Narayan, Prasad and Thenmozhi, 2022), or from within the country violence, such as terrorism (Hogetoorn and Gerritse, 2020; Ouyang and Rajan, 2017). These outcomes are typically limited to the political costs from the unilateral aspect of

the political environment. Borrowing from this strand, the chapter posits that costs and uncertainty created from CPR can negatively influence acquirers' willingness to engage in CBAs.

Such uncertainty and hindrances would be low with higher levels of CPR between the merging firms' domiciles. This is because corporative relations between country-pairs may initiate favourable policies between them. Studies (Rose, 2007; Nitsch, 2007) provide that diplomatic state visits, additional consulates, and foreign services lead to the signing of favourable policies between country pairs. Moreover, co-operative political events could also open investment opportunities, such as granting firms contracts, licenses, or preferential treatment (Rose, 2007; Nitsch, 2007; Li, Kahindi, Shapiro and Chen, 2013).

Given the two situations, investors may pursue different investment strategies based on the levels of CPR they face. For example, they could either be deterred in the face of adversarial relationships or encouraged in the face of co-operative relationships⁴⁹. This is rightly so, as literature provides that although firms have different motives to initiate CBAs, their decisions are influenced by costs and benefits (Shimizu *et al.*, 2004). This indicates that high levels of CPR can encourage, and low levels can deter bilateral CBAs. This leads to the formation of the following hypothesis:

Hypothesis 1 (H1): The levels of bilateral CBAs are positively associated with the level of CPR between the merging firms' domiciles.

⁴⁹ This is similar to salience theory of choice under risk which states that different conditions can lead to different decisions (Glasserman and Mamaysky, 2019; Andreassen and Kraus, 1990).

3.2.2 CPR and Likelihood of Deal Completion

CBA occurs in phases; the first period reflects the initial negotiation or bargaining phase between multiple bidding parties and the seller (the target firm in the acquisition bid). The second phase is the intermediary phase, after the official announcement of the public offer in the financial press, where only two firms – the seller and the bidder – enter the period of public takeover (Dikova *et al.*, 2010). This second period begins with the announcement (press) date and ends with the resolution date (completion or withdrawal). Dikova *et al.* (2010) and Kim and Song (2017) provide that the intermediary phase involves compliance with the target and the target domicile's regulations, laws and procedures. When foreign acquirers cannot easily comprehend after the announcement of the bid, it may either lead to deal obstruction, deal withdrawal or deal delays, all of which entail a financial cost to the acquirer and even rigorously impair the bidder's reputation and credibility (Muehlfeld, Sahib and van Witteloostuijn, 2007; Luo, 2005). Although, at times, a merger deal termination may be more beneficial than proceeding with the deal; however, due to its high costs⁵⁰, most firms usually strive for an ultimate deal completion (Muehlfeld *et al.*, 2007; Luo, 2005; Dikova *et al.*, 2010). As such, insights on this would be highly valuable.

One such time where firms may withhold completing acquisitions of foreign targets would be during the period of hostile relationships; bidders may wait until the uncertainty is resolved or terminate the transaction altogether under indeterminable political situations. This line of reasoning is formed from the theoretical and empirical studies positing a strong negative relation between uncertainty and corporate investments; precisely, on the seminal work of Bernanke (1983) and Bloom *et al.*

⁵⁰ The costs of merger can be as high as 6% of the transaction value (Rosenkranz and Weitzel, 2005).

(2007) mentioned above and on the study of political environment on CBAs, i.e., Cao et al. (2017) positing likewise.

Apart from such outright decisions of managers, adversarial relations between the dyads can influence the completion of acquisitions through the information environment for prospective acquirers. Hostile relations, as explained above, can lead to policy uncertainty for acquirers from hostile nations and is most likely to raise nationalist feelings and patriotism, which can make it difficult for the investors to comprehend with regulations and can lead investors to receive less support from the general public (Dinc and Erel, 2013; Zeng and Li, 2019). It is well known that acquirers use local advisers in gathering information for the deal (Very and Schweiger, 2001). Provisions for such support would be less likely in hostile nations⁵¹, this could lead to information asymmetry which could increase transaction cost and lower the likelihood of deal completion. This is rightly so, as Thompson and Kim (2020) document that information asymmetry impact deal completion. Moreover, as underlined in the text above, theoretical and empirical studies on the political environment posit an adverse effect of high transaction costs on CBAs (Lambsdorff, 2003; Luu *et al.*, 2019; Ghosh *et al.*, 2022).

During periods of hostility, the legitimacy of the acquirer may also be questioned. Legitimacy is the extent to which the actions of a prospective acquirer are perceived as legitimate. We know that decreased legitimacy increases the liability of foreignness (Kostova and Zaheer, 1999; Meyer, Ding, Li and Zhang, 2014), which could negatively impact the deal completion. This is rightly so, as Li *et al.* (2017) document that reduced legitimacy impacts deal completion.

⁵¹ Additionally, target firms themselves may withhold relevant information or act uncooperatively due to heightened nationalist feelings and patriotism generated due to higher levels of adversarial relationship.

Furthermore, during the period of hostility, targets' domiciles may also outrightly impose restrictions on the likelihood of deal completion. For example, target nations, by law, can intervene and outrightly intrude on deal completion after the deal announcement (see footnote 47 on de-jure and de-facto power of nations). Anecdotal evidence for this is also found everywhere. For example, in August 2020, due to diplomatic tensions between Australia and China, Australia's Foreign Investment Review Board did not approve China Mengniu Dairy (a Hong Kong-listed company) acquiring an Australian company (Lion Dairy and Drinks). The deal was therefore withdrawn after the offer was made.

The risk mentioned above would be low with co-operative relations. In fact, co-operative relations may even improve the information flow. For example, Li, Meyer, Zhang and Ding (2018) provide that good diplomatic relations between the host and home nations provide firms tied to home nations legitimacy. As mentioned above, increased legitimacy reduces the liability of foreignness (Kostova and Zaheer, 1999; Meyer *et al.*, 2014) and improves information flow. The discussion indicates that hostile relation could deter, and co-operative relations could enhance the likelihood of deal completion; this leads to the formation of the following hypothesis:

Hypothesis 2 (H2): The likelihood of CBA deal completion is positively associated with the level of CPR between merging firms' domiciles.

3.2.3 CPR and Duration of Deal Completion

The duration of the deal completion is the number of days from the announcement of the bid to its completion. In most cases, prolonged deal-making is likely to be costly for the bidding firm for the following reasons. First, it offers more

room for competitors to initiate a bidding contest, which may increase the bidding price (Luypaert and De Maeseneire, 2015). Second, further deal negotiations and bargaining creates extra-legal charges (Luypaert and De Maeseneire, 2015). Third, it gives rise to indirect costs; for example, managerial attention may be diverted from other lucrative investment opportunities (Bainbridge, 1990; Dikova *et al.*, 2010). Finally, assuming that the combined firm would increase firm value, a longer deal completion duration implies that these gains will be deferred (Luypaert and De Maeseneire, 2015). Given such repercussions, investigating this is crucial for helping bidders make the right decisions.

During adversarial events, the acquiring firms may delay completing the deal until the uncertainty is resolved. Moreover, adversarial relations, as seen while defining the above hypothesis, are linked to information asymmetry and lower levels of legitimacy; this may lengthen the negotiation period of deal-making after its announcement. For example, Li *et al.* (2017) find that reduced legitimacy increases deal completion duration. These risks would be low with co-operative relations. As stated while defining the hypothesis for the likelihood of deal completion, co-operative relations are linked to a better information environment. This could improve the completion duration. These discussions lead to the following hypothesis:

Hypothesis 3 (H3): The duration of CBA deal completion is negatively associated with the level of CPR between merging firms' domiciles.

3.2.4 CPR and Acquirer's Announcement Period Gains

Sudarsanam (1995) stipulates that a firm's decisions, including M&As, are usually made to maximise the wealth of the company's shareholders. This may be

questionable during periods of hostility as the discussions thus far posit that adversarial relations create policy uncertainty for country-pair's business interactions, increase information asymmetry for the acquirers and adds obstacles to achieving commercial objectives for the acquirers. Under such circumstances, the acquirers' market may view investments as less lucrative and react negatively to such acquisitions. This is rightly so, as investor's reactions are influenced by their perceptions of the merger (Markides and Oyon, 1998). Moreover, Tao, Liu, Gao and Xia (2017) and López-Duarte and García-Canal (2007), among others, also posit that the investment environment can influence market reactions.

One can also justify the above view borrowing from the studies on political environment and CBA which posit an adverse effect of political uncertainty at the host country and acquirers return. For example, Cao et al. (2017) reports that stock markets react less favourably to acquisitions in a target country that is prone to uncertainty. Additionally, borrowing from the study of Gregoriou, Nguyen, Nguyen, Le and Hudson (2021) on policy uncertainty specific to certain country, one can see that acquirers gain less during the announcement period when facing uncertainty at the target domicile; although the uncertainty in these studies is related to country-pair, one can still borrow from the learnings that acquirer's market value during the announcement period is negatively impacted in the face of uncertainty about future policies.

Moreover, hostile relations can lead to a higher payment of offer price to the targets - this is further discussed while defining the hypothesis of targets' announcement period returns below. A large amount of literature provides that acquirers experience negative returns when they overpay the targets (Malmendier and

Tate, 2008; Hayward and Hambrick, 1997; Roll, 1986). Co-operative relations, on the other hand, would not face the concerns above (because of the positive grounds they set); under such circumstances, the acquirers' market may behave positively. Taking both contentions together, one can argue that acquirers' markets react differently to what the levels of CPR explicate. Precisely, acquirers' markets may react positively when CPR are high and negatively when CPR are low. This conjecture is tested using the following hypothesis.

Hypothesis 4 (H4): Acquirers' announcement period return is positively associated with the level of CPR between merging firms' domiciles.

3.2.5 CPR and Target's Announcement Period Gains

The target firms are expected to agree to an acquisition offer only if the bidder offers more than the actual target value, which subsequently also affects the announcement period market return (Luypaert and Van Caneghem, 2017); this can be impacted by what the CPR explicates, thus warrants an investigation. Adversarial relations, for example, create animosity, hatred, and prejudice toward the antagonistic country (Li *et al.*, 2020a); target firms are, therefore, likely to resist the takeover. The shareholder's wealth hypothesis (Kummer and Hoffmeister, 1978; Huang and Walkling, 1987) provide that to encourage the target firms to agree to the bid, foreign acquirers can provide a lucrative price offer. The target firm would thus be able to extract a good price for their firm, i.e., a higher offer price (above the target's market value) when CPRs are hostile. The targets' market may appreciate this, thus implying a positive value gain of targets' announcement period returns in the face of lower levels of CPR. This argument forms the following hypothesis.

Hypothesis 5a (H5a): Targets' announcement period return is negatively associated with the level of CPR between merging firms' domiciles.

Notwithstanding the view presented in *H5a*, there may arise an alternative economic possibility. The animosity, hatred, and prejudice toward the antagonistic country and the government interventions may make acquisitions less lucrative for the target shareholders. This suggests positive value gains from CBAs in the face of higher levels of CPR. This is rightly so as seen in the above discussions that corporate political events initiate favourable policies between nations and open investment opportunities, such as granting firms, contracts, licenses, or preferential treatment (Rose, 2007; Nitsch, 2007; Li *et al.*, 2013). Given this, the target's market may appreciate acquisitions among parties from friendly nations and this can lead to positive value gain in the face of higher levels of CPR. This leads to the following hypothesis:

Hypothesis 5b (H5b): Targets' announcement period return is positively associated with the level of CPR between merging firms' domiciles.

3.2.6 Conflict and Co-operative Events and Cross-border Mergers and Acquisitions

The discussions in the above sections suggest that CPR (which incorporates the net of conflict and co-operative political events) can impact various areas of CBAs. However, co-operation and conflict may influence investors asymmetrically as they are qualitatively different. Behavioural economics, such as the prospect theory

(Kahneman and Tversky, 1979) or loss aversion theory (Wang, Rieger and Hens, 2017), indicate that investors react differently to fear of loss than they do to gains of equal magnitude. Investors may therefore react asymmetrically to increase and decrease in country-pair conflicts and co-operations. Motivated thus to see if this is the case for CBAs, the chapter examines the following hypothesis:

Hypothesis 6 (H6): Conflict and co-operation have an asymmetrical impact on (a) the level of bilateral CBAs, (b) the likelihood of CBA completion, (c) the duration of CBA completion, (d) acquirers' announcement period gains, and (e) targets' announcement period gains.

3.2.7 Military and Non-military Conflict Events and Cross-border Mergers and Acquisitions

Li *et al.* (2020a) have recently reported that historical military conflicts negatively affect the return of acquirers' CBA's announcement period. They also suggest that nations resort to various other ways to show their differences, specifically in ways short of military conflicts – i.e., in non-military conflict ways, and investigation of their effect on CBAs would provide valuable insights. This is rightly so, as Pinker (2011) highlights that non-military conflict events are the new norms countries resort to for showing their differences. However, Kim (2015) provides that the influence of conflicts on economic activities becomes stronger with a higher level of hostility. In particular, Kim (2015) reports that actual warfare sends a stronger negative signal than the threats of use of force, as actual warfare has higher devastating consequences (in the form of destruction, higher levels of confiscation and freezing of assets for foreign investors from antagonistic nations). Since non-military events are

less confrontational than military events, as explained above, one can argue that although non-military events may affect CBAs, its impact might be lower in comparison to military conflict. This discussion forms the following hypothesis.

Hypothesis 7 (H7): In comparison to non-military conflict events, military conflict events plays a stronger role in explaining the deterring impact of conflict on (a) the level of bilateral CBAs, (b) the likelihood of CBA completion, (c) the duration of CBA completion, (d) acquirers' announcement period gains, and (e) targets' announcement period gains.

3.3 Key Explanatory Variable - Country-pair Political Relations

Following the recent studies in political science (investigating international trade) (Davis *et al.*, 2019; Li *et al.*, 2021), this chapter draws the data for country-pair relations from the news-based index - Global Data on Events, Location and Tone (GDELT) (Leetaru and Schrodt, 2013). The database is created using a coding program (Virtual Research Associates Reader) which reads daily news reports to extract a list of events that identify the date, type of event, nations and the actors involved (which also includes the government and government's military as an actor -which following (Davis *et al.*, 2019) and (Li *et al.*, 2021) is used for this chapter)⁵². It then gives weight to the event according to its significance using the Goldstein Scale (Goldstein, 1992)⁵³. It scores from -10 to +10, with -10 being the most conflictual

⁵² GDELT classifies country-level conflicts initiated by the government and government's military as "GOV" and "MIL". For those country without military standing have police coded (POL) in them, for my 45 countries analysed all had military standing.

⁵³ The data is hosted by Google Cloud Platform, which is an open-access. It was developed by Kolev Leetaru in 2011 and is updated daily (Leetaru and Schrodt, 2013); it includes data from 1979 to the present (i.e., 2022).

event and +10 being the most co-operative event⁵⁴. The data is organised under the four primary classifications of the following quad class⁵⁵: (1) Verbal co-operation, (2) Material co-operation, (3) Verbal conflict and (4) Material conflict. Co-operations take the positive values, and conflicts take the negative values (see Appendix 3.2 – Panel A for quad class classification). After collecting this and following Desbordes (2010), I calculate the CPR per month for country pairs in my sample as equation (3.1):

$$CPR_{acq, tgt, t} = \frac{\sum f \text{Cooperative Events } W \text{Cooperative Events} + 0 + \sum f \text{Conflict Events } W \text{Conflict Events}}{\sum f \text{Cooperative Events} + \sum f \text{Conflict Events} + \sum f \text{Neutral Events}} \quad (3.1)$$

Where *CPR* stands for country-pair political relations, subscripts *acq*, *tgt*, and *t* represent acquirer’s domicile, target’s domicile and month, respectively. *f* is the frequency of events; *W* is the weight based on the annual average Goldstein scale for each event. The subscript *neutral* represents neutral events, and the weight of neutral events is zero in the index; as such, the numerator has a zero. Higher levels of CPR indicate co-operative relations, and lower values indicate adversarial relations.

Further, the chapter also investigates the separate impact of conflict and co-operation, hence following Davis *et al.* (2019) and Li *et al.* (2021), I calculate the natural log of the monthly sum of absolute Goldstein score of the conflict events and co-operative events between the country-pair as provided in equation (3.2):

⁵⁴ An important characteristic of the database is that it uses the “big data” approach to identify and interpret far more news than previous generations of events data used in studies of FDI (Desbordes, 2010; Nigh, 1985).

⁵⁵ According to Conflict and Mediation Event Observations (CAMEO) (Schrodt, 2012).

$$Conflict_{acq, tgt, t} = \ln(1 + |\sum fConflictEvents WConflict Events|) \quad (3.2)$$

Where *Conflict* stands for country-pair conflict, subscripts *acq*, *tgt*, and *t* represent acquirer and target's domicile and month, respectively. *fconflict events* stand for the frequency of each type of conflict event, and *wconflict events* represent the weight of conflict as per the Goldstein score. The absolute value is applied to remove the negative sign of *wconflict* in the Goldstein scale. Its natural logarithm is calculated to address the skewness. One is added to account for insignificant events. Higher values indicate higher levels of conflict (i.e., adversarial relations). Co-operative events are also calculated in the same way as shown in equation (3.3):

$$Co-operation_{acq, tgt, t} = \ln(1 + \sum fCooperative Events WCooperative Events) \quad (3.3)$$

Where *Co-operation* stands for country-pair co-operation, *fCooperative events* and *WCooperative events* represent the frequency and corresponding co-operative Goldstein score, respectively. Higher values indicate higher levels of co-operative relations.

Additionally, as the chapter also investigates the effect of the strength of military and non-military conflicts on CBAs, dummy variables are used. Precisely, a dummy variable equating to one is assigned to the months where military events took place between country-pair and zero otherwise. The dummies are assigned from contemporaneous to all the lags of the months examined. Goldstein scores -7 and below (i.e., -7 to -10) in the GDELT database indicate military conflicts (see Appendix

3.2 – Panel B). Those above -7 indicate non-military conflicts. Figures 3.1 and 3.2 plot the aggregate CPR along with the aggregate number and volume of bilateral CBA bids. A casual eyeballing of the figures indicates that bilateral CBA enhances when CPR are high, and bids drop when CPR is low. This projects a positive relationship between CPR and CBA activities. However, the figures also show noisier points; this signals the need to control for other factors.

The current chapter uses the news based political events data in comparison to diplomatic distance measured through the vote alignment in the United Nations General Assembly (UNGA) as done by Damioli and Gregori (2022) and Bertrand *et al.* (2016) among others, for the following reasons. First, studies (Davis *et al.*, 2019; Agarwal and Golley, 2022) provide that UN voting data captures how countries are aligned with regard to UN resolutions on global issues and issues particular to dyads are not captured. Precisely, most votes are about third parties which does not capture the actual relationship between countries (Agarwal and Golley, 2022); this could be misleading as many country-pair with significant tensions actually have high UN voting similarity, e.g., India–Pakistan, Peru–Ecuador, Iran–Iraq, and Eritrea–Ethiopia (Voeten, 2012). Political events data allows for a better understanding of bilateral political relations between countries without reference to their orientation towards the global affairs. Second, bloc voting, symbolic voting, and vote-buying in UNGA raise questions about the measure’s relevance for managers (Voeten, 2012). Third, as noted in the text above that co-operative and adversarial events may lead to different outcomes for country-dyad economic activities and one of the objective of this chapter is to investigate if this is the case for CBAs. Event-based data help provide insight into this. Finally, conflict events (i.e., military and non-military) may have different

outcomes on CBAs (as noted in the literature section above), one of the objective of this chapter is to investigate if this is the case. Events data allows such categorisation of conflict events which voting based data cannot capture.

3.4 Empirical Results

3.4.1 Descriptive Statistics

3.4.1.1 Descriptive Statistics of the Sample Data

Table 3.1 reports the sample distribution of the number and volume (i.e., value in USD) of all M&A bids by the domiciles of the acquirers and the targets. After imposing the screening filtration to the data sample of CBAs bids explained in Chapter 2, Section 2.1, 187,137 bids with a total value of USD 41.31 trillion survive in the sample. Out of the sample, 38,923 are CBA bids (where the acquirer nation is not equal to the target nation), of which 32,535 are completed CBA deals with a total disclosed value of USD 8.96 trillion, and 6,388 are incomplete bids with a total disclosed value of USD 2.38 trillion. Of all the CBA bids, 26,020 are public acquirers, 3,397 are public targets, and the rest are private and subsidiary firms. Public, private, and subsidiary acquirers and targets are considered to investigate the bilateral number and volume of bilateral CBAs and the completion stage of CBAs (i.e., likelihood and duration of CBAs). Only the public acquirers and targets are used for investigating the wealth effect as firm-level data, and market returns are only available for public-listed firms⁵⁶.

⁵⁶ For investigating the likelihood of acquisition completion, I use full sample (completed and otherwise, as done by Dikova *et al.* (2010)) and these are the results I report; however, I also separately investigate the likelihood of acquisition completion by removing pending deals (that is deals in progress) as done by Kim and Song (2017) and I obtain qualitatively the same results.

The largest volume of domestic and CBA bids are reported by the US and the UK market. The number of bids corroborates this; the US and the UK account for 70,514 and 22,805 total M&As, respectively. Out of these, 9,011 and 6,293 are outbound CBAs, respectively. The countries receiving the highest number of inbound acquisitions are also the US and the UK, with 9,473 and 4,651 inbound CBAs bids, respectively. Other active markets in CBAs that account for a significant sample share include Canada, Australia, France, Germany, Netherlands and China. In contrast, other countries have a limited share in the M&A market in the sample.

To create the bilateral-pair CBA's activity of 38,923 CBA, a record of the numbers of mergers between countries is identified for each year and month, making a total number of country-pair-year-month observations to 23,595 bilateral CBA bids. For viewing the cross-country pair, see Table 3.2, which shows the distribution of the total number of bilateral CBA bids between the acquirer nation (rows) and the target nation (columns).

The main point from Table 3.2 is that there are considerable bilateral differences in CBA activities among country pairs. For example, we can see that the US and the UK also witness the largest pair-wise bilateral CBA between the two nations. This means that firms in the UK acquire more of the firms in the US. However, one can also observe that firms in the UK acquire more in France and Germany and less in countries like Peru, and Venezuela, which receive more inbound acquisitions by firms in the US. Among various factors that are potentially responsible for these variations, this study examines the role of CPR.

3.4.1.2 Descriptive Statistics of the Variables

The descriptive statistics are provided in Table 3.3 for the variables used in this chapter. The table reveals that for the bilateral country-pair, during our study period, 100 listed companies in the target's domicile, on average, are associated with 0.2195 bilateral bids per month. Regarding the total value of bids, 0.61 million (USD) of one billion GDP (USD) of the target country is associated with cross-border bids. Furthermore, the table shows that, on average, 83.59% of announced bids are completed. These bids, on average, take 53 days to reach deal completion. Finally, ACAR of a five-day window period around the CBA announcement is 3.98%, and TCAR is 22.40%.

With regard to the CPR variable, the three-month average is around 0.61. As CPR is the net of all events, this shows that co-operative events between country-pairs are slightly more than conflict events. This is also reflected in the three-month average of co-operation and conflict events, which shows that co-operation is 3.09 and conflict is 2.90, showing that co-operation is slightly higher than conflict during the time span of the investigation. The dummy for military conflicts (*Military_Dum*) is 0.30, indicating that 30% of the country-pair facing conflicts in my sample face military conflict events, and the rest 70% facing conflict, face non-military conflict events (Specifically, the country-pair that have conflicts during the period of investigation total up to 14,918⁵⁷).

With regard to bid/deal characteristics, the average bid/deal size is 291.582 million (USD), 41.51% of the full sample are settled in cash, and bids/deals in the same industry account for 50.01%. Furthermore, of the full sample, 1.32% are

⁵⁷ The data shows that out of 23, 595 of my country-pair matrix observations, 3,168 country-pair are neutral.

competing, and only 0.8% of the bids/deals are in the form of tender offers. The vast majority of the remaining cases do not have more than one bidder; hence the bids are not competing bids. The majority of the remaining cases are also not in the form of tender offers where the current shareholders get an open offer or invitation from an acquirer to sell their shares. Industry-level controls show that the industry's median firm size on average is 11.638, the median return on assets on average is 4.43%, leverage is 12.39%, and the median MTBV is 1.3897. Lastly, with regard to firm-level characteristics, acquirers on average have larger firm size, higher ROA, higher levels of leverage and higher-growth rate (i.e., MTBV) than the targets.

3.4.2 Multivariate analysis

The investigation in this chapter conducts a multivariate regression analysis. They are under seven sections here below and are per the seven hypotheses defined in this chapter.

3.4.2.1 CPR and Bilateral CBAs bids

The first hypothesis (H1) suggests a positive relationship between CPR between merging partners' domiciles and the number and volume (i.e., bid value) of bilateral CBAs. Therefore, this section empirically tests this hypothesis using multivariate regression based on equation (3.4) which is similar to the gravity model often featured in international economics to model bilateral trade flows.

$$\begin{aligned}
\text{Bilateral Deals}_{tgt,acq,t} = & \alpha_1 + \alpha_2 \text{CPR}_{tgt,acq,t} + \alpha_3 \text{CPR}_{tgt,acq,t-1} + \\
& \alpha_4 \text{CPR}_{tgt,acq,t-2} + \alpha_5 \text{CPR}_{tgt,acq,t-3} + \mathbf{nX}_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \\
& \tau_t + \epsilon_{acq-tgt,t}
\end{aligned} \tag{3.4}$$

In equation (3.4), the subscript *tgt* represents targets' domiciles, and *acq* represents acquirers' countries. The dependent variable is the number of bilateral CBA (NB) between target and acquirer (i.e., *tgt* and *acq*) at time *t* as defined in equation (2.4) in Chapter 2, Section 2.2.2. The key explanatory factor of interest $\text{CPR}_{tgt,acq,t}$ to $\text{CPR}_{tgt,acq,t-3}$ is the CPR, which is the net of conflict, co-operation, or the country being neutral as defined in equation (3.1) of this chapter. $\text{CPR}_{tgt,acq,t}$ is the contemporaneous value at month *t* and $\text{CPR}_{tgt,acq,t-1}$ to $\text{CPR}_{tgt,acq,t-3}$ are lags of month 1 to month 3 of the CPR prior to the announcement of CBAs. $\mathbf{nX}_{tgt-acq,t-1}$ is a vector of control variables which are the difference between the target's and acquirer's country-level characteristics and country-pair characteristics as explained in Chapter 2, Section 2.3 (also see Appendix 3.1 for their definitions). Precisely, the control variables include, *In (GDPCap)*, *GDPGr*, *Trade*, *Corruption*, *Law and Order*, *Business Environment*, *Bilateral Trade*, *Same Border*, *Same language and Colonial Tie*. All control variables are lagged by one year⁵⁸. (ϑ_{tgt}) , (ϑ_{acq}) and (τ_t) are country and year-month fixed effects, respectively and $\epsilon_{acq-tgt,t}$ is the error term. Finally, standard errors are clustered at the target-acquirer nation pair. Since the dependent variable *Bilateral Deals*_{*tgt,acq,t*} is bounded at one of the extremes, i.e.,

⁵⁸ In line with existing literature (Gelos and Wei, 2005), in cases where the control variables (mostly macroeconomic variables) are yearly figures, the investigation takes the same value for each month throughout our regressions. Thus, the notation *t-1* of the vector *X* represents yearly lag rather than monthly lag.

between 0-1, the appropriate analytical method to conduct the investigation is the Tobit regression model. Tobit regression in economics was first suggested in a pioneering work by Tobin (1958). Precisely, Tobin (1958) investigated the influence of household expenditure on durable goods; since expenditure (the dependent variable of the regression model) could not be negative, hence the use of the model. Tobit regression is also used when the dependent variable are censored or truncated (Amemiya, 1984). Since the dependent variable *Bilateral Deals* $CPR_{tgt,acq,t}$ cannot be negative and it is truncated between 0 and 1, this is a suitable method. This is consistent with various studies in CBA analysing bilateral CBAs between country-pair (see for example Alimov and Officer, 2017; Alimov, 2015; Rossi and Volpin, 2004).

In order to examine the overall effect of CPR for three months, the investigation replaces $CPR_{tgt,acq,t}$ to $CPR_{tgt,acq,t-3}$ (i.e., values of contemporaneous and lag values of CPR) with the arithmetic mean of CPR of the three months lags (i.e., $\frac{(CPR_{tgt,acq,t-1}+CPR_{tgt,acq,t-2}+CPR_{tgt,acq,t-3})}{3}$) and the rest of the equation remains the same.

Table 3.4 reports the outcomes of the different variations of equation (3.4). Estimates reported in Panel A of Table 3.4 (columns (1) to (4)) are based on the number of bilateral CBAs. The differences across the columns represent different combinations of explanatory variables. Specifically, column (1) reports results of the number of bilateral CBA with the CPR index (from contemporaneous to lag of three months). Results reveal that the contemporaneous CPR index is statistically insignificant, showing that the current month's fluctuations in CPR do not affect the current month's bilateral CBAs. This is plausible as managers take time to revise their decisions. However, from the first-month to the third-month lag, the coefficients are

positive and statistically significant, showing a positive relationship between CBAs and CPR. Even after adding the control variables in column (2), the results are qualitatively similar. Specifically, the coefficients in Table 3.4 column (2) of first-month lag up to third-month lag range from 1.18% to 1.03% per month.

A potential explanation for these findings is provided in the hypothesis section; in brief, the results suggest that lower levels of CPR make CBAs less attractive, and higher levels enhance CBAs between nations. This aligns with the literature documenting that even though firms have different motives to initiate CBAs, their decisions are influenced by factors that can hinder or promote CBAs (Cao *et al.*, 2017; Coeurdacier, De Santis and Aviat, 2009). Precisely, Cao *et al.* (2017) document that foreign investors hold back their CBA investments in the face of uncertainties about the government's future policies in the host nation. Coeurdacier *et al.* (2009), on the other hand, provide that favourable policies can attract CBAs. While these studies focus on country-specific policy hindrances and assurance, what is borrowed is that changes in policies impact foreign acquisitions. The results also reflect the salience theory of choice under risk (Glasserman and Mamaysky, 2019; Andreassen and Kraus, 1990), which posits that decisions depend on different signals encountered. The results also associate with the literature that posits that intercountry relational factors influence bid decisions (Chowdhury and Maung, 2018). Moreover, results align with those studies that find that political hindrances can deter, and positive political events facilitate economic activities (such as international trade) (Davis *et al.*, 2019; Massoud and Magee, 2012); to this end, the results support the same inference but to another important economic activity between the dyads, i.e., CBAs.

Additionally, in Appendix 3.3, I also present results with fourth-month and fifth-month lag, whose coefficients are lower than the first three months lag. The results suggest that acquirers revise their decision based on recent information, as political situations can change quickly (Whitten et al. 2020). Replacing all the three months lag with the three months average of the CPR index (as defined above), whose results are presented in Table 3.4, columns (3) and (4); results similarly show that bilateral CBAs and CPR are positively related, which is also statistically significant, suggesting that higher levels of CPR enhance, and lower levels deter bilateral CBAs. Specifically, the coefficient of column (4) of Table 3.4 is 0.0331, which indicates that a 1% increase in the average CPR index would increase the number of bilateral CBAs by 3.31% per month.

It is possible that the market for acquisitions also changes to fewer but larger bids (in terms of value) from a higher number of smaller bids. Consequently, the relationship between CPR and the number of bilateral CBA bids may not represent the true picture. To account for this likelihood, equation (3.4) replaces the dependent variable (number of bilateral CBAs) with the volume of bilateral CBAs (VB) (i.e., the total value of bilateral CBA bid) between targets and acquirers' domiciles at time t as defined in equation (2.5) in Chapter 2, Section 2.2.2. The results are reported in Panel B of Table 3.4 (columns (5) to (8)). The results align with the findings based on the number of bilateral CBAs (columns (1) to (4)). Specifically, the coefficient estimate in Table 3.4 column (8) is 0.0494. These results indicate that a 1% increase in the average CPR index would increase the volume of bilateral CBAs by 4.94% per month. Overall, the findings align with hypothesis 1, which predicts that “*The level of bilateral*

*CBA*s are positively associated with the level of *CPR* between the merging firms' domiciles".

Turning to the control variables, they align with those defined in Chapter 2. Specifically, *Trade* is positive and statistically significant; this aligns with Rossi and Volpin (2004), who provides that higher levels of trade openness indicate that the country is flexible to foreign investments and attracts *CBA*s. *Corruption* and *Business Environment* are positive and significant and are in line with literature such as Hewko (2002) and Erel *et al.* (2012), who advocate that a better institutional environment attracts investments. Under the bilateral country-pair variables, the coefficient of *Bilateral trade* is positive and significant; this aligns with Giovanni (2005), who advocates that firms tend to invest more in countries with whom they trade. The coefficient of *Same Border* is positive and statistically significant; this aligns with Erel *et al.* (2012), among others, who explain that the closer the nations of acquirers and targets in terms of geographical proximity, the lower the transaction cost and higher levels of *CBA*.

Results also show that the statistical insignificance found in most country and country-pair-level control variables is in contrary to expectations as defined in the control variable section, it is however similar to other studies (see Alimov, 2015; Alimov and Officer, 2017). For example, GDP per Capita (*GDPCap*) was expected to be positive and significantly related to bilateral *CBA*s. However, the insignificance results is not surprising as *CBA*s do at times take place from acquirers nation with higher levels of GDP per capita than the target nation (Alimov, 2015; Alimov and Officer, 2017); hence, some target nations may have a higher level of GDP per capita and some may have a lower level compared to the acquirers' nations, this therefore

may have offset the relationship. Likewise, the same may apply to the insignificant outcome for GDP growth (*GDPGr*).

The quality of law enforcement (*Law and Order*) is positively related to bilateral CBAs and is in line with the prediction that the quality of law enforcement of a country correlates with the stability of a country and is seen to reduce transaction costs for economic actors and foreign investors, which as a result, attracts foreign investors (Hewko, 2002). It however is insignificant indicating that some acquirers maybe investing in countries with lower levels of law and order and some with higher levels, which offsets the relationship. Similar results are reported by Alimov, (2015) and Alimov and Officer (2017). Some country-pair characteristics such *Same Language* and *Colonial Ties* are insignificant and in cotrary to expectation of positive and significant relationship as provided in chapter two if this thesis. The insignificance shows that acquisitions may have taken place between country-pairs not common to these variables and this might have offset the relationship. This is not suprising as we do see acquisitions happening between parties from countries not analogous in terms of language or legal origins. This may also be the result of factors such as legitimacy spillover which provides that firms from the same country of origin help each other obtain relevant information and reduce cultural differences (Kostova and Zaheer, 1999).

3.4.2.2 CPR and Likelihood of Deal Completion

Further to the above tests, this chapter (specifically, hypothesis 2) suggests that lower levels of CPR can complicate the deal completion process after an offer is made and reduce the likelihood of deal completion, and higher levels of CPR can

enhance the deal completion. This is examined using the multivariate regression based on equation (3.5).

$$\begin{aligned}
DealComp_{dit} = & \alpha_1 + \alpha_2 CPR_{tgt,acq,t} + \alpha_3 CPR_{tgt,acq,t-1} + \\
& \alpha_4 CPR_{tgt,acq,t-2} + \alpha_5 CPR_{tgt,acq,t-3} + aD_d + bI_{tgt-acq,t-1} + \\
& nX_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t}
\end{aligned} \tag{3.5}$$

Where $DealComp_{dit}$ is a dummy variable that takes the value of one if the deal d for the firm i is completed and zero otherwise. D_d is a vector of bid/deal-level control variables (*Transaction Value, Cash Deals, Same Industry, Competing bid and Tender Offer*) $I_{tgt-acq,t-1}$ is a vector of industry-country characteristics control variables lagged by one year (*Firm size, ROA, leverage and MTBV*) as explained in Chapter 2, Section 2.3. γ_{acq} and γ_{tgt} are industry-fixed effects of the acquirer and target firm, respectively. All other specifications are the same as equation (3.4). The standard errors are also clustered at the target-acquirer nation pair. Since the dependent variable $DealComp_{dit}$ is a binary variable one or zero, the analysis employs logistic regression (or logit regression). Logit Regression is a technique that allows categorical or dichotomous response variable (a variable that can have only one of two values, typically, 0 or 1) to be modelled using regression analysis (Moutinho, 2011). This technique typically models the probability of an event taking place by having the log-odds for the event be a linear combination of one or more independent variables. To this end, this is a well-suited regression technique since the dependent variable $DealComp_{dit}$ is a binary variable one or zero. This is consistent with various studies

in CBA investigating the likelihood of deal completion (see for example, Dikova *et al.*, 2010; Kim and Song, 2017).

Table 3.5, Panel A (columns (1) to (4)) reports the outcomes of the different variants of equation (3.5). The differences across the columns represent different combinations of explanatory variables. Specifically, column (1) of Table 3.5 reports results of the CPR index (from contemporaneous to lag of three months). Results reveal that the contemporaneous CPR index is statistically insignificant, showing that the current month's fluctuations in CPR do not affect the current month's likelihood of CBA's deal completion. However, from the first-month to the third-month lag, the coefficients of CPR are statistically significant and show a positive relationship to deal completion. Even after adding the control variables in column (2), the results are qualitatively similar. Specifically, the coefficients of column (2) of Table 3.5 for the first-month lag up to third-month lag range from 1.45% to 1.22% per month. A similar positive relationship is reported when lag values of CPR are replaced with the three-month average CPR index. These results are presented in columns (3) and (4) in Table 3.5. Specifically, the coefficient in column (4) indicates that a 1% increase in average CPR would increase the likelihood of deal completion by 4.14% per month.

A potential explanation for these findings is provided in the hypothesis section. In brief, the findings indicate that managers during adversarial relationships might have withheld completing the acquisition and supplement the previous investigation that CPR can influence managers' acquisition decisions. Moreover, the outcomes may have resulted from the lack of access to information and lower levels of legitimacy and acceptance in the target domicile (a trait attached to lower levels of CPR). The results, therefore, align with the arguments put forward by Thompson and

Kim (2020) that information asymmetry and Li *et al.* (2017) that legitimacy impact further negotiation after the announcement of the bid. In summary, the above findings align with hypothesis 2, which predicts that “*The likelihood of CBA deal completion is positively associated with the level of CPR between merging firms’ domicile*”.

Concerning the control variables, bid level characteristics are the ones with a higher number of significant variables and are in line with the expectations defined in Chapter 2, Section 2.3. For example, the coefficient of *Transaction Value* is negative and aligns with Alexandridis *et al.* (2013), who posits that acquisitions with large transaction values have unobserved complexity inherent in them. *Same Industry* is positive and aligns with the proposition put forward that as the same industry lowers complexities (Barbopoulos *et al.*, 2018), it can increase the likelihood of deal completion. The coefficient of *hostile bid* is negative and aligns with expectations.

Variable *Cash* is positive as expected as explained in the text in the chapter of control variable that cash acquisitions have lower levels of complexity; this could increase the likelihood of deal completion (Franks *et al.*, 1988), the results however are insignificant. *Competing Bids* is insignificant, this may be because in some acquisitions the target firms because of increased bargaining power may have complicated the bids, which the acquirer may not have been able to meet, while in some the acquirers maybe ready to accept the terms, they two kinds of outcome may have offset each other. *ROA* under industry-level characteristics is negative and significant, and contrary to expectation, however, this is not surprising as acquirers from more profitable industries than targets may have a higher strength in completing a deal. *GDPGr* is also negative and contrary to expected. A plausible explanation can be that acquirers with a high-growth environment may be able to complete the deal.

Results also show that the statistical insignificance found in most country, industry and country-pair-level control variables is similar to other studies (see Huang *et al.*, 2016).

3.4.2.3 CPR and Duration of Deal Completion

This chapter (specifically hypothesis 3) suggests that lower levels of CPR can prolong the deal duration, which, as seen earlier, can be costly to the bidder. I thus investigate this using multivariate regression based on equation (3.6).

$$\begin{aligned}
 DealDur_{dit} = & \alpha_1 + \alpha_2 CPR_{tgt,acq,t} + \alpha_3 CPR_{tgt,acq,t-1} + \\
 & \alpha_4 CPR_{tgt,acq,t-2} + \alpha_5 CPR_{tgt,acq,t-3} + aD_d + bI_{tgt-acq,t-1} + \\
 & nX_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t}
 \end{aligned} \tag{3.6}$$

Where $DealDur_{dit}$ is the number of calendar days taken for the deal d of the firm i to complete; precisely, $DealDur_{dit}$ is calculated as the natural logarithm of the number of calendar days from announcement days to completion plus 1; all other specifications are the same as equation (3.5). The analysis is conducted using Ordinary least-squares (OLS) regression. OLS is a generalised linear modelling technique for estimating coefficients of linear regression equations which describe relationship between dependent variable and one or more independent variables (Moutinho, 2011). Least square stands for minimum square error (SSE). Given that the dependent variable $DealDur_{dit}$ do not suffer from censoring and are not dichotomous as in the above two investigation's dependent variables, OLS is a well-suited regression technique. This is consistent with CBA literature investigating the duration of deal

completion after its announcement (Dikova *et al.*, 2010). Table 3.5, Panel B (columns (5) to (8)) reports the outcomes of different variants of equation (3.6). The differences across the columns represent different combinations of explanatory variables.

Results again for the duration (as shown in columns (5) and (6)) reveal that the contemporaneous CPR index is statistically insignificant, showing that the current month's fluctuation in CPR does not affect the current month's duration of CBAs deal completion. The coefficients are statistically significant and negative for the first-month lag up to the third-month lag, showing that lower levels of CPR increase the duration of the CBA's deal completion. Specifically, the coefficients of column (6) of Table 3.5 are -0.17%, -1.01%, and -1.06% for first, second, and third-month lag. Replacing the three-month lag with average CPR, whose results are presented in columns (7) and (8), similarly show that the duration of deal completion and CPR are negatively related, which is also statistically significant, suggesting that adversarial relations increase, and co-operative relations decrease the duration of CBAs deal completion. In economic terms, the coefficient of column (8) of Table 3.5 indicates that a 1% increase of the average CPR index would decrease the duration of the deal completion by 1.69%.

A potential explanation for these findings is provided in the hypothesis section. In brief, the results underscore that CPR can influence deal completion; this maybe through its power to influence access to information and legitimacy. Precisely, access to information and levels of legitimacy could be impaired during hostile relations and enhanced during co-operative relations, as mentioned above. The results align with Thompson and Kim (2020) who advocate that information asymmetry plays a vital role in the deal completion duration nexus. These results also align with Li *et*

al. (2017), who advocate that reduced legitimacy impacts negotiation time. In summary, the results above support the third hypothesis (H3) that “*The duration of CBA deal completion is negatively associated with the level of CPR between merging partner’s domiciles*”.

Concerning the control variables, bid level characteristics are the ones with higher number of significant variables and are in line with the expectations as defined in Chapter 2, Section 2.3. For example, the coefficient of *Transaction Value* is positive and aligns with Alexandridis *et al.* (2013), who posits that acquisitions with large transaction value have unobserved complexity inherent in them. As such, it is expected that larger transaction value acquisitions would have a prolonged deal duration. *Same Industry* is negative and aligns with the proposition that the duration of deal completion can be low because of less complexities. The coefficient of *Hostile bid* is positive and aligns expectation. Furthermore, *Trade*, as expected, is negative and statistically significant. *Same Language* is also statistically significant; as expected, its coefficient is negative, meaning that countries with the same language can complete the deals faster. These findings align with Erel *et al.* (2012), who explain that the closer the nations of acquirers and targets in terms of cultural ties, the lower the transaction cost and better CBA outcomes and value creation. One can also notice that the statistical insignificance found in most country, industry and country-pair-level control variables is similar to other studies (see Lawrence *et al.*, 2021).

3.4.2.4 CPR and Acquirers’ Announcement Period Gains

Findings in previous sections show that levels of CPR affect the number and volume of bilateral CBA deals and the likelihood and duration of deal completion.

Here the effect of CPR on ACAR is examined. Hypothesis 5 suggests that markets can factor in costs and the benefits associated with CPR during the announcement period. This proposition is investigated using equation (3.7).

$$\begin{aligned}
ACAR_{it} = & \alpha_1 + \alpha_2 \mathbf{CPR}_{tgt,acq,t} + \alpha_3 \mathbf{CPR}_{tgt,acq,t-1} + \alpha_4 \mathbf{CPR}_{tgt,acq,t-2} \\
& + \alpha_5 \mathbf{CPR}_{tgt,acq,t-3} + \mathbf{aD}_d + \mathbf{cF}_{i,t-1} \\
& + \mathbf{nX}_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t \\
& + \epsilon_{acq-tgt,t}
\end{aligned} \tag{3.7}$$

Where $ACAR_{it}$ is the abnormal return of the acquiring firm (i) as defined in equations (2.7) and (2.8) in Chapter 2, Section 2.2.3. $\mathbf{F}_{i,t-1}$ is a vector of firm-level control variables of the acquirer lagged by one year (*Firm size, ROA, leverage and MTBV*). All other specifications are the same as equation (3.5) above. The analysis employs the OLS regression method.

Table 3.6, Panel A (columns (1) to (4)) reports the outcomes of the different variants of equation (3.7). The columns have different combinations of explanatory variables. Specifically, column (1) report results of the CPR index (from contemporaneous to lag of three months) as the independent variable. Results in column (1) of Table 3.6 reveal that it is from the contemporaneous month that fluctuations in CPR can affect the announcement period return. The coefficient of the contemporaneous month is positive and statistically significant (however, at a 10% level of significance). The coefficients from the first-month to the third-month lag are also statistically significant and positive (the highest is in the third-month lag), thus showing a positive relationship between CPR and ACAR. Even after adding the

control variables in column (2), the results are qualitatively similar. Specifically, the coefficients of first, second and third-month lag in column (2) of Table 3.6 are 0.16%, 0.18% and 0.25%, respectively. Replacing all the three months lag with the three months average of the CPR index, whose results are presented in columns (3) and (4), results similarly show that ACAR and CPR are positively related and statistically significant. Specifically, column (4) of Table 3.6 documents that a 1% increase in average CPR would increase ACAR by 0.65% per month.

A potential explanation for these findings is provided in the hypothesis section. In brief, the findings indicate that acquirers' markets react negatively during adversarial relations and positively during co-operative relations. This can be because of many reasons, as highlighted in the hypothesis section; one can be due to higher costs during hostile relations, for example, paying targets a higher offer price during hostile relations. The findings, therefore, align with Hayward and Hambrick (1997), Malmendier and Tate (2008) and Roll (1986), who find that acquirers' announcement period gains depend on the value paid to the targets. These findings may also be because of acquirers' negative sentiments towards the hostile nation and align with the findings of Li *et al.* (2020a). In summary, the results support the fourth hypothesis (H4) that "*Acquirers' announcement period return is positively associated with the level of CPR between merging firms' domiciles.*".

With regard to the control variables, the significant ones are in line with the expectations as defined in Chapter 2, Section 2.3. The variables at the deal level exhibit far more statistical significance than other variables. For example, *Cash* is positive and statistically significant. This aligns with Fuller, Netter and Stegemoller (2002), who document that acquirers' markets appreciate cash payment as it shows confidence in

the target firms. *Same Industry* is also statistically significant and positive and aligns with Barbopoulos, Paudyal and Sudarsanam (2018), who posits that the same industry has easier integration and better terms which the market may appreciate. Another statistically significant variable is *Transaction value*, which is negative; this aligns with many studies highlighted in Chapter 2. *MTBV* (i.e., Market to book value) is statistically significant and negative; this aligns with Moeller *et al.* (2004), who find that CEOs of high-growth firms lose during the announcement period.

Results also show statistical insignificance in most country and country-pair-level control variables. Precisely, GDP per Capita (*GDP Cap*), growth rate of GDP (*GDP Gr*), Trade Oppenness (*Trade*), the foreign currency rate (*Exchange Rate*), the quality of institution (*Corruption* and *Law and Order*), investment environment (*Business Environment*), *Bilateral Trade*, *Same Border* and *Colonial Ties* are insignificant and in contrary to expectations as defined in chapter 2 on the control variable. This may be the result of fact that some acquirers maybe appreciating factors such as legitimacy spill over which provides that firms from the same country of origin help each other obtain relevant information and reduce cultural differences (Kostova and Zaheer, 1999), hence some maybe having positive announcement period gains to these factors and some negative and this maybe offsetting the relationship between these variables and announcement period gains. The outcomes are similar to studies such as Ahern *et al.* (2015) where acquirers announcement period gains is not analogous to these variables.

3.4.2.5 CPR and Targets' Announcement Period Gain

Furthermore, Hypothesis 5 suggests that during hostile relations between the dyads, target firms can resist the takeover, and because of that, acquirers may persuade them by increasing the offer price, which leads to higher stock returns for targets. It indicates a negative relationship between CPR and TCAR. I empirically test this hypothesis using multivariate regression based on equation (3.8).

$$\begin{aligned}
 TCAR_{it} = & \alpha_1 + \alpha_2 CPR_{tgt,acq,t} + \alpha_3 CPR_{tgt,acq,t-1} + \alpha_4 CPR_{tgt,acq,t-2} \\
 & + \alpha_5 CPR_{tgt,acq,t-3} + aD_d + cF_{i,t-1} \\
 & + nX_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t \\
 & + \epsilon_{acq-tgt,t}
 \end{aligned} \tag{3.8}$$

Where $TCAR_{it}$ is the abnormal return of the target firm (i) as defined in equations (2.7) and (2.8) in Chapter 2, Section 2.2.3. $F_{i,t-1}$ is a vector of firm-level control variables of the target firms lagged by one year (*Firm size, ROA, leverage and MTBV*). All other specifications are the same as equation (3.5). Table 3.6, Panel B (columns (1) to (4)) reports the outcomes of the different variants of equation (3.8). The differences across the columns represent different combinations of explanatory variables. The analysis employs the OLS regression method.

Column (5) of Table 3.6 report results of the CPR index (from contemporaneous to lag of three months) as the independent variable. Results reveal that the contemporaneous CPR index is statistically significant but at the significance level of 10%. The coefficients from the first-month to the third-month lag are significant, showing a positive relationship between CPR and TCAR. The results

provide the same inference even after adding the control variables in column (6); precisely, the coefficients from the first to the third-month lag in column (6) of Table 3.6 range from 1.85% to 0.95%. Replacing the three-month lag with the three-month average of CPR index, whose results are presented in columns (7) and (8), results similarly show that TCAR and CPR are positively related and statistically significant. Specifically, the coefficient of column (8) indicates that a 1% increase in average CPR would decrease TCAR by 2.32% per month.

A potential explanation for these findings is provided in the hypothesis section. In brief, the results indicate that target firms benefit in the face of higher levels of CPR. Precisely results indicate that the target market appreciates co-operative political relations, which is rightly so as co-operative events initiate favourable policies between nations and open further investment opportunities, such as granting firms contracts, licenses, or preferential treatment (Rose, 2007; Nitsch, 2007; Li *et al.*, 2013). Adversarial relations on the other hand may have led to animosity, hatred, and prejudice towards the acquirers from antagonistic country. In summary, the results reported in Table 3.6, Panel B (columns (5) to (8)) support hypothesis 5b (H5b) that *“Targets’ announcement period return is positively associated with the level of CPR between merging firms’ domiciles”*

With regard to the control variables, *Cash* is positive and statistically significant; this aligns with Davidson and Cheng (1997), who provide that target firms benefit from cash payments as they can ask for larger payments to meet the tax requirements. The statistical insignificance found in other control variables is similar to studies such as that of Guo, Paudyal, Utham and Xing (2020), among others.

3.4.2.6 Conflict and Co-operative Political Events and CBAs

The investigation above thus far looked at the effect of CPR (i.e., the net effect of conflict, co-operation or if the country were neutral) on CBAs. However, co-operation and conflict may influence investors differently. Specifically, hypothesis (6) explains this and suggests that conflict and co-operative political events may have different impact on CBAs. This chapter, therefore, investigates the above five areas by disintegrating CPR into *Conflict* and *Co-operation* as defined in equations (3.2) and (3.3), respectively. Specifically, the arithmetic mean of *Conflict* and *Co-operation* for the previous months (i.e., lag months 1, 2 and 3) is calculated, using which five of the above investigations are carried out. The rest of the equations remain the same, just that CPR is replaced with the arithmetic average of both Conflict and Co-operation. As an example, one equation is stated here:

$$\begin{aligned} \text{Bilateral Deals}_{tgt,acq,t} = & \alpha_1 + \alpha_2 \text{AvgConflict}_{tgt,acq} + \\ & \alpha_3 \text{AvgCooperation}_{tgt,acq} + nX_{tgt,-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \tau_t + \epsilon_{acq-tgt,t} \end{aligned} \quad (3.9)$$

Where $\text{AvgConflict}_{tgt,acq}$ accounts for the arithmetic average of country-pair conflict of the previous three months (that is, of lag months 1, 2 and 3)

$$\left(\frac{\text{Conflict}_{tgt,acq,t-1} + \text{Conflict}_{tgt,acq,t-2} + \text{Conflict}_{tgt,acq,t-3}}{3} \right). \quad \text{Conflict} \quad \text{is}$$

calculated as specified in equation (3.2). $\text{AvgCooperation}_{tgt,acq}$ is the arithmetic average of co-operation of the previous three months (that is, of lag months 1, 2 and

$$3) \left(\frac{\text{Cooperation}_{tgt,acq,t-1} + \text{Cooperation}_{tgt,acq,t-2} + \text{Cooperation}_{tgt,acq,t-3}}{3} \right).$$

Co-operation is calculated as specified in equation (3.3). The rest of the equation is the same as the equation for the flow of bilateral CBAs bids (equation (3.4)). Similarly, all equations (from equations (3.5) to (3.8)) here above replace the arithmetic average of both conflict and co-operation of the previous three months and re-run the tests.

Results for this are found in Tables (3.7 to 3.9). Results provide that the effect of conflict and co-operation on CBAs is asymmetric. Precisely, the results of conflict from Table 3.7 columns (2) and (4) provide that a 1% increase in the average *Conflict* index reduces the number of bilateral CBAs by 2.17% per month and the volume of bilateral CBAs by 2.42% per month, respectively. Results also find strong evidence that *Conflict* is associated with a lower probability of CBAs deal completion and a significantly higher possibility of delay in deal completion (measured in the number of days) (from Table 3.8 columns (2) and (4) respectively). Moreover, concerning the announcement period gains, results from Table 3.9 columns (2) and (4) document that a 1% increase in average *Conflict* decreases acquirers' and targets' announcement period return by 1.43% and 4.99% per month, respectively.

The results of co-operation provide that a 1% increase in the average *Co-operation* index increases the number of bilateral CBAs by 0.46% per month and the volume of bilateral CBAs by 1.99% per month (from Table 3.7 columns (2) and (4) respectively). Results find evidence that co-operation is associated with a higher probability of CBAs deal completion but results of the duration of deal completion are statistically indistinguishable from zero (from Table 3.8 columns (2) and (4)). With regard to the announcement period gains, Table 3.9 columns (2) and (4) document a 1% increase in average co-operative events increases ACAR by 0.67% and TCAR by 1.87% per month, respectively.

A potential explanation for these findings is presented in the hypothesis section. In brief, results indicate that managers and investors make different decisions in the event of conflicts and co-operations. A plausible explanation can be from the theories of behavioural economics, such as the prospect theory (Kahneman and Tversky, 1979) or loss aversion theory (Wang *et al.*, 2017) which posit that one can react differently to fear of loss than to gains of equal magnitude. In summary, the results here support the sixth hypothesis (H6) that “*Conflict and Co-operation have an asymmetrical impact on (a) the level of bilateral CBAs, (b) the likelihood of CBA completion, (c) the duration of CBA completion, (d) acquirers’ announcement period gains, and (e) targets’ announcement period gains.*”

3.4.2.7 Military and Non-military Conflict Political Events and CBAs

3.4.2.7.1 Military and Non-Military Conflict and Bilateral CBAs

In the above investigations, we saw that adversarial relations (i.e., lower levels of CPR and higher levels of conflicts) between country-pair deter bilateral CBAs. The examination here investigates which between the two types of conflict events, i.e., between military and non-military conflict events have a stronger deterring effect on the number and volume of bilateral CBAs. Specifically, hypothesis (7) suggests that in comparison to non-military conflict, military conflict events have a stronger deterring impact on (a) the number and volume of Bilateral CBAs. I empirically examine this using multivariate regression based on equation (3.10).

Bilateral Deals $_{tgt,acq,t}$

$$\begin{aligned}
&= \alpha_1 + \mathbf{zConflict}_{tgt,acq,t,t-1,t-2,t-3} \\
&+ \mathbf{hMilitary_Dum}_{tgt,-acq,t,t-1,t-2,t-3} + \mathbf{nX}_{i,tgt,-acq,t-1} + \vartheta_{acq} \\
&+ \vartheta_{tgt} + \tau_t + \epsilon_{acq-tgt,t}
\end{aligned}
\tag{3.10}$$

In equation (3.10), everything remains the same as the main equation (3.4); only CPR is replaced with Conflict ($\mathbf{zConflict}_{tgt,acq,t,t-1,t-2,t-3}$), which is calculated using equation (3.2) defined in this chapter and presented in the key explanatory variable section above. This variable is from the current month (i.e., contemporaneous month), first, second and third-month lag. The equation also adds the vector $\mathbf{hMilitary_Dum}_{tgt,-acq,t,t-1,t-2,t-3}$ which is a dummy variable and takes the value of one for the month when military conflict events occurred and zero for non-military conflict events. This is done for the current month (i.e., contemporaneous month), first, second and third-month lag. Again, the investigation employs Tobit regression for the same reason sighted in equation (3.4).

The results for the specifications of equation (3.10) are presented in Table 3.10. Estimates reported in Panel A are based on the number of bilateral CBAs. The columns represent combinations of different explanatory variables. Columns (1) and (2) report results with the *Conflict* and the dummy variable (*Military_Dum*) (from contemporaneous to lag of three months) (with column (2) including the control variables as well). Results reveal that contemporaneous and first-month lag *Military_Dum* is statistically insignificant, showing no significant difference in the effects of military and non-military conflict on bilateral bids in the month of the conflict and the month following that. Second and third-month lag results reveal that

Military_Dum is statistically significant and negative. This indicates that in the second-and third-month lag, military conflicts play a stronger role than non-military conflict events in explaining the deterrence effect of conflict.

Panel B, columns (3) to (4) of Table 3.10 report results of the volume of bilateral CBAs. The results corroborate the findings based on the number of bilateral CBAs. The results indicate that managers react strongly to military conflict events and withhold their investment going such hostile nations compared to when conflicts are less confrontational. These findings, therefore, support the contention by Kim (2015) that the influence of conflicts on economic activities becomes stronger with a higher level of hostility. In overall, the results are in line with the seventh hypothesis (H7), which states that *“In comparison to non-military conflict events, military conflict events plays a stronger role in explaining the deterring impact of conflict on (a) the level of bilateral CBA.”*

3.4.2.7.2 *Military and Non-Military Conflict and the Likelihood of Deal Completion*

In the previous investigations, we saw that adversarial relations between country-pairs reduce the likelihood of deal completion. The examination here investigates which between two types of conflict events, i.e., between military and non-military conflict events have a stronger effect in explaining this outcome. Hypothesis (7) suggests that in comparison to non-military conflicts, military conflicts have a stronger deterring impact on (b) the likelihood of deal completion; I empirically test this using multivariate regression based on equation (3.11).

$$\begin{aligned}
DealComp_{dit} = & \alpha_1 + \mathbf{zConflict}_{tgt,acq,t,t-1,t-2,t-3} \\
& + \mathbf{hMilitary_Dum}_{tgt,acq,t,t-1,t-2,t-3} + \mathbf{aD}_d \\
& + \mathbf{bI}_{tgt-acq,t-1} + \mathbf{nX}_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} \\
& + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t}
\end{aligned} \tag{3.11}$$

In equation (3.11), everything remains the same as the main equation (3.5) above; only CPR is replaced with Conflict variable ($\mathbf{zConflict}_{tgt,acq,t,t-1,t-2,t-3}$) and the vector $\mathbf{hMilitary_Dum}_{tgt,acq,t,t-1,t-2,t-3}$ is added, as defined in the above equation (3.10). Again, the examination employs logit regression for the same reason sighted for equation (3.5).

The results for the specifications of equation (3.11) are presented in Table 3.11. Estimates reported in Panel A (columns (1) and (2)) are based on the likelihood of deal completion. The columns represent additional explanatory variables. Results reveal that contemporaneous *Military_Dum* is statistically insignificant, showing no significant difference in military and non-military conflict effects. However, *Military_Dum* is statistically significant and negative for the second- and third-month lag. These results are in line with the seventh hypothesis (H7), which states that “*In comparison to non-military conflict events, military conflict events plays a stronger role in explaining the deterring impact of conflict on (b) the likelihood of deal completion*”. These results indicate that it is harder for managers to complete the deal in the event of military conflict events than in non-military conflict events, at least from the second month onwards. These findings, therefore, support the contention by Kim (2015).

3.4.2.7.3 Military and Non-military Conflicts and the Duration of Deal Completion

This section looks at the influence of military and non-military conflict events on the duration of deal completion. This is investigated using multivariate regression based on equation (3.12).

$$\begin{aligned}
 DealDur_{dit} = & \alpha_1 + \mathbf{zConflict}_{tgt,acq,t,t-1,t-2,t-3} \\
 & + \mathbf{hMilitary_Dum}_{tgt,acq,t,t-1,t-2,t-3,t-4} + \mathbf{aD}_d \\
 & + \mathbf{bI}_{tgt-acq,t-1} + \mathbf{nX}_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} \\
 & + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t}
 \end{aligned} \tag{3.12}$$

Where $DealDur_{dit}$ is the number of days taken for the deal d of the firm i to complete. All other specifications are the same as equation (3.6); only CPR is replaced with the Conflict variable ($\mathbf{zConflict}_{tgt,acq,t,t-1,t-2,t-3}$) and the vector $\mathbf{hMilitary_Dum}_{tgt,acq,t,t-1,t-2,t-3}$ is added, as defined in the above equations. The results of equation (3.12) are presented in Table 3.11, Panel B (columns (3) and (4)).

Results here reveal that $Military_Dum$ is statistically insignificant for contemporaneous to two months lag, showing no significant difference in the effects of military and non-military conflict. In the third-month lag, $Military_Dum$ is statistically significant, and the coefficient is positive (however, only at a 10% significance level). This indicates that military conflicts have a stronger effect than non-military conflicts only in the third month lag in explaining the longer duration due to conflict events. They, therefore, only partly lend support to the hypothesis.

3.4.2.7.4 Military and Non-military Conflicts and Acquirers' Announcement Period

Gains

The previous investigation in the chapter reveals that the adversarial relations between country-pairs reduce acquirers' announcement period gains. The investigation here examines which between two types of conflict events, i.e., between military and non-military conflict events, have a stronger effect in explaining this outcome. Hypothesis (7) suggests that in comparison to non-military conflict, military conflict has a stronger influence in explaining the deterring impact of conflict on (d) acquirers' announcement period gains; I thus empirically examine this using multivariate regression based on equation (3.13).

$$\begin{aligned}
 ACAR_{it} = & \alpha_1 + \mathbf{zConflict}_{tgt,acq,t,t-1,t-2,t-3} \\
 & + \mathbf{hMilitary_Dum}_{tgt,acq,t,t-1,t-2,t-3} + \mathbf{aD}_d + \mathbf{cF}_{i,t-1} \\
 & + \mathbf{nX}_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t \\
 & + \epsilon_{acq-tgt,t}
 \end{aligned} \tag{3.13}$$

In equation (3.13), everything remains the same as in equation (3.7); only CPR is replaced with Conflict variable ($\mathbf{zConflict}_{tgt,acq,t,t-1,t-2,t-3}$) and the vector $\mathbf{hMilitary_Dum}_{tgt,acq,t,t-1,t-2,t-3}$ is added, which is as explained in the above equations. The investigation employs OLS regression, as done in equation (3.7).

The results for the specifications of equation (3.13) are presented in Table 3.12. Column (1) and (2) of Panel A reports results of Conflict index and the dummy variable of Military Conflict (from contemporaneous to lag of three months) (with column (2) including the control variables as well). Results reveal that

contemporaneous *Military_Dum* is statistically insignificant, showing no significant difference in the effects of military and non-military conflict events on ACAR in the month of the conflict. Results, however, show that *Military_Dum* is negative and significant from the lag of the first month to the third month. The results indicate that military conflicts explain the negative effect of conflict on acquirers' announcement period gain. These findings, therefore, lend support to the contention put forward by Kim (2015), as explained above, that the influence of conflicts on economic activities becomes stronger with a higher level of hostility. The results add to the work of Li *et al.* (2020a), who report that historical military conflicts can negatively influence acquirers' returns and call for an investigation into non-military conflict events.

3.4.2.7.5 Military and Non-military Conflicts on Targets' Announcement Period Gains

Findings in the above investigation advocate that targets gain higher market returns during the announcement period with lower levels of CPR and higher levels of Conflict. Here the investigation looks into the influence of the two types of conflicts events (i.e., military and non-military). Hypothesis (7) suggests that in comparison to non-military conflict events, military conflict events have a stronger influence in explaining the deterring impact of conflict on (e) targets' announcement period gains; this is empirically investigated using the multivariate regression based on equation (3.14).

$$\begin{aligned}
TCAR_{it} = & \alpha_1 + \mathbf{z} \mathbf{Conflict}_{tgt,acq,t,t-1,t-2,t-3} \\
& + \mathbf{h} \mathbf{Military_Dum}_{tgt,acq,t,t-1,t-2,t-3} + \mathbf{a} \mathbf{D}_d + \mathbf{c} \mathbf{F}_{i,t-1} \\
& + \mathbf{n} \mathbf{X}_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t \\
& + \epsilon_{acq-tgt,t}
\end{aligned} \tag{3.14}$$

Where $TCAR_{it}$ is the abnormal return of the target firm(i). $\mathbf{F}_{i,t-1}$ is a vector of firm-level control variables of the target firms lagged by one year. All other specifications are the same as equation (3.8) above. The results of equation (3.14) are presented in Table 3.12, Panel B (columns (3) and (4)). The columns account for additional explanatory variables. Results reveal that contemporaneous and the first month lag $Military_Dum$ is negative and statistically significant, showing significant effect of military conflict on TCAR in the month and the one after that of the conflict. $Military_Dum$ of the second and third month is statistically insignificant, showing no significant difference in the effects of military and non-military conflict events on TCAR.

3.4.3 Additional Tests and Robustness Check

The investigation conducted a host of additional tests, robustness tests, and subsample analyses, as explained below. The results of these investigations are reported in Table 3.13.

3.4.3.1 The Role of Hard Power

Certain nations could confound the results—especially nations with hard power. The term hard power, as coined by Joseph Nye in the late 1980s, refers to a

country's ability to use military intervention during coercion (Nye, 1990). Theoretically, Jervis (1978) points out that governments that control larger militaries are more likely to be able to expropriate foreign investment by force and are more likely to trigger the security dilemma with other states, increasing the likelihood of conflict. To this end, CBAs may be more vulnerable when fluctuations in CPR involve nations with hard power, as it can increase the fear of a higher degree of detrimental actions by the host nation.

This chapter uses military expenditure to identify nations with the most significant hard power. The data is sourced from Stockholm International Peace Research Institute (SIPRI)⁵⁹. Looking at the average military spending during the period of our investigation (1992-2018), the top three countries include the US, the UK, and China, with the US and the UK having the highest expenditure. To address this possibility of CPR impacting CBA deals differently amongst different host nations, the chapter conducts a subsample analysis by keeping and removing the hard power countries; this is done for all the five key areas of CBAs that the chapter examines. The results for this are reported in Panel A of Table 3.13. All subsamples are statistically significant and have the same sign as the main findings, underscoring that despite the target country being a hard power or not, CBAs can still be influenced, at least in part, by CPR.

3.4.3.2 Level of Economic Development

Blonigen and Wang (2004) argue that it is important to run separate analyses for countries according to their levels of economic development (i.e., highly developed

⁵⁹ The SIPRI Military Expenditure Database gives the annual military spending of countries since 1949, allowing comparison of countries' military spending in US dollars at constant prices.

and less-developed economies). The chapter, therefore, conducts a series of sub-sample analyses, for example, sampling acquirer developed and target developed (ADTD), acquirer developed and target emerging (ADTE), acquirer emerging and target developed (AETD), and acquirer emerging and target emerging (AETE). The classification of developed and emerging markets is done using the International Monetary Fund (IMF) classification.

Results for this are reported in Panel B of Table 3.13. Results reveal that CPR has a higher coefficient for all the tests performed when the acquirers are based in a developed market and the target in an emerging market, thus indicating a stronger effect of CPR for this sub-sample. The interaction of ADTE in some investigations is also significant, hence supporting the contention put forward by Blonigen and Wang (2004) that level of economic development does matter.

3.4.3.3 The Role of Alliances Relationship

Sprecher (2006) defines alliances as “formal, written, mostly voluntary, agreements, treaties, or conventions among states pledging to coordinate their behaviour and policies in the contingency of military”. As such, one would expect that lower levels of CPR would have a stronger deterring effect on CBAs amongst those country-pairs that do not have alliance relationships or are not allies of certain organisations. To address this possibility of CPR impacting CBA differently, I identify military alliances and allies using the North Atlantic Treaty Organization (NATO) membership and its ally’s data⁶⁰, as this is the strongest military alliance globally

⁶⁰ Source from <https://www.nato.int/nato-welcome/index.html> and <https://www.law.cornell.edu/cfr/text/22/120.32#:~:text=The%20following%20countries%20are%20designated,Korea%2C%20Thailand%2C%20and%20Tunisia.>

(Noetzel and Schreer, 2009) and allows us to analyse the relationship of both alliance and allies. For example, NATO has 30 members currently but recognises other countries as its allies. Following this, countries are sampled into two parts, one sample includes country-pairs that are members of NATO or are their allies, and the other sample includes non-members and non-allies to NATO. I first analyse these samples⁶¹.

Results for this are reported in Panel C of Table 3.13. Results for all the investigations except for TCAR reveal that CPR has a higher coefficient when there is no alliance between the domiciles of acquiring and target firm. The findings indicate, as expected, a stronger effect of CPR for countries without an alliance than those with an alliance.

3.4.3.4 Alternative Dependent Variable

In addition to the benchmark measure for bilateral number and volume of CBAs, Following Alimov and Officer (2017) and Alimov (2015), I employ another dependent variable (i.e., *Bilateral CBA_{tgt,acq,t}*) which are defined in equation (3.6) in Chapter 2, Section 2.2. Results for this are reported in Panel D of Table 3.13. Results corroborate with the findings of the main analysis.

3.4.3.5 Politically Sensitive Industry

Academic literature such as Roberts (2018) provides that investments in sensitive sectors are particularly at higher risk of adverse policy changes due to the protectionism of such industries. The chapter thus investigates if the effect of CPR on

⁶¹ That is, when both acquirer and target firm's domiciles have alliance relationship and when they do not.

CBA activities could vary between industries of the target firms. Classifying an industry as politically sensitive is difficult. However, guidance from the political economy literature (such as Julio and Yook, 2012; Herron, Lavin, Cram and Silver, 1999) enabled me to classify them. Firms in tobacco products, pharmaceuticals, health care services, defence, petroleum and natural gas, telecommunication and transportation industries are classified as politically sensitive. These firms are politically sensitive as government intervene to avoid losing their control. From the literature of economic nationalism (Dinc and Erel, 2013; Zeng and Li, 2019) we see that host nations mostly worry about negative consequences that arise from the control of their domestic firms by foreign investors. For example, according to Herron *et al.* (1999) firms dealing with tobacco products are highly sensitive to political interventions due to the tax they generate and could confound the results.

Results for this are reported in Panel E of Table 3.13. Results for the duration of CBAs deal completion and ACAR reveal that the effects of lower levels of CPR are stronger (i.e., a higher coefficient) when the target belongs to a politically sensitive industry. Results for the likelihood of CBAs deal completion and TCAR reveal otherwise (i.e., it reports higher coefficients when the target belongs to a non-politically sensitive industry). I further check my results by interacting politically sensitive dummy (*Sensitive industry*). Results reveal that the interaction variable is statistically indistinguishable from zero. Overall, the results provide that although the effect of CPR may differ in magnitude between the samples, it can still impact CBAs whether the target is politically sensitive or not.

3.4.3.6 High Technology Industry

While Literature has shown technology-seeking as an important motive for CBAs (Lee, 2017), recent literature and anecdotal evidence point to a high level of protectionism against technology firms going to foreign investors. The basic premise is that CBAs could allow foreign investors to gain access to sensitive and, in some cases, critical technologies that underpin military superiority and economic might (Heinemann, 2012; Zeng and Li, 2019), which has been the cause for governments to induce stricter cross-border regulations (Cuervo-Cazurra et al., 2020). Some examples of interventions by host nations in the high-tech industry sector include how Canada in 2018 blocked a US company from taking over the technology company MacDonald, Dettwiler and Associates (MDA). Another example is when the US in 2018 blocked the Chinese acquisition of a US aerospace company (Heinemann, 2012). Given this argument, lower levels of CPR can have more impact on high tech-industry as it would attract more host government intervention. Following this, a series of sub-sample analyses are investigated, such as sampling acquisition deals in high technology and non-high technology industries as defined by SDC.

Results for this are reported in Panel F of Table 3.13. Results for ACAR and TCAR reveal that the effects of CPR are stronger (i.e., have a higher coefficient) when the target belongs to the high technology industry. Results for the likelihood of CBAs deal completion and duration of CBAs deal completion reveal otherwise (i.e., they have a higher CPR coefficient when the target firm is in the low-technology sector). I further check the results by interacting high technology industry dummy (*High Tech Industry*). Results reveal that the interaction variable *High-Tech Industry* is statistically indistinguishable from zero. Overall, the results provide that CPR,

although may differ in magnitude between the samples, can still impact CBAs despite the target belonging to a high technology industry or not.

3.4.3.7 Country-pair Fixed Effect and Two Stage Estimation with Instrumental Variable

While all the multivariate analyses account for several country-fixed effects, the investigation additionally controls for country-pair-fixed effects to account for unobserved country-pair factors. Results for these are reported in Panel G of Table 3.13. Results corroborate the findings of the main analysis. Furthermore, the investigation applies a Two-Stage-Least-Squares (2SLS) analysis for additional robustness (precisely for reducing endogeneity) for the country-level investigation. Following Massoud and Magee (2012), the investigation uses the number of international governmental organizations (IGOs) the merging firms' domiciles have in common as the instrument for CPR. The data for which is extracted from correlates of war⁶². Massoud and Magee (2012) provide that membership in common international organisations can be strongly correlated to CPR but impact country-dyad activities through CPR. Results for these are reported in Panel H of Table 3.13. As expected, in the first stage, the instrument has a statistically significant relationship to the overall CPR. The relationship is positive providing support to the prediction that common organisation membership impacts CPR. The second stage find a significant positive relation between the fitted values of CPR and CBAs (at the 1% level), providing further support to the findings in the main analysis. I also report the Cragg-Donald Wald F-statistics which supports the validity of the employed instruments. Moreover,

⁶² <https://correlatesofwar.org/data-sets/igos/>

I find that the correlation between the measure of bilateral CBAs between the country-pair and the instrument is very low, which indicates the validity of my instrument.

3.5 Conclusion

The objective of this chapter has been to examine how fluctuations in the overall CPR occurring from conflict, co-operative political events or if the country-pairs are neutral explain the temporal and cross-sectional variations in CBAs' activities and its related outcomes. The investigation is done on the bilateral CBA activities between country pairs, the likelihood and duration of CBAs' completion after the bid announcement and the market performance of the acquirers' and targets' firms during the announcement of the acquisitions. This is fundamental as literature in CBAs thus far has been scant in this area, especially none that account for CPR in its comprehensiveness.

Using the overall measure of CPR, which is the net of political events between dyads as defined by Desbordes (2010) over the period spanning 1992-2018, the chapter finds strong evidence that CPR is positively related to bilateral CBAs (in terms of number and value). These results complement the studies that find that CBAs activities augment under benefits (Coerdacier *et al.*, 2009) and deter during encumbrances (Cao *et al.*, 2017), to this end, the chapter shows the provisions and encumbrances of CPR. Such outcomes are also reflected after the bid announcement, as the findings show a positive relationship between CPR and the likelihood of deal completion. Reiterating this, results also suggest that encumbrances in CPR prolong the deal completion duration after the bid announcement, and improved CPR can reduce the duration. The chapter also underscores that CPR impacts the announcement period market return by

documenting that acquirers' and targets' shareholders lose during adversarial relations. These results confirm that animosity, hatred, and prejudice amongst antagonistic country can negatively influence the firms value during the announcement period. Finally, results underscore that managers react strongly to military conflict events and withhold their investment going to hostile nations compared to when conflicts are less confrontational. Likewise, the other four outcomes of CBAs examined in most cases are explained by military conflict events.

Strategically, the results indicate that for an efficient environment for CBAs, economies and policymakers must work towards lowering adversarial relationships and promoting co-operative relationships. The findings also suggest that acquiring firms' managers and investors need to be aware of CPR and make CBAs decisions accordingly, as CBAs can prove to be a costly exercise during adversarial relationships (as reflected in the findings). From the perspective of the target firms, they may strengthen their bargaining power when the bidder comes from an unfriendly nation as they seem to lose during the announcement period. The chapter further exhibits asymmetric impact on conflicts and co-operation, thus providing further insights to the managers on what decisions to take when facing either of the political events. Finally, policymakers, managers, and investors must factor in military conflict events slightly more in their CBA's decisions due to their stronger effect.

Table 3.1: Number and Volume of M&A Bids/Deals

This table reports bids/deals (in terms of number and value) for all domestic and CBAs as reported in SDC database from 1992 to 2018. It filters out the sample, as explained in the text.

	All M&A (Outbound)		CBAs (Outbound)		All M&A (Inbound)		CBAs (Inbound)	
	Number	Volume (USD Millions)	Number	Volume (USD Millions)	Number	Volume (USD Millions)	Number	Volume (USD Millions)
Argentina	455	38,606.83	50	9,498.51	863	68,422.13	458	39,313.80
Australia	10719	1,202,105.00	1875	423,028.00	10842	1,142,591.00	1998	363,514.40
Austria	353	42,925.48	225	26,983.02	341	64,390.77	213	48,448.31
Belgium	780	376,869.10	475	280,144.80	781	239,257.80	476	142,533.60
Brazil	1779	467,354.80	169	83,489.95	2368	526,764.80	758	142,900.00
Canada	15521	1,938,836.00	5240	854,678.90	12901	1,742,247.00	2620	658,089.90
Chile	520	71,984.85	130	18,676.73	737	101,264.90	347	47,956.76
China	17996	1,990,862.00	854	296,632.00	18170	1,769,615.00	1028	75,385.46
Colombia	185	37,340.62	51	12,966.93	372	47,895.25	238	23,521.56
Czech Republic	171	10,070.65	25	3,088.62	350	47,891.99	204	40,909.95
Denmark	833	156,318.90	422	79,662.33	929	170,720.00	518	94,063.48
Egypt	146	14,026.83	16	2,563.76	208	42,311.86	78	30,848.78
Finland	944	154,683.00	399	107,501.60	979	135,135.80	434	87,954.40
France	3558	1,595,074.00	1496	898,433.70	3960	1,131,494.00	1898	434,853.80
Germany	2801	1,507,528.00	1467	1,026,557.00	3586	1,259,115.00	2252	778,143.60
Greece	324	35,013.76	65	9,267.67	344	43,951.37	85	18,205.28
Hungary	124	7,712.44	22	2,753.10	216	16,126.56	114	11,167.22
India	2110	227,320.30	608	51,379.42	1987	250,336.30	485	74,395.38
Indonesia	610	51,136.31	62	6,969.83	973	79,185.70	425	35,019.22
Ireland-Rep	1238	224,467.20	801	188,805.00	972	352,562.80	535	316,900.60
Israel	880	178,912.70	468	152,480.30	793	112,816.60	381	86,384.18
Italy	2790	722,862.10	648	185,454.80	3132	875,273.70	990	337,866.40
Japan	7699	1,324,801.00	1083	423,365.80	6937	994,515.80	321	93,080.48
Luxembourg	415	148,540.60	384	140,765.30	162	109,275.40	131	101,500.00
Malaysia	3343	191,639.60	459	28,573.94	3230	187,224.20	346	24,158.49
Mexico	652	183,337.00	191	68,534.92	1120	206,587.70	659	91,785.55
Netherlands	1803	978,581.10	1202	704,140.60	1807	828,340.70	1206	553,900.20
New Zealand	933	67,163.95	226	26,653.16	1232	86,055.93	525	45,545.13
Norway	1388	214,397.70	594	90,265.84	1406	250,715.30	612	126,583.50

Pakistan	40	3,091.83	5	91.04	58	10,515.33	23	7,514.55
Peru	201	15,221.82	39	1,968.49	403	34,375.25	241	21,121.92
Philippines	503	40,806.63	64	5,925.26	561	44,172.55	122	9,291.18
Poland	899	49,663.66	111	8,842.15	1174	85,781.17	386	44,959.66
Portugal	374	98,692.15	107	12,417.25	476	115,118.70	209	28,843.76
Russian Fed	875	252,554.80	126	52,167.95	1017	253,542.40	268	53,155.46
Saudi Arabia	116	31,100.54	40	19,869.60	94	15,969.38	18	4,738.43
Singapore	2782	326,314.30	1310	180,226.70	2072	227,526.70	600	81,439.15
Spain	2608	680,883.70	709	268,238.40	3017	706,672.20	1118	294,026.90
Sri Lanka	99	886.28	3	37.43	125	1,908.08	29	1,059.22
Sweden	2915	351,257.50	1231	190,224.10	2649	361,786.20	965	200,752.80
Thailand	826	68,781.07	109	13,432.89	907	71,892.12	190	16,543.94
Turkey	448	35,252.00	47	6,658.28	626	70,407.10	225	41,813.38
United Kingdom	22805	3,804,449.00	6293	1,811,815.00	21163	4,138,258.00	4651	2,145,624.00
United States	70514	21,400,000.00	9011	2,572,550.00	70976	22,300,000.00	9473	3,466,402.00
Venezuela	62	8,115.61	11	1,481.77	121	13,680.47	70	7,046.64
Total	187,137	41,327,542.70	38,923	11,349,261.83	187,137	41,333,691.01	38,923	11,349,262.42

Table 3.2: Number of country-pair (i.e., bilateral) Bids/Deals

This table provides the number of bilateral CBA bids (acquirer nation in columns and target nation in rows) between 1992 and 2018, as reported in SDC, based on my sample selection criteria.

Acq/ Tgt Nation	AR	AU	AS	BL	BR	CA	CE	CH	CO	CC	DN	EG	FN	FR	WG	GR	HU	IN	ID	IR	IS	IT	JP	Total
Argentina (AR)	0	0	0	0	16	0	6	1	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	50
Australia (AU)	14	0	2	17	30	138	45	55	13	2	9	1	8	20	52	3	4	13	65	13	13	12	11	1875
Austria (AS)	4	4	0	6	3	3	0	4	0	13	2	0	3	7	56	0	7	2	0	3	2	16	0	225
Belgium (BL)	2	8	3	0	5	7	0	5	0	2	7	1	4	97	42	1	2	6	0	4	0	16	1	475
Brazil (BR)	42	5	1	1	0	9	7	2	9	0	1	0	0	5	1	0	0	1	0	0	0	5	1	169
Canada (CA)	100	217	9	14	113	0	101	94	84	7	11	8	24	74	90	4	2	18	15	29	35	19	6	5240
Chile (CE)	25	1	0	1	33	2	0	0	22	0	1	0	0	0	1	0	0	1	0	0	0	0	1	130
China (CH)	6	97	4	7	16	62	4	0	3	2	7	2	5	31	56	0	0	3	10	6	13	35	32	854
Colombia (CO)	5	0	0	0	5	4	5	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	51
Czech Republic (CC)	0	1	0	0	0	0	0	0	0	0	1	0	0	1	4	0	0	0	1	0	0	1	0	25
Denmark (DN)	0	9	1	8	3	9	0	8	0	1	0	1	14	23	42	1	0	5	0	3	1	12	3	422
Egypt (EG)	0	0	0	0	0	2	0	2	0	0	0	0	0	1	1	0	0	0	0	0	0	0	0	16
Finland (FN)	0	8	4	5	4	5	0	6	1	2	20	0	0	15	38	0	1	7	0	1	0	13	0	399
France (FR)	12	33	7	62	52	46	7	34	5	6	13	7	12	0	131	6	6	28	2	6	15	101	10	1496
Germany (WG)	3	43	57	25	18	20	4	14	3	19	28	2	19	138	0	5	12	27	5	12	12	60	10	1467
Greece (GR)	2	1	0	1	0	1	0	2	0	0	0	2	0	0	3	0	2	0	1	0	0	7	2	65
Hungary (HU)	0	0	2	0	0	0	0	0	0	2	0	0	0	1	1	1	0	0	0	0	0	0	0	22
India (IN)	2	30	1	5	12	15	3	6	2	9	3	7	5	22	25	2	0	0	11	4	3	16	3	608
Indonesia (ID)	0	13	0	0	0	2	0	5	0	0	0	0	0	0	0	0	0	1	0	0	0	1	1	62
Ireland-Rep (IR)	2	18	4	11	6	22	0	7	2	3	8	1	6	16	33	1	0	3	0	0	5	8	2	801
Israel (IS)	3	4	1	3	9	12	0	2	0	2	3	0	2	21	31	3	3	2	0	0	0	16	4	468
Italy (IT)	13	16	10	10	25	14	4	14	0	8	2	2	1	90	64	5	0	11	0	5	2	0	2	648
Japan (JP)	2	63	4	10	20	24	3	62	0	4	8	0	9	19	42	1	0	38	28	5	2	25	0	1083
Luxembourg(LU)	5	4	0	5	6	14	0	6	1	5	3	1	11	55	45	6	5	2	1	5	2	35	2	384
Malaysia(MA)	0	58	0	2	2	9	0	35	0	0	1	0	0	1	6	0	0	14	84	1	0	4	4	459
Mexico (MX)	15	2	0	1	21	6	6	1	15	0	0	0	0	0	2	0	0	2	0	1	1	0	0	191
Netherlands (NT)	2	25	7	57	9	31	4	17	2	15	20	1	13	98	106	8	12	13	6	8	7	41	6	1202
New Zealand (NZ)	0	140	0	0	0	6	2	4	0	0	1	0	0	2	2	0	0	0	0	0	0	3	0	226
Norway (NO)	0	13	4	5	9	16	5	2	0	2	61	0	28	23	25	0	0	3	0	4	0	8	2	594
Pakistan (PK)	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	5
Peru (PE)	3	0	0	0	0	6	15	0	8	0	0	0	0	0	0	0	0	0	0	0	2	1	0	39
Philippines (PH)	0	8	0	0	1	3	2	7	0	0	0	0	0	0	1	0	0	1	0	0	0	0	1	64
Poland (PO)	0	1	3	1	1	2	0	1	0	14	2	0	0	4	23	0	7	0	0	2	0	6	0	111
Portugal (PR)	1	1	0	0	24	0	1	1	0	0	0	2	0	4	4	1	0	1	0	1	0	3	0	107
Russian Fed (RU)	2	1	3	3	0	9	0	2	0	4	1	1	2	3	6	4	1	3	0	0	1	5	1	126
Saudi Arabia (SA)	1	0	0	0	0	1	0	0	0	0	9	0	2	0	0	1	0	0	0	0	0	1	1	40
Singapore (SG)	0	198	2	7	4	10	1	258	1	0	3	1	4	11	25	0	2	57	142	2	1	5	54	1310
Spain (SP)	43	12	3	6	55	8	29	7	14	5	1	2	7	62	33	2	2	9	0	2	1	58	2	709
Sri Lanka (SL)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	3
Sweden (SW)	8	19	9	15	6	25	3	8	1	11	129	1	146	59	95	4	9	7	1	10	5	27	0	1231
Thailand (TH)	0	5	1	0	0	2	0	9	0	0	0	0	0	5	0	0	0	2	11	1	1	2	5	109
Turkey (TU)	0	1	1	0	0	2	0	0	1	0	1	0	0	2	5	0	2	0	1	0	2	2	0	47
United Kingdom (UK)	29	383	33	100	59	240	14	69	13	34	81	14	48	465	531	10	14	52	22	249	23	213	22	6293
United States (US)	110	556	37	88	191	1833	76	278	31	32	90	12	63	520	630	16	21	152	19	157	232	213	132	9011
Venezuela (VE)	2	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11
Total	458	1998	213	476	758	2620	347	1028	238	204	518	78	434	1898	2252	85	114	485	425	535	381	990	321	38923

Acquirer Nation	LU	Target Nation																				Total	
		MA	MX	NT	NZ	NO	PK	PE	PH	PO	PR	RU	SA	SG	SP	SL	SW	TH	TU	UK	US		VE
Argentina (AR)	0	0	3	2	0	0	0	1	0	0	0	0	0	4	0	0	0	0	0	10	2	50	
Australia (AU)	6	29	13	22	291	7	0	11	20	13	4	6	1	70	23	1	12	8	5	255	538	0	1875
Austria (AS)	1	2	1	7	1	2	0	0	0	15	1	5	0	1	7	0	8	1	4	13	21	0	225
Belgium (BL)	11	2	1	61	0	2	0	1	0	5	7	4	0	1	20	0	4	2	8	60	72	1	475
Brazil (BR)	1	0	5	2	0	4	0	6	0	1	6	0	0	0	4	0	0	0	1	8	38	3	169
Canada (CA)	2	3	289	49	31	17	1	116	7	11	6	22	0	10	43	3	29	1	12	307	3189	18	5240
Chile (CE)	0	0	4	1	0	0	0	21	0	0	0	0	0	4	0	0	0	0	0	9	3	130	
China (CH)	3	16	4	26	13	9	6	5	0	1	1	5	1	59	12	1	8	13	4	54	212	0	854
Colombia (CO)	0	1	7	1	0	0	0	8	0	0	1	0	0	0	1	0	0	0	0	10	2	51	
Czech Republic (CC)	0	0	0	1	0	0	0	0	0	9	0	2	0	0	2	0	1	0	1	0	0	0	25
Denmark (DN)	1	2	2	18	2	33	0	1	0	14	1	2	0	4	10	0	71	0	2	54	59	2	422
Egypt (EG)	0	0	0	2	0	1	0	0	0	0	0	0	0	2	0	0	0	1	2	2	2	0	16
Finland (FN)	0	2	1	18	1	35	0	0	0	6	0	13	0	4	2	0	86	0	1	30	70	0	399
France (FR)	11	3	6	61	4	17	0	1	2	19	16	7	2	12	128	0	28	4	8	222	343	1	1496
Germany (WG)	15	7	5	73	2	25	0	0	0	57	7	3	0	15	77	1	59	1	16	220	348	0	1467
Greece (GR)	0	0	0	3	0	2	0	0	0	1	0	2	0	0	6	0	1	0	6	10	10	0	65
Hungary (HU)	0	0	0	1	0	0	0	1	0	2	0	4	0	0	0	0	0	0	2	3	2	0	22
India (IN)	2	7	3	7	1	2	0	0	1	2	3	2	1	32	10	10	3	5	3	90	238	0	608
Indonesia (ID)	0	7	0	2	0	1	0	0	1	0	0	0	1	16	0	0	0	3	0	4	4	0	62
Ireland-Rep (IR)	1	4	4	31	0	3	0	0	0	4	1	2	0	3	12	0	10	0	1	337	230	0	801
Israel (IS)	1	0	3	11	2	2	0	1	0	10	0	5	0	1	15	0	1	2	2	43	248	0	468
Italy (IT)	10	0	6	26	0	7	0	0	0	13	5	11	1	4	65	0	8	1	12	84	96	1	648
Japan (JP)	2	27	2	25	5	2	0	0	13	2	2	3	1	71	14	0	11	28	10	98	398	0	1083
Luxembourg(LU)	0	1	3	19	0	7	0	1	0	11	4	4	0	1	18	0	2	0	4	42	47	1	384
Malaysia(MA)	1	0	0	6	6	4	1	1	11	0	0	0	0	111	4	2	1	28	1	36	25	0	459
Mexico (MX)	3	1	0	0	1	2	0	4	2	0	0	0	0	1	18	0	0	1	1	1	80	3	191
Netherlands (NT)	6	8	9	0	6	22	5	3	2	35	9	27	1	8	63	1	47	2	25	180	234	1	1202
New Zealand (NZ)	1	2	3	2	0	2	0	0	0	0	0	1	0	0	0	0	0	1	0	17	37	0	226
Norway (NO)	0	0	0	9	4	0	0	1	0	12	2	4	0	8	25	0	164	1	2	70	82	0	594
Pakistan (PK)	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	5
Peru (PE)	0	0	2	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1	0	0	39
Philippines (PH)	0	7	3	0	2	1	0	0	0	1	0	0	0	8	1	0	1	1	0	2	13	0	64
Poland (PO)	2	0	0	5	0	0	0	0	0	2	6	0	0	5	0	6	0	5	6	7	0	111	
Portugal (PR)	0	0	1	0	0	1	0	2	0	5	0	0	0	0	40	0	2	0	3	5	4	0	107
Russian Fed (RU)	2	1	0	8	0	1	0	0	0	0	1	0	0	1	1	0	2	0	10	16	30	1	126
Saudi Arabia (SA)	0	2	1	1	0	1	1	0	0	0	0	0	0	2	0	0	1	5	3	7	0	40	
Singapore (SG)	1	148	2	19	25	6	1	1	22	0	0	3	1	0	7	5	8	47	4	99	123	0	1310
Spain (SP)	3	1	28	18	0	5	0	14	2	12	70	5	0	2	0	0	8	1	4	56	111	6	709
Sri Lanka (SL)	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1	0	0	3
Sweden (SW)	3	2	5	44	2	157	0	1	0	16	5	18	0	6	31	1	0	1	5	148	188	0	1231
Thailand (TH)	0	8	0	1	4	0	0	0	5	1	1	0	0	17	0	3	0	0	1	9	15	0	109
Turkey (TU)	0	0	0	7	0	0	0	0	0	1	1	4	1	0	1	0	1	0	0	1	10	0	47
United Kingdom (UK)	16	23	23	348	44	117	3	7	11	65	39	50	2	49	243	1	186	13	27	0	2306	2	6293
United States (US)	26	30	219	266	78	115	5	33	23	42	14	48	5	84	197	0	197	24	29	2064	0	23	9011
Venezuela (VE)	0	0	1	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	3	0	11
Total	131	346	659	1206	525	612	23	241	122	386	209	268	18	600	1118	29	965	190	225	4651	9473	70	38923

Table 3.3: Descriptive Statistics

This table reports the descriptive statistics of dependent and explanatory variables for the full sample, which covers 45 countries over the period 1992 to 2018. The subscripts *tgt* and *acq* represent variables specific to target and acquirer, respectively. All variables in the table are defined in Chapter 2 and in Appendix 3.1. A point to note: those figures in percentage are expressed in decimals. For example, the mean value of Acquirers' Cumulative Abnormal Return (ACAR) 0.0398 should be read as 3.98%.

Panel A: Full Sample						
Variable	Number of observations	Mean	Median	Standard deviation	25th percentile	75th percentile
Dependent variable						
NB _{tgt, acq} (per 100 listed companies in target nation)	23,595	0.2195	0.0988	0.4077	0.0269	0.2404
VB _{tgt, acq} (per billion of GDP of target nation)	23,595	0.6165	0.0485	7.3471	0.011	0.2172
Probability of Deal Completion (0-1)	38,923	0.8359	1.0000	0.3704	1.0000	1.0000
Deal Duration (Number of Days)	32,535	53	15	99	0	72
Acquirers' Cumulative Abnormal Return (ACAR) (+2-2) %	26,020	0.0398	0.0089	0.2257	-0.0239	0.0544
Targets' Cumulative Abnormal Return TCAR (+2-2) %	3,397	0.2240	0.0995	0.4985	-0.0010	0.3061
Key explanatory variable						
CPR Average 3 months _{tgt, acq}	23,595	0.6053	0.6444	2.0772	-2.7177	2.1778
Co-operation Average 3 months _{tgt, acq}	20,427	3.0871	3.0044	1.3575	2.3778	3.6692
Conflict Average 3 months _{tgt, acq}	14,918	2.9037	2.6638	1.2164	2.0732	3.4820
Dummy Military Conflict (Military_Dum) _{tgt, acq}	14,918	0.2979	0.0000	0.4576	0.0000	1.0000
Country-level characteristics						
In (GDPCap) _{acq}	23,595	10.2607	10.4925	0.8339	10.0996	10.7475
GDPGr _{acq} %	23,595	0.0298	0.0279	0.0270	0.0174	0.0403
Trade (fraction of GDP) _{acq} %	23,595	0.7823	0.5618	0.7617	0.4007	0.7835
Corruption _{acq}	23,595	4.3300	4.5000	1.0282	4.0000	5.0000
Law and Order _{acq}	23,595	5.2916	5.5000	0.8324	5.0000	6.0000
Business Environment _{acq}	23,595	9.7159	10.5000	2.2146	7.8750	11.9167
In (GDPCap) _{tgt}	23,595	9.9931	10.3193	1.0293	9.6624	10.6872
GDPGr _{tgt} %	23,595	0.0301	0.0279	0.0296	0.0163	0.0417
Trade (fraction of GDP) _{tgt} %	23,595	0.6969	0.5537	0.5987	0.4075	0.7318
Corruption _{tgt}	23,595	4.0844	4.4200	1.1760	3.0000	5.0000
Law and Order _{tgt}	23,595	4.9991	5.0000	1.0978	4.7917	6.0000
Business Environment _{tgt}	23,595	9.7159	10.5000	2.2146	7.8750	11.9167

Country-pair-level characteristics

Bilateral Trade _{tgt, acq} %	23,595	0.3132	0.1606	0.4636	0.0449	0.3993
Same Language _{tgt, acq} (0-1)	23,595	0.3499	0.0000	0.4770	0.0000	1.0000
Same Border _{tgt, acq} (0-1)	23,595	0.1499	0.0000	0.3570	0.0000	0.0000
Colonial Tie _{tgt, acq} (0-1)	23,595	0.1468	0.0000	0.3539	0.0000	0.0000

Deal/Bid-level characteristics

Transaction Value (Millions of US \$)	38,923	291.5820	26.9580	2398.6360	7.4490	116.3340
Cash (0-1)	38,923	0.4151	0.0000	0.4927	0.0000	1.0000
Same Industry (0-1)	38,923	0.5001	1.0000	0.5000	0.0000	1.0000
Competing Bid (0-1)	38,922	0.0130	0.0000	0.1132	0.0000	0.0000
Tender Offer (0-1)	38,922	0.0084	0.0000	0.0913	0.0000	0.0000

Industry-country-level characteristics

Firm Size ((ln (Total assets)))	38,923	11.6388	11.7724	1.1387	11.198	12.3706
ROA (%)	38,923	0.0443	0.0473	0.0413	0.0308	0.0685
Leverage (%)	38,923	0.1239	0.0854	0.351	-0.0425	0.2339
MTBV	38,923	1.3897	1.36	0.4104	1.1400	1.5800

Firm-level characteristics

Firm Size (ln) _{acq}	26,020	13.0113	12.8636	2.7568	11.3920	14.6732
Firm Size (ln) _{tgt}	3,397	12.4999	12.4637	2.2785	11.1013	14.2855
ROA (%) _{acq}	26,020	0.0846	0.0909	0.0730	0.0562	0.1360
ROA (%) _{tgt}	3,397	0.0383	4.7975	19.2102	-4.1805	10.2601
Leverage (%) _{acq}	26,020	0.4983	0.2538	1.2260	0.0111	0.6839
Leverage (%) _{tgt}	3,397	0.3438	0.2461	3.1690	0.0003	0.7276
MTBV _{acq}	26,020	3.0550	1.9500	4.4410	1.2900	3.4300
MTBV _{tgt}	3,397	2.6878	1.8700	4.1738	1.0700	3.0700

Table 3.4: CPR and Bilateral CBAs

This table reports estimates of Tobit regressions of the effect of CPR between the target-acquirer’s domicile pairs on bilateral CBA between the target-acquirer’s domicile. In Panel A columns (1) to (4), the dependent variable is the number of CBA (per 100 listed firms in target nations). In panel B columns (5) to (8), the dependent variable is the volume of CBA per billion USD of GDP of the target nation. Estimation columns employ two variations of the CPR; the first is the $CPR_{tgt, acq}$ which includes the contemporaneous value of CPR and lags of CPR of the previous three months between the merging partner’s domiciles. The other is the average of the previous three months CPR between the merging partner’s domiciles (i.e., $CPR (Avg\ 3\ months)_{tgt, acq}$). All control variables are lagged one year and are defined in chapter 2, section 2.3 and in Appendix 3.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable:	Panel A				Panel B			
	Number of bilateral deals (NB)				Volume (Value) of bilateral deals (VB)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Key explanatory variable								
CPR _{tgt, acq} (t)	0.0052 (0.0041)	0.0025 (0.0035)			0.0149 (0.0135)	0.0136 (0.0130)		
CPR _{tgt, acq} (t-1)	0.0134*** (0.0051)	0.0118** (0.0047)			0.0156** (0.0075)	0.0155** (0.0073)		
CPR _{tgt, acq} (t-2)	0.0152** (0.0067)	0.0126** (0.0055)			0.0183** (0.0082)	0.0176** (0.0080)		
CPR _{tgt, acq} (t-3)	0.0100** (0.0042)	0.0103*** (0.0038)			0.0193** (0.0091)	0.0199** (0.0091)		
CPR (Avg 3 months) tgt, acq			0.0355*** (0.0126)	0.0331*** (0.0112)			0.0490** (0.0222)	0.0494** (0.0218)
Country-level Characteristics (Difference)								
In GDPCap _{tgt-acq}		0.0124 (0.0501)		0.0124 (0.0501)		-0.0008 (0.0252)		0.0002 (0.0254)
GDPGr _{tgt-acq}		-0.0110 (0.0081)		-0.0110 (0.0082)		0.0066* (0.0034)		0.0067** (0.0034)
Trade _{tgt-acq}		0.5572*** (0.0997)		0.5572*** (0.0998)		0.0033*** (0.0012)		0.0033*** (0.0012)
Exchange Rate _{tgt-per-acq}		0.1393 (0.2205)		0.1395 (0.2205)		0.2613** (0.1250)		0.2597** (0.1250)
Corruption _{tgt-acq}		0.0887**		0.0887**		0.0152		0.0155

Law and Order _{tgt-acq}									
		(0.0421)		(0.0421)		(0.0128)		(0.0128)	
		0.0311		0.0312		0.0072		0.0074	
		(0.0417)		(0.0417)		(0.0216)		(0.0217)	
Business Environment _{tgt-acq}		0.0397***		0.0397***		0.0372**		0.0373**	
		(0.0118)		(0.0118)		(0.0173)		(0.0174)	
Country-pair-level Characteristics									
Bilateral Trade _{tgt, acq}		0.0625***		0.0625***		0.0135*		0.0138*	
		(0.0130)		(0.0130)		(0.0069)		(0.0071)	
Same Language _{tgt, acq}		-0.1458		-0.1457		0.0979		0.0982	
		(0.1098)		(0.1098)		(0.0812)		(0.0817)	
Same Border _{tgt, acq}		0.7612***		0.7615***		0.0672		0.0685	
		(0.2008)		(0.2009)		(0.0673)		(0.0680)	
Colonial Tie _{tgt, acq}		-0.2004		-0.2005		0.0154		0.0137	
		(0.1264)		(0.1264)		(0.1455)		(0.1463)	
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE (Year-month)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R ²	0.0219	0.3894	0.0218	0.3894	0.0035	0.0156	0.0035	0.0157	
Number of Observation	23,595	23,595	23,595	23,595	23,595	23,595	23,595	23,595	23,595

Table 3.5: CPR and Likelihood and Duration of Deal Completion.

This table presents logit and OLS regression estimates of the effect of CPR between the target-acquirer’s domicile pairs on the likelihood of deal completion (Panel A) and duration of deal completion (Panel B). In panel A columns (1) to (4), the dependent variable is $DealComp_{di}$, which is a dummy variable equal to one if SDC reports deal status as “completed” and zero otherwise. In panel B columns (5) to (9), the dependent variable is $DealDur_d$, which is the natural logarithm of the number of calendar days between the deal announcement date and the completion date (i.e., $\ln(1+days)$). Estimation columns employ two variations of the CPR; the first is the $CPR_{tgt, acq}$ which includes the contemporaneous value of CPR and lags of CPR of the previous three months between the merging partner’s domiciles. The other is the average of the previous three months CPR between the merging partner’s domiciles (i.e., $CPR(Avg\ 3\ months)_{tgt, acq}$). All control variables are lagged one year and are defined in chapter 2, section 2.3 and in Appendix 3.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable:	Panel A				Panel B			
	Likelihood of deal completion				Duration of deal completion			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Key explanatory variable								
CPR _{tgt, acq (t)}	0.0011 (0.0069)	0.0020 (0.0072)			0.0047 (0.0054)	0.0085 (0.0052)		
CPR _{tgt, acq (t-1)}	0.0125* (0.0074)	0.0145** (0.0074)			-0.0044* (0.0062)	-0.0017* (0.0055)		
CPR _{tgt, acq (t-2)}	0.0160* (0.0082)	0.0136* (0.0081)			-0.0120** (0.0060)	-0.0101* (0.0056)		
CPR _{tgt, acq (t-3)}	0.0126* (0.0067)	0.0122* (0.0070)			-0.0132** (0.0064)	-0.0106* (0.0060)		
CPR (Avg 3 months) _{tgt, acq}			0.0418*** (0.0091)	0.0414*** (0.0090)			-0.0207*** (0.0071)	-0.0169** (0.0067)
Deal-level Characteristics								
Cash		0.0367 (0.0456)		0.0367 (0.0455)		-0.0574 (0.0415)		-0.0577 (0.0416)
Same Industry		0.1708*** (0.0431)		0.1709*** (0.0431)		-0.0586* (0.0327)		-0.0584* (0.0327)
Transaction Value		-0.1282*** (0.0237)		-0.1282*** (0.0237)		0.4622*** (0.0191)		0.4621*** (0.0191)
Competing Bid		-2.0602 (0.1794)		-2.0602 (0.1794)		0.7918 (0.0931)		0.7942 (0.0926)
Tender Offer		-2.3421*** (0.1856)		-2.3419*** (0.1856)		0.7118*** (0.1215)		0.7143*** (0.1226)

Industry-country-level characteristics (difference)

Firm Size _{tgt-acq}	-0.0255 (0.0244)	-0.0255 (0.0243)	0.0158 (0.0215)	0.0157 (0.0215)
ROA _{tgt-acq}	-1.6050*** (0.5113)	-1.6039*** (0.5117)	0.4538 (0.5093)	0.4540 (0.5115)
Leverage _{tgt-acq}	0.0285 (0.0568)	0.0285 (0.0569)	-0.0403 (0.0272)	-0.0407 (0.0272)
MTBV _{tgt-acq}	0.0345 (0.0381)	0.0345 (0.0381)	0.0613 (0.0416)	0.0614 (0.0417)

Country-Level Characteristics (Difference)

In (GDPCap) _{tgt-acq}	-0.2194* (0.1142)	-0.2191* (0.1143)	-0.0813 (0.0821)	-0.0810 (0.0821)
GDPGr _{tgt-acq}	-0.0192** (0.0096)	-0.0193** (0.0096)	0.0084 (0.0062)	0.0082 (0.0062)
Trade _{tgt-acq}	0.0012 (0.0017)	0.0012 (0.0017)	-0.0022* (0.0012)	-0.0022* (0.0012)
Exchange Rate _{tgt-per-acq}	0.7784*** (0.1901)	0.7780*** (0.1902)	-0.3195*** (0.1071)	-0.3212*** (0.1073)
Corruption _{tgt-acq}	0.0072 (0.0313)	0.0072 (0.0313)	-0.0053 (0.0201)	-0.0057 (0.0201)
Law and Order _{tgt-acq}	0.0054 (0.0458)	0.0054 (0.0458)	0.0261 (0.0302)	0.0262 (0.0303)
Business Environment _{tgt-acq}	0.0004 (0.0168)	0.0005 (0.0168)	0.0110 (0.0119)	0.0111 (0.0119)

Country-pair Characteristics

Bilateral Trade _{tgt, acq}	0.5175 (0.4488)	0.5173 (0.4486)	0.5461 (0.3866)	0.5451 (0.3863)
Same Language _{tgt, acq}	0.0392 (0.0566)	0.0394 (0.0567)	-0.0841* (0.0487)	-0.0834* (0.0487)
Same Border _{tgt, acq}	0.2143*** (0.0597)	0.2143*** (0.0598)	0.0625 (0.0599)	0.0624 (0.0598)
Colonial Tie _{tgt, acq}	0.0208 (0.0675)	0.0210 (0.0674)	0.0620 (0.0414)	0.0628 (0.0414)

Time FE (Year-month)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
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Acquirer and Target Nation FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquiror and Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R ²	0.0907	0.1207	0.0907	0.1207				
Adjusted R ²					0.1131	0.2521	0.1131	0.252
Number of Observations	38,911	38,911	38,911	38,911	32,520	32,520	32,520	32,520

Table 3.6: CPR and Announcement Period Gains of Acquirer and Target

This table presents OLS regression estimates of the effect of CPR between the target-acquirer’s domicile pairs on the five days announcement period (-2 to +2) returns of acquirers (ACAR) (Panel A) and targets (TCAR) (Panel B). Estimation columns employ two variations of the CPR; the first is the $CPR_{tgt, acq}$, which includes the contemporaneous value of CPR and lags of CPR of the previous three months between the merging partner’s domiciles. The other is the average of the previous three months CPR between the merging partner’s domiciles (i.e., $CPR(Avg\ 3\ months)_{tgt, acq}$). All control variables are lagged one year and are defined in chapter 2, section 2.3 and in Appendix 3.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable:	Panel A				Panel B			
	ACAR				TCAR			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Key explanatory variable								
CPR _{tgt, acq} (t)	0.0012*	0.0012*			0.0085*	0.0090*		
	(0.0009)	(0.0009)			(0.0056)	(0.0059)		
CPR _{tgt, acq} (t-1)	0.0016**	0.0016**			0.0177**	0.0185**		
	(0.0008)	(0.0008)			(0.0070)	(0.0072)		
CPR _{tgt, acq} (t-2)	0.0019**	0.0018**			0.0121***	0.0116***		
	(0.0009)	(0.0009)			(0.0045)	(0.0043)		
CPR _{tgt, acq} (t-3)	0.0025***	0.0025***			0.0098*	0.0095*		
	(0.0008)	(0.0009)			(0.0051)	(0.0049)		
CPR (Avg 3 months) _{tgt, acq}			0.0066***	0.0065***			0.0230***	0.0232***
			(0.0012)	(0.0012)			(0.0057)	(0.0057)
Deal-level Characteristics								
Cash		0.0076***		0.0076***		0.02790**		0.0220**
		(0.0025)		(0.0025)		(0.0191)		(0.0191)
Same Industry		0.0108***		0.0108***		0.0094		0.0075
		(0.0030)		(0.0030)		(0.0187)		(0.0187)
Transaction Value		-0.0022***		-0.0022***		-0.0086		-0.0081
		(0.0008)		(0.0008)		(0.0066)		(0.0064)
Competing Bid		-0.0014		-0.0014		-0.0241		-0.0291
		(0.0122)		(0.0123)		(0.0242)		(0.0242)
Tender Offer		0.0061		0.0062		0.0070		0.0044
		(0.0114)		(0.0113)		(0.0222)		(0.0219)
Firm-level Characteristics								
Firm Size _{acq or tgt}		0.0004		0.0004		0.0094		0.0103
		(0.0028)		(0.0028)		(0.0156)		(0.0145)
ROA _{acq or tgt}		0.0519		0.0508		-0.6972***		-0.7353***

		(0.0527)		(0.0526)		(0.2569)		(0.2560)
Leverage _{acq or tgt}		-0.0058		-0.0055		-0.0648		-0.0576
		(0.0039)		(0.0039)		(0.0399)		(0.0363)
MTBV _{acq or tgt}		-0.0114**		-0.0113**		0.0012		0.0047
		(0.0051)		(0.0051)		(0.0305)		(0.0274)
Country-level Characteristics (Difference)								
In (GDPCap) _{tgt-acq}		-0.0077		-0.0076		0.0827		0.0758
		(0.0096)		(0.0096)		(0.0505)		(0.0515)
GDPGr _{tgt-acq}		0.0001		0.0001		-0.0041		-0.0041
		(0.0007)		(0.0007)		(0.0035)		(0.0036)
Trade _{tgt-acq}		0.0001		0.0001		0.0008		0.0008
		(0.0001)		(0.0001)		(0.0006)		(0.0006)
Exchange Rate _{tgt-per-acq}		-0.0175		-0.0177		-0.1121*		-0.0961
		(0.0145)		(0.0145)		(0.0653)		(0.0678)
Corruption _{tgt-acq}		-0.0033		-0.0033		0.0463*		0.0075
		(0.0024)		(0.0024)		(0.0245)		(0.0238)
Law and Order _{tgt-acq}		0.0005		0.0005		0.0062		0.0469*
		(0.0032)		(0.0032)		(0.0155)		(0.0157)
Business Environment _{tgt-acq}		0.0003		0.0004		0.0208**		0.0204**
		(0.0014)		(0.0014)		(0.0101)		(0.0096)
Country-pair-level Characteristics								
Bilateral Trade _{tgt, acq}		0.0109		0.0111		-0.7701**		-0.7334**
		(0.0511)		(0.0508)		(0.3148)		(0.3085)
Same Language _{tgt, acq}		-0.0173***		-0.0173***		-0.0012		0.0033
		(0.0057)		(0.0057)		(0.0311)		(0.0312)
Same Border _{tgt, acq}		0.0075		0.0075		0.0601		0.0559
		(0.0063)		(0.0063)		(0.0388)		(0.0377)
Colonial Tie _{tgt, acq}		0.0006		0.0006		0.0041		0.0037
		(0.0045)		(0.0045)		(0.0216)		(0.0228)
Time FE (Year-month)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Nation FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquiror and Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.0102	0.0114	0.0102	0.0114	0.0305	0.0351	0.074	0.0787
Number of Observations	26,020	26,020	26,020	26,020	3,395	3,395	3,395	3,395

Table 3.7: Conflict and Co-operative Political Events and Bilateral CBAs

This table reports estimates of Tobit regressions of the effect of Conflict and Co-operation between the target-acquirer's domicile pairs on bilateral CBA between the target-acquirer's domicile. In Panel A columns (1) and (2), the dependent variable is the number of CBA (per 100 listed firms in target nations). In panel B columns (3) and (4), the dependent variable is the volume of CBA per billion USD of GDP of the target nation. Estimation columns employ Conflict and Co-operation as the average of the previous three months (i.e., month1, 2 and 3 lags) of Conflict and Co-operation between the merging partner's domiciles (i.e., Conflict and Co-operation (Avg 3 months)_{tgt, acq}). All control variables are lagged one year and are defined in chapter 2, section 2.3 and in Appendix 3.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable:	Panel A:		Panel B:	
	Number of bilateral deals (NB)		Volume (Value) of bilateral deals (VB)	
	(1)	(2)	(3)	(4)
Key explanatory variable				
Conflict (Avg 3 months) _{tgt, acq}	-0.0537*** (0.0066)	-0.0217*** (0.0057)	-0.0304*** (0.0063)	-0.0242*** (0.0063)
Co-operation (Avg 3 months) _{tgt, acq}	0.0068** (0.0036)	0.0046* (0.0032)	0.0204* (0.0133)	0.0199* (0.0130)
Country-level Characteristics (Difference)	No	Yes	No	Yes
Country-pair-level Characteristics	No	Yes	No	Yes
Country FE	Yes	Yes	Yes	Yes
Time FE (Year-month)	Yes	Yes	Yes	Yes
Pseudo R ²	0.1527	0.3623	0.0087	0.0115
Number of Observations	20,427	20,427	20,427	20,427

Table 3.8: Conflict and Co-operative Political Events and Likelihood and Duration of Deal Completion

This table presents logit and OLS regression estimates of the effect of Conflict and Co-operation between the target-acquirer’s domicile pairs on the likelihood of deal completion (Panel A) and duration of deal completion (Panel B). In panel A columns (1) and (2), the dependent variable is $DealComp_{ai}$, which is a dummy variable equal to one if SDC reports deal status as “completed” and zero otherwise. In panel B columns (3) and (4), the dependent variable is $DealDur_d$, which is the natural logarithm of the number of calendar days between the deal announcement date and the completion date (i.e., $\ln(1+days)$). Estimation columns employ Conflict and Co-operation as the average of the previous three months (i.e., month1, 2 and 3 lags) of Conflict and Co-operation between the merging partner’s domiciles (i.e., Conflict and Co-operation (Avg 3 months)_{tgt, acq}). All control variables are lagged one year and are defined in chapter 2, section 2.3 and in Appendix 3.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable:	Panel A		Panel B	
	(1)	(2)	(3)	(4)
Key explanatory variable				
Conflict (Avg 3 months) _{tgt, acq}	-0.1105*** (0.0180)	-0.1241 *** (0.0160)	0.0680*** (0.0127)	0.0317* (0.0162)
Co-operation (Avg 3 months) _{tgt, acq}	0.0304** (0.0130)	0.0326** (0.0134)	-0.0107 (0.0108)	-0.0053 (0.0104)
Deal-level Characteristics	No	Yes	No	Yes
Industry-country-level characteristics (difference)	No	Yes	No	Yes
Country-Level Characteristics (Difference)	No	Yes	No	Yes
Country-pair Characteristics	No	Yes	No	Yes
Time FE (Year-month)	Yes	Yes	Yes	Yes
Acquirer and Target Nation FE	Yes	Yes	Yes	Yes
Acquiror and Target Industry FE	Yes	Yes	Yes	Yes
Pseudo R ²	0.0942	0.1249		
Adjusted R ²			0.1214	0.2570
Number of Observations	35,381	35,381	29,545	29,545

Table 3.9: Conflict and Co-operative Political Events and Announcement Period Gains of Acquirer and Target

This table presents OLS regression estimates of the effect of Conflict and Co-operation between the target-acquirer’s domicile pairs on the five days announcement period (-2 to +2) returns of acquirers (ACAR) (Panel A) and targets (TCAR) (Panel B). Estimation columns employ Conflict and Co-operation as the average of the previous three months (i.e., month1, 2 and 3 lags) of Conflict and Co-operation between the merging partner’s domiciles (i.e., Conflict and Co-operation (Avg 3 months)_{tgt, acq}). All control variables are lagged one year and are defined in chapter 2, section 2.3 and in Appendix 3.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable:	Panel A		Panel B	
	ACAR		TCAR	
	(1)	(2)	(3)	(4)
Key explanatory variable				
Conflict (Avg 3 months) _{tgt, acq}	-0.0123*** (0.0018)	-0.0143*** (0.0023)	-0.0388*** (0.0092)	-0.0499*** (0.0142)
Co-operation (Avg 3 months) _{tgt, acq}	0.0068*** (0.0007)	0.0067*** (0.0007)	0.0182* (0.0099)	0.0187* (0.0105)
Deal-level Characteristics	No	Yes	No	Yes
Firm Characteristics	No	Yes	No	Yes
Country-Level Characteristics (Difference)	No	Yes	No	Yes
Country-pair Characteristics	No	Yes	No	Yes
Time FE (Year-month)	Yes	Yes	Yes	Yes
Acquirer and Target Nation FE	Yes	Yes	Yes	Yes
Acquiror and Target Industry FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.0213	0.0129	0.0887	0.1156
Number of Observations	25,415	25,415	3,109	3,109

Table 3.10: Military and Non-Military Conflicts and Bilateral CBAs

This table reports estimates of Tobit regressions showing the strength of military and non-military conflicts for bilateral CBA. In Panel A columns (1) and (2), the dependent variable is the number of CBA (per 100 listed firms in target nations). In panel B columns (3) and (4), the dependent variable is the volume of CBA per billion USD of GDP of the target nation. Estimation columns employ Conflict as the contemporaneous value of Conflict and lags of Conflict of the previous three months between the merging partner's domiciles. It also incorporates a dummy variable of military conflict event (where one is assigned if there was a military conflict in a particular month and zero if only non-military conflict event took place); the dummy is referred to as *Military_Dum*, where the dummy is for the contemporaneous month and the previous three month's lag. The estimation reported in this table only considers the country-pair in conflict sample without considering countries that do not have conflicts or those that are neutral. All control variables are lagged one year and are defined in chapter 2, section 2.3 and in Appendix 3.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable:	Panel A:		Panel B:	
	Number of bilateral deals (NB)		Volume (Value) of bilateral deals (VB)	
	(1)	(2)	(3)	(4)
Conflict _{tgt, acq} (t)	-0.0026 (0.0064)	0.0005 (0.0056)	-0.0040 (0.0097)	-0.0031 (0.0091)
Conflict _{tgt, acq} (t-1)	-0.0290** (0.0137)	-0.0203** (0.0090)	-0.0286*** (0.0064)	-0.0269*** (0.0059)
Conflict _{tgt, acq} (t-2)	-0.0146*** (0.0044)	-0.0108*** (0.0037)	-0.0191*** (0.0071)	-0.0194*** (0.0072)
Conflict _{tgt, acq} (t-3)	-0.0130*** (0.0046)	-0.0085** (0.0043)	-0.0193** (0.0019)	-0.0202** (0.0081)
Military_Dum _{tgt, acq} (t)	-0.0200 (0.0148)	0.0032 (0.0102)	0.0102 (0.0098)	0.0090 (0.0091)
Military_Dum _{tgt, acq} (t-1)	-0.0193 (0.0213)	0.0043 (0.0161)	0.0240 (0.0059)	0.0213 (0.0051)
Military_Dum _{tgt, acq} (t-2)	-0.0202* (0.0153)	-0.0104* (0.0105)	-0.0093* (0.0058)	-0.0079* (0.0049)
Military_Dum _{tgt, acq} (t-3)	-0.0455*** (0.0081)	-0.0190*** (0.0064)	-0.0098* (0.0063)	-0.0082* (0.0068)
Country-Level Characteristics (Difference)	No	Yes	No	Yes
Country-pair Characteristics	No	Yes	No	Yes
Country FE	Yes	Yes	Yes	Yes
Time FE (Year-month)	Yes	Yes	Yes	Yes
Pseudo R ²	0.1732	0.4074	0.0335	0.0411
Number of Observations	14,918	14,918	14,918	14,918

Table 3.11: Military and Non-Military Conflicts and the Likelihood and Duration of Deal Completion

This table presents logit and OLS regression estimates showing the strength of military and non-military conflict on the likelihood of deal completion (Panel A) and duration of deal completion (Panel B). In panel A columns (1) and (2), the dependent variable is $DealComp_{dt}$, which is a dummy variable equal to one if SDC reports deal status as “completed” and zero otherwise. In panel B columns (3) and (4), the dependent variable is $DealDur_{dt}$, which is the natural logarithm of the number of calendar days between the deal announcement date and the completion date (i.e., $\ln(1+days)$). Estimation columns employ Conflict as the contemporaneous value of Conflict index and lags of Conflict index of the previous three months between the merging partner’s domiciles. It also incorporates a dummy variable of military conflict (where one is assigned if there was a military conflict in a particular month and zero if only non-military conflict took place); the dummy is referred to as $Military_Dum$, where the dummy is for the contemporaneous month and the previous three month’s lag. The estimation reported in this table only considers the country-pair in conflict sample without considering countries that do not have conflicts. All control variables are lagged one year and are defined in chapter 2, section 2.3 and in Appendix 3.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable:	Panel A		Panel B	
	Completed Dummy		Duration	
	(1)	(2)	(3)	(4)
Key explanatory variable				
Conflict _{tgt, acq} (t)	0.0281 (0.0256)	0.0240 (0.0267)	-0.0208 (0.0198)	-0.0375** (0.0168)
Conflict _{tgt, acq} (t-1)	-0.0457* (0.0251)	-0.0462* (0.0258)	0.0411* (0.0210)	0.0416** (0.0193)
Conflict _{tgt, acq} (t-2)	-0.0445* (0.0263)	-0.0449* (0.0259)	0.0356* (0.0193)	0.0452** (0.0184)
Conflict _{tgt, acq} (t-3)	-0.0377* (0.0227)	-0.0459** (0.0229)	0.0508*** (0.0179)	0.0337* (0.0191)
Military_Dum _{tgt, acq} (t)	-0.0077 (0.0538)	-0.0452 (0.0581)	-0.0697* (0.0361)	-0.0994*** (0.0332)
Military_Dum _{tgt, acq} (t-1)	-0.0150 (0.0408)	-0.0252 (0.0423)	-0.0616 (0.0482)	-0.0768** (0.0375)
Military_Dum _{tgt, acq} (t-2)	-0.0027* (0.0449)	-0.0175* (0.0467)	0.0130 (0.0299)	0.0312 (0.0304)
Military_Dum _{tgt, acq} (t-3)	-0.0676* (0.0362)	-0.0754** (0.0384)	0.0605* (0.0378)	0.0667* (0.0376)
Deal-level Characteristics	No	Yes	No	Yes
Industry- country-level characteristics (Difference)	No	Yes	No	Yes
Country-Level Characteristics (Diff)	No	Yes	No	Yes
Country-pair Characteristics	No	Yes	No	Yes
Time FE (Year-month)	Yes	Yes	Yes	Yes
Acquirer and Target Nation FE	Yes	Yes	Yes	Yes
Acquiror and Target Industry FE	Yes	Yes	Yes	Yes
Pseudo R ²	0.0952	0.128		
Adjusted R ²			0.1208	0.2583
Number of Observations	28,679	28,679	23,978	23,978

Table 3.12: Military and Non-Military Conflicts and Announcement Period Gains of Acquirer and Target

This table presents OLS regression estimates showing the strength of military and non-military conflict on the five days announcement period (-2 to +2) returns of acquirers (ACAR) (Panel A) and targets (TCAR) (Panel B). Estimation columns employ Conflict as the contemporaneous value of Conflicts and lags of Conflicts of the previous three months between the merging partner's domiciles. It also incorporates a dummy variable of military conflict (where one is assigned if there was a military conflict event in a particular month and zero if only non-military conflictual event took place); the dummy is referred to as *Military_Dum*, where the dummy is for the contemporaneous month and the previous three month's lag. The estimation reported in this table only considers the country-pair in conflict sample without considering countries that do not have conflicts. All control variables are lagged one year and are defined in chapter 2, section 2.3 and in Appendix 3.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable:	Panel A ACAR		Panel B TCAR	
	(1)	(2)	(3)	(4)
Key explanatory variable				
Conflict _{tgt, acq} (t)	-0.0087*** (0.0030)	-0.0094*** (0.0030)	-0.0295*** (0.0021)	-0.0273*** (0.0029)
Conflict _{tgt, acq} (t-1)	-0.0081*** (0.0024)	-0.0087*** (0.0025)	-0.0275** (0.0079)	-0.0201** (0.0081)
Conflict _{tgt, acq} (t-2)	-0.0070** (0.0030)	-0.0075** (0.0030)	-0.0221 (0.0148)	-0.0241 (0.0199)
Conflict _{tgt, acq} (t-3)	-0.0041 (0.0025)	-0.0052** (0.0024)	0.0059 (0.0192)	0.0041 (0.0187)
Military_Dum _{tgt, acq} (t)	-0.0208 (0.0065)	-0.0186 (0.0062)	-0.0335** (0.0179)	-0.0380** (0.0148)
Military_Dum _{tgt, acq} (t-1)	-0.0194** (0.0058)	-0.0176** (0.0052)	-0.0317** (0.0151)	-0.0348** (0.0139)
Military_Dum _{tgt, acq} (t-2)	-0.0059* (0.0041)	-0.0043* (0.0044)	0.1459 (0.1535)	0.1384 (0.1531)
Military_Dum _{tgt, acq} (t-3)	-0.005* (0.0048)	-0.0064* (0.0052)	-0.0193 (0.0244)	-0.0243 (0.0235)
Deal-level Characteristics	No	Yes	No	Yes
Firm-level Characteristics	No	Yes	No	Yes
Country-Level Characteristics (Difference)	No	Yes	No	Yes
Country-pair level Characteristics	No	Yes	No	Yes
Time FE (Year-month)	Yes	Yes	Yes	Yes
Acquirer and Target Nation FE	Yes	Yes	Yes	Yes
Acquirer and Target Industry FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.0140	0.0170	0.0543	0.0578
Number of Observations	19,574	19,574	2,589	2,589

Table 3.13: Additional Tests, Subsample Analysis and Robustness

This table presents the estimation results of several other tests, robustness, and subsample analysis. Panel A presents the results from controlling for hard power, Panel B presents the results for the level of economic development, Panel C presents the results from controlling for alliance relationship, Panel D presents the alternative dependent variable. Panel E presents the results if the target firm belongs to a politically sensitive industry. Panel F presents results if the target firm belongs to high technology industry and finally Panel G and H control for country-pair fixed effect and two-stage least square analysis for additional robustness. The dependent variables are the same as those used in the main analysis of the respective tests. The table presents the coefficients of the main variable of interest, CPR. All control variables are lagged one year and are defined in chapter 2, section 2.3 and in Appendix 3.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable	Number of bilateral deals (NB)	Volume (Value) of bilateral deals (VB)	Likelihood of deal completion	Duration of deal completion	ACAR	TCAR
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Role of Hard Power						
<i>Subsample</i>						
Without US targets	0.0376*** (0.0120)	0.0554*** (0.0240)	0.0296*** (0.0089)	-0.0173** (0.0071)	0.0055*** (0.0013)	0.0116*** (0.0076)
Without UK targets	0.0369*** (0.0120)	0.0518** (0.0241)	0.0414*** (0.0093)	-0.0211*** (0.0699)	0.0064*** (0.0013)	0.0252*** (0.0061)
Without three major hard powers targets	0.0430*** (0.0132)	0.0599*** (0.0272)	0.0261*** (0.0092)	-0.0177** (0.0074)	0.0050*** (0.0013)	0.0127*** (0.0027)
Only three major power targets	0.0030** (0.0007)	0.0148* (0.0076)	0.0950*** (0.0246)	-0.0188* (0.0172)	0.0115*** (0.0030)	0.0425*** (0.0135)
Panel B: Level of Economic Development						
<i>Subsample</i>						
ADTD	0.0146** (0.0103)	0.0150* (0.0254)	0.0111*** (0.0111)	-0.0161** (0.0076)	0.0054*** (0.0014)	0.0250*** (0.0068)
ADTE	0.0620** (0.0167)	0.0767** (0.0358)	0.0529*** (0.0186)	-0.0261* (0.0168)	0.0095*** (0.0029)	0.0374** (0.0183)
AETD	0.0109** (0.0258)	0.0133* (0.0077)	0.0315*** (0.0376)	-0.0261* (0.0342)	0.027** (0.0100)	0.0206 (0.0481)
AETE	0.0255*** (0.0516)	0.0135*** (0.0043)	0.0276* (0.0583)	-0.0224* (0.0635)	0.0075* (0.0039)	0.0167 (0.0448)
<i>Interactions</i>						
CPR (Avg 3 months) _{tgt, acq} × ADTD	-0.0270	-0.0540	-0.0313	0.0042	-0.0041	0.0211

	(0.0150)	(0.0456)	(0.0189)	(0.0155)	(0.0029)	(0.0184)
CPR (Avg 3 months) $_{tgt, acq} \times ADTE$	0.0392*	0.0383	0.0052	-0.0080	0.0025	0.0145
	(0.0205)	(0.0428)	(0.0209)	(0.0173)	(0.0030)	(0.0240)
CPR (Avg 3 months) $_{tgt, acq} \times AETD$	0.0315	-0.0508	0.0786	0.0182	0.0126	0.0102
	(0.0336)	(0.0243)	(0.0393)	(0.0325)	(0.0098)	(0.0245)
CPR (Avg 3 months) $_{tgt, acq} \times AETE$	0.0367*	0.0351	-0.0375	-0.0217	-0.0067	0.0232
	(0.0767)	(0.0227)	(0.0440)	(0.0488)	(0.0040)	(0.0226)

Panel C: Alliance Relationships

Subsample

Acq and Tgt (Alliance)	0.0251*	0.0287*	0.0410***	-0.0212**	0.0067***	0.0215**
	(0.0132)	(0.0210)	(0.0125)	(0.0087)	(0.0016)	(0.0162)
Acq and Tgt (No alliance)	0.0449***	0.0716**	0.0498***	-0.0222**	0.0069***	0.0167*
	(0.0152)	(0.0361)	(0.0129)	(0.0103)	(0.0020)	(0.0106)

Panel D: Alternative Dependent Variable

Ln (1+BN) or Ln(1+BV)	0.0222***	0.0241
	(0.0066)	(0.0063)

Panel E: Politically Sensitive Industry

Subsample

Target Political Sensitive Industry			0.0118*	-0.0182*	0.0083***	0.0293
			(0.0163)	(0.0124)	(0.0022)	(0.0178)
Target Non-Political sensitive industry			0.0563***	-0.0176**	0.0057***	0.0336**
			(0.0114)	(0.0084)	(0.0013)	(0.0154)

Interaction

CPR (Avg 3 months) $_{tgt, acq} \times$ Sensitive industry			-0.0436	-0.0031	0.0033	0.0121
$_{tgt}$			(0.0189)	(0.0155)	(0.0024)	(0.0199)

Panel F: High-tech Industry

Subsample

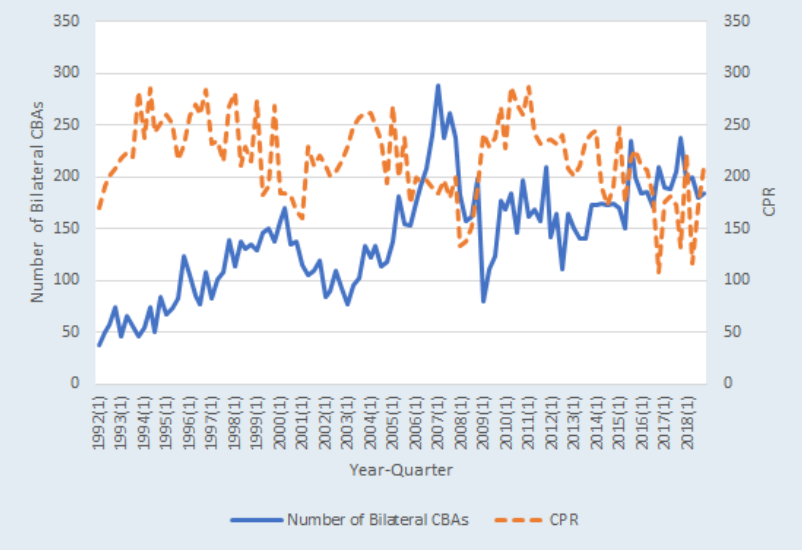
High-tech Industry $_{tgt}$			0.0294*	-0.0185	0.0069***	0.0601**
			(0.0176)	(0.0147)	(0.0024)	(0.0269)
Target non-high-tech Industry			0.0438***	-0.0165**	0.0067***	0.0174*
			(0.0103)	(0.0076)	(0.0013)	(0.0096)

Interaction

CPR (Avg 3 months) $_{tgt, acq} \times$ High tech Industry			-0.0196	-0.0018	-0.0009	0.0238*
$_{tgt}$						

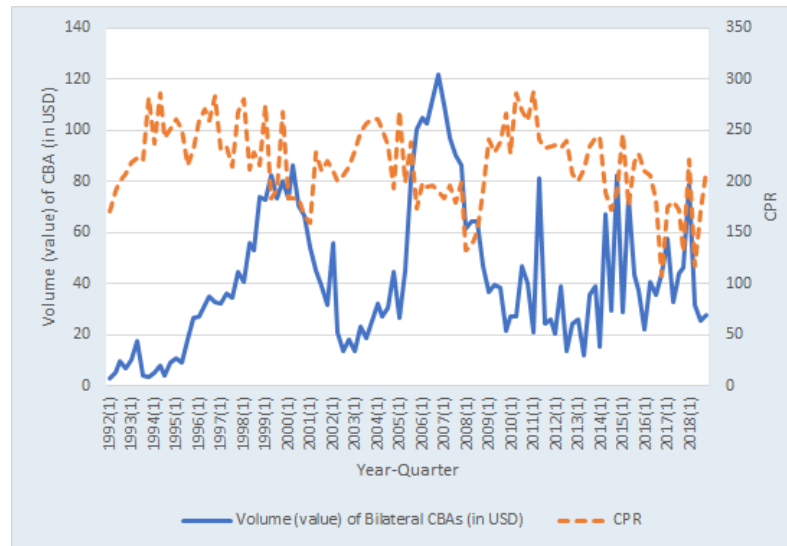
			(0.0194)	(0.0171)	(0.0024)	(0.0222)
Panel G: Country-pair Fixed Effect						
CPR (Avg 3 months) _{tgt, acq}	0.0244*** (0.0066)	0.0518*** (0.0200)	0.0411*** (0.0101)	-0.0176** (0.0071)	0.0072*** (0.0014)	0.0232*** (0.0057)
Panel H: Instrumental Variable						
1 st Stage Common IGO _{tgt acq}	0.0090** (0.0134)	0.0090** (0.0134)				
2 nd Stage CPR (Avg 3 months) _{tgt, acq}	0.0201*** (0.0078)	0.0286* (0.0204)				
Cragg-Donald Wald	21.21**	33.89**				
Country-level Characteristics (Difference)	Yes	Yes	Yes	Yes	Yes	Yes
Country-pair-level Characteristics	Yes	Yes	Yes	Yes	Yes	Yes
Industry-country-level characteristics	No	No	Yes	Yes	No	No
Firm-level Characteristics	No	No	No	No	Yes	Yes
Deal-level characteristics	No	No	Yes	Yes	Yes	Yes
Year-month FE	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Nation FE	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer and Target Industry FE	No	No	Yes	Yes	Yes	Yes

Figure 3.1: Plot (Time Series) of CPR and the Number of Bilateral CBA Bids



Notes: Figure 3.1 plots the time series of the aggregate number of CBA bids (per 100 listed firms) (continuous line) in the left vertical axis and aggregate CPR (dashed line) in the right vertical axis. The horizontal axis presents the year-month from 1992 to 2018.

Figure 3.2: Plot (Time Series) of CPR and Dollar Volume (Value) of Bilateral CBA Bids



Notes: Figure 3.2 plots the time series of the aggregate value of CBA bids (i.e., the dollar volume of bilateral bids between country-dyad is divided by GDP (in billions of USD) for the year (continuous line) in the left vertical axis and aggregate CPR (dashed line) in the right vertical axis. The horizontal axis presents the year-month from 1992 to 2018.

Appendix 3.1: Variables, Definitions and Data Sources

Variable	Definition	Source
Panel A: Dependent variables		
<i>Bilateral Country-pair level</i>		
Number of Bilateral Deals _{tgt, acq}	The total NB between country-pair per 100 listed firms (NC) in a given target's country as defined in equation (2.4) in Chapter 2, Section 2.2.2.	SDC and Datastream
Volume of Bilateral Deals _{tgt, acq}	The total VB in millions of USD divided scaled per billion GDP in a given target country, as defined in equation (2.5) in Chapter 2, Section 2.2.2.	SDC and Datastream
<i>Deal level</i>		
Deal Completion	Dummy variable equals to one if SDC reports deal status as "completed" and zero if "withdrawn."	SDC
Deal completion duration	The number of calendar days between the deal announcement and completion date.	SDC
ACAR	Acquirer's CAR (-2, + 2) as defined in equations (2.7) and (2.8) in Chapter 2, Section 2.2.3	SDC and Datastream
TCAR	Target's CAR (-2, + 2) as defined in equations (2.7) and (2.8) in Chapter 2, Section 2.2.3.	SDC and Datastream
Panel B: Key explanatory variable		
CPR _{tgt, acq}	A monthly net measure of conflict and co-operation between the country-pair as defined in equation (3.1) in section 3.3 of this chapter.	Calculation based on news-based index - Global Data on Events, Location and Tone (GDELT) (Leetaru and Schrod, 2021)
Conflict _{tgt, acq}	Natural logarithm of the monthly sum of the absolute Goldstein score of conflict events between the country-pair plus 1 as defined in equation (3.2) in section 3.3 of this chapter.	Calculation based on news-based index - Global Data on Events, Location and Tone (GDELT) (Leetaru and Schrod, 2021)
Co-operation _{tgt, acq}	Natural logarithm of the monthly sum of the absolute Goldstein score of co-operative events between the country-pair plus 1, as defined in equation (3.3) in section 3.3 of this chapter.	Calculation based on news-based index - Global Data on Events, Location and

Military_Dum _{tgt, acq}	Dummy variable equal to one if country-pair have military conflicts and zero if country-pair have non-military conflict during the previous three months, as explained in Section 3.3 (Scores of military conflicts can be viewed in Appendix 3.2 – Panel B below).	Tone (GDELT) (Leetaru and Schrod, 2021) Global Data on Events, Location and Tone (GDELT) (Leetaru and Schrod, 2021)
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Panel C: Country-level characteristics

Ln (GDPCap)	The natural logarithm of per capita GDP in USD.	WDI
GDPGr	The growth rate of gross domestic product.	WDI
Trade	The annual trade (imports + exports) of goods and services is divided by GDP.	WDI
Exchange Rate (per USD)	Exchange rate in USD divided by Purchasing Power Parity.	Penn World Tables
Corruption	A time-varying index measuring the corruption level within the political system. It is measured on a scale of 0-6, where higher points denote a lower level of corruption.	ICRG
Law and Order	A time-varying index of law and order. In ICRG, this comprises of law sub-component and order sub-component. Each sub-component consists of 0-3 points. Taking them together gives a scale of 0-6. A higher number denotes lower risk.	ICRG
Business Environment	A time-varying index determined by summing three components which include: (1) risk of expropriation or contract viability, (2) payment delays, and (3) repatriation of profits. Each component is scored on a scale from 0 - 4. It thus ranges from 0-12, with a higher value denoting lower risk.	ICRG

Panel D: Country-pair-level characteristics

Same Language	Dummy variable equal to one if the country-dyads share the same primary language and zero otherwise.	CIA World Factbook
Same Border	Dummy variable equal to one if country-dyads share the same border and zero otherwise.	CEPII
Colonial Tie	Dummy variable equal to one if country-dyads have colonial tie and zero otherwise.	CIA World Factbook
Bilateral Trade	Value of imports by acquirer country from target domicile as a percentage of total imports by the acquirer country.	Comtrade

Panel E: Industry/firm-level characteristics

Firm Size	The dollar value of the natural logarithm of total assets (firm or industry median).	Datastream
ROA (%)	EBITDA divided by the book value of total assets (firm or industry median).	Datastream
Leverage (%)	Total debt divided by the book value of total assets (firm or industry median).	Datastream

MTBV	Market-to-book ratio. It is calculated as the market value of common equity divided by the book value of common equity (firm or industry median).	Datastream
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Panel E: Deal/Bid-level characteristics

Deal size	Natural logarithm of deal transaction value, in millions of USD.	SDC
Cash Deals	Dummy variable equals to one if the deal payment is made with cash and zero otherwise.	SDC
Same Industry	Dummy variable equal to one if the target and bidder firms operate in the same industries using 48 Fama-French industry classification (FF-48) and zero otherwise.	SDC
Competing Bid	Dummy variable equals to one if the deal is identified as having more than one bidder in SDC and zero otherwise.	SDC
Tender Bid	Dummy variable equals to one if the deal is identified as a tender offer in SDC and zero otherwise.	SDC

Appendix 3.2: GDLET Data

Panel A: Conflict and Co-operation categorisation in quad class in GDELT data

CAMEO event code	Quad Class
01: Make public statement	1 or 3
02: Appeal	1
03: Express intent to co-operate	1
04: Consult	1
05: Engage in diplomatic co-operation	1
06: Engage in other co-operation	2
07: Provide aid	2
08: Yield	2
09: Investigate	2
10: Demand	3
11: Disapprove	3
12: Reject	3
13: Threaten	3
14: Protest	3
15: Exhibit force posture	4
16: Reduce relations	4
17: Coerce	4
18: Assault	4
19: Fight	4
20: Use unconventional mass violence	4

Source: Conflict and Mediation Event Observations (CAMEO) (Schrodt, 2012)

Panel B: Presenting negative events classified as Military Conflict

This table presents only events with a score of -7 and below.

Political Event	Goldstein Score	Political Event	Goldstein Score	Political Event	Goldstein Score
Threaten to halt international involvement (non-mediation)	-7	Use tactics of violent repression	-9	Employ aerial weapons	-10
Threaten with violent repression	-7	Use unconventional violence	-9	Use conventional military force	-10
Threaten to use military force	-7	Abduct, hijack, or take hostage	-9	Use weapons of mass destruction	-10
Threaten blockade	-7	Seize or damage property	-9.2	Use chemical, biological, or radiological weapons	-10
Threaten occupation	-7	Confiscate property	-9.2		
Threaten unconventional violence	-7	Destroy property	-9.2		
Threaten conventional attack	-7	Physically assault	-9.5		
Threaten attack with WMD	-7	Impose blockade, restrict movement	-9.5		
Give ultimatum	-7	Occupy territory	-9.5		
Exhibit force posture	-7.2	Violate ceasefire	-9.5		
Demonstrate military or police power	-7.2	Engage in mass expulsion	-9.5		
Increase police alert status	-7.2	Kill by physical assault	-10		
Increase military alert status	-7.2	Bombings	-10		
Mobilize or increase police power	-7.2	Assassinate	-10		
Mobilize or increase armed forces	-7.2	Fight with small arms and light weapons	-10		
Obstruct passage, block - Violently	-7.5	Use unconventional mass violence	-10		
Engage in violent protest for leadership change	-7.5	Engage in mass killings	-10		
Engage in violent protest for policy change	-7.5	Engage in ethnic cleansing	-10		
Engage in violent protest for rights	-7.5	Detonate nuclear weapons	-10		
Engage in violent protest for change in institutions or regime	-7.5	Fight with artillery and tanks	-10		

Source: GDELT Database

Appendix 3.3: CPR and Bilateral CBAs (including lag of months four and five)

This table reports estimates of Tobit regressions of the effect of CPR between the target-acquirer's domicile pairs on bilateral CBA, accounting for the lag of the fourth- and fifth-month CPR index. Everything else remains as the main analysis in Table 3.4; it only adds lags of CPR of the previous five months between the merging partner's domiciles.

Dependent Variable:	Panel A	Panel B
	Number of bilateral deals (NB)	Volume of bilateral deals (VB)
	(1)	(2)
CPR _{tgt, acq (t)}	-0.0015 (0.0033)	-0.0123 (0.0129)
CPR _{tgt, acq (t-1)}	0.0127*** (0.0048)	0.0169** (0.0077)
CPR _{tgt, acq (t-2)}	0.0144** (0.0058)	0.0200** (0.0087)
CPR _{tgt, acq (t-3)}	0.0151*** (0.0044)	0.0263*** (0.0102)
CPR _{tgt, acq (t-4)}	0.0036* (0.0038)	0.0036* (0.0003)
CPR _{tgt, acq (t-5)}	0.0183 (0.0058)	-0.0228 (0.0161)
Country-level Characteristics (Difference)	Yes	Yes
Country-pair-level Characteristics	Yes	Yes
Country FE	Yes	Yes
Time FE (month and year)	Yes	Yes
Pseudo R2	0.349	0.0114
Number of Observations	23,595	23,595

4. Political Constraints and Cross-border Mergers and Acquisitions

4.1 Introduction

The sustained increase in cross-border mergers and acquisitions (hereafter CBAs) across the globe has widened the interest of academics, corporate managers, and investors in identifying factors that can explain the activity and its related outcomes. While prior literature on CBAs has flourished, presenting various factors (Shimizu, Hitt, Vaidyanath and Pisano, 2004)⁶³, including from the various footings of political institutions⁶⁴. There has been relatively little focus on the role of political constraints on political actors in policy-making⁶⁵ on CBAs. Especially from the point of both merging firms' domiciles (i.e., of the acquiring and target firms' domiciles). This chapter, therefore, aims to bridge this void by investigating several dimensions that include the independent and concurrent influence of political constraints of merging firms' domiciles on key aspects of CBAs.

Political constraints (henceforth, PCs) denote the level of freedom of political actors concerning policy-making and other matters. Higher levels of PCs indicate higher levels of checks and balances on government officials, making it harder for them to change policies and rules of the game (Aguilera, Duran, Heugens, Sauerwald, Turturea and VanEssen, 2021; Vaaler and Schrage, 2009; Henisz, 2000). The current chapter's importance lies in the fact that PCs have important implications for corporate

⁶³ Some factors for example include firms research and development, firm assets, management quality, exchange rate, investment risk, legal restrictions to mention some few (Shimizu *et al.*, 2004).

⁶⁴ Such as political instabilities from terrorism (Hogetoorn and Gerritse, 2020; Ouyang and Rajan, 2017) or the impact of corruption (Di Guardo *et al.*, 2016; Weitzel and Berns, 2006).

⁶⁵ Political constraints in this chapter denotes the discretion of political actors concerning policy-making and other such matters.

policies, such as risk-taking, liquidity and capital structure, to mention a few (Ashraf, 2017; Boubakri, Ghoul and Saffar, 2015; Boubakri, Mansi and Saffar, 2013). They could thus have implications on the key areas of CBAs. Precisely, PCs for investment environment signal to prospective investors an ex-ante credible commitment to policies of a nation (Boubakri *et al.*, 2013; Henisz, 2000a). It has been documented that policy commitments provide solidity for investment (Aguilera *et al.*, 2021). Higher levels of PCs also provide various other advantages (as explained in the literature review section).

Given the underpinnings, for a CBA, higher levels of PCs at the targets' domiciles can give acquirers higher confidence in the domicile, which can encourage foreign managers to acquire (forming an *investment motivation view*). This also signals a higher likelihood of CBAs' success in terms of their completion and market value creation during the announcement period. This is rightly so as CBAs tend to be important firm conducts and are strongly influenced by institutions around them (Kim and Song, 2017). To be precise, strong institutions are likely to reduce the uncertainties and complexities in the transaction and can be a strong motivating factor (Kim and Song, 2017). Nevertheless, an alternative argument with regard to PC is also plausible. Firms may prefer acquiring targets domiciled with some flexibilities in policy making. It has been documented that less constrained governments can be more adept and decisive in undertaking measures whenever necessary (Pitlik, 2005; Cox and McCubbins, 2000; Tsebelis, 1995). Precisely with lower levels of PC, a firm might get target's nation to alter or bypass complex regulations, expedite procedures and/or get prioritized services. Given this, higher levels of PCs may thus deter acquirers (forming

a *deterrence view*). In light of the seemingly opposing advocacies, this present chapter adds to this line of research by examining the questions provided hereunder.

Research Questions and Summary of the Findings

First, given the *investment motivation view* and *deterrence view* at the target's domicile, the chapter investigates *how the varying levels of PCs at the targets' domiciles, in part, explain the cross-sectional and temporal variations in the targets' domiciles inbound CBAs bids in terms of number and volume (i.e., value)*. To conduct the investigation, the chapter uses a comprehensive sample of CBAs from 45 countries (that include both developed and developing) between 1992 and 2017 and a time-varying Political Constraint Index (Henisz, 2017 data release) for its main analysis. Reconciling the contradictory view, results find robust evidence that an increase in the yearly PCs index at the target's domicile is associated with an increase in the target domicile's inward CBAs bids. This aligns with the *investment motivation view*, indicating that instead of lower levels of PCs, it is the higher levels of PCs that encourage investments.

Second, there are also opposing advocacies with regard to the role of PCs on outbound acquisitions. On the one hand, as lower PCs indicate uncertainty and voids in the investment environment, firms may choose to pre-empt, escape and actively hedge through outbound acquisitions (forming the *hedging view*). Denis, Denis and Yost (2002), Cuervo-Cazurra and Ramamurti (2017) and Luo and Tung (2007), among others, advocate this view. They explain that firms can use international expansion to reduce institutional and market constraints at their domicile. However, on the contrary, studies such as Zhu, Ma, Sauerwald and Peng (2017) provide that home country

institutions are also important for helping firms engage in a successful and value-enhancing outbound acquisition. Given this, lower levels of PCs, due to their drawbacks, may fail to flourish its domiciled firms to conduct outbound acquisitions. Thus, by exploiting bilateral CBAs bids (both in terms of number and volume), the chapter examines *how the varying levels of PCs at the targets' and acquirers' domiciles, in part, explain the cross-sectional and temporal variations in the bilateral CBAs bids between the merging firms' domiciles*. The examination reveals two crucial results; first, in line with *the investment motivation view*, the examination reports a positive relationship between PCs at target firms' domiciles and inbound acquisitions and reiterates the above findings. Second, reconciling the contradictory view on PCs at acquirers' domiciles and outbound acquisitions, results find that lower levels of PCs at acquirers' domiciles encourage outbound acquisitions; this aligns with the prediction of the *hedging view*. The chapter also examines the possible implications of the difference of the levels of PCs between acquirers' and targets' domiciles. Results show a positive relationship when PCs at the targets' domiciles are higher than PCs at the acquirers' domiciles, reinforcing the *hedging view*.

Third, merger completion after bid announcement usually requires transparency in information, among other supporting factors (Thompson and Kim, 2020; Kim and Song, 2017). PCs, as stated above, influence the transparency levels (Boubakri *et al.*, 2015). Retrospectively, PCs at the target's domicile may influence the deal's completion after its bid announcement. To see if this is the case, the chapter investigates *how the levels of PCs at target firms' domiciles, in part, explain the likelihood of CBAs' deal completion after their public announcement*. The chapter also investigates the *possible implication of PCs at acquirers' domicile for the likelihood*

of CBAs' completion (whose rationale is further explained in the hypotheses section). Results reveal that higher levels of PCs at both the targets' and acquirers' domiciles increase the likelihood of deal completion, suggesting the importance of higher PCs during the deal completion stage.

Fourth, it has been documented that lower levels of transparency prolong the duration of deal completion (Thompson and Kim, 2020). With lower levels of PCs explicating these encumbrances, the chapter investigates - *if levels of PCs at target firms' domiciles in part explain the duration of CBAs' deal completion after its public announcement*. The chapter also examines the *possible implications of PCs at acquirers' domiciles on CBAs' deal completion* (whose rationale is further explained in the hypotheses section). Results reveal that higher levels of PCs at targets' domiciles reduce the duration of CBAs deal completion. These findings reinforce the importance of PCs for deal completion.

Fifth, while a voluminous number of researchers have examined value creation/destruction during CBA's announcement period, PCs surprisingly have not received attention. As such, the chapter examines *whether acquirers add value for their shareholders on outbound acquisitions with regard to PCs at their domicile*. Empirical investigation finds a statistically significant inverse relationship between PCs at acquirers' domiciles and acquirers' market returns (i.e., acquirers' cumulative abnormal returns – ACAR). Specifically, acquires' markets gain 2.62% (from Table 4.10, column (2)) higher returns on outbound acquisitions in the face of lower levels of PCs at their domicile. These findings suggest that acquirers' markets appreciate the hedging view. The chapter also examines the possible implications of PCs at the

targets' domiciles and the comparative levels of PCs between the domiciles where acquirers and targets are based.

Sixth, the chapter examines *if the levels of PCs of target firms' domiciles contribute to explaining the announcement period gains of the targets' shareholders*. Empirical investigation finds a statistically significant positive relationship between PCs at targets domiciles and targets' market returns (i.e., acquirers' cumulative abnormal returns – ACAR). Specifically, a 1% increase in average PCs increases TCAR by 13.49% per year (from Table 4.11, column (2)). This suggests that target firms with higher levels of PCs at their domicile can add value for their shareholders.

Finally, literature provides that the influence of factors explaining CBAs activity and its related outcome can differ based on the levels of economic development of the merging firms' domiciles, including the legal origin at the targets' domicile (Blonigen and Wang, 2004; Bris and Cabolis, 2008; La Porta, Lopez-de-Silanes and Shleifer, 1998). Moreover, institutional qualities have been documented to moderate the levels of PCs (Boubakri *et al.*, 2015). As such, the chapter examines the influence of these heterogeneities on the relationship between PC on CBAs. The findings suggest that emerging markets benefit the most with regard to outbound acquisitions in the face of lower levels of PC at their domicile (i.e., hedging view) and in attracting inbound CBAs upon improving PCs (i.e., investment motivation view). Results also suggest that other institutional qualities and common law legal origin at the target's domicile compensate for lower levels of PCs.

Contributions and Policy Implications

This chapter makes the following contributions to the literature. First, the chapter contributes to the literature that examines the effect of country-specific

political factors (i.e., unilateral constructs of political environment, precisely PCs) on corporate investment (Boubakri *et al.*, 2013; Boubakri *et al.*, 2015). Precisely, the empirical chapter supports and extends the arguments of Boubakri *et al.* (2013) and Boubakri *et al.* (2015), as both find that PCs impacts firms risk taking and growth. The chapter extends this body of literature by showing the relevance of PCs on another important corporate investment i.e., on CBAs and that even in a global context.

Second, the chapter contributes to the literature on the determinants of CBAs, precisely those investigating the political factors (such as Hogetoorn and Gerritse (2020) and Weitzel and Berns (2006), among others. These studies pay attention to constructs such as terrorism and political corruption respectively. Nguyen, Phan and Simpson (2020) find similar findings, but for local political corruption at acquirers' and targets' locations on domestic M&As, it is reasonable to say that this chapter is closely related to their study. To this end, this chapter explores another important part of the political institution, i.e., PCs in an international setting; documenting the importance of PCs at both merging firms' domiciles (i.e., of acquirer's and target's firm's domicile) as essential factors that contribute in explaining the direction of CBAs bids. The takeaway for economies and policymakers from these findings is that constraints in policymaking are important for providing an efficient and effective investment environment. Hence, to attract inbound investments and avoid domiciled firms escaping their market, they must work towards improving PCs.

Third, the chapter underscores that PCs at both domiciles contribute in explaining the completion stage of acquisition after its announcement. As such, the chapters contribute to the limited but growing body of literature examining the completion of CBAs after the announcement of the bids (i.e., the likelihood and

duration of CBAs' deal completion). Notable studies in this area include Muehlfeld *et al.* (2007) and Luo (2005), among others. The takeaway for managers of the acquiring firms is that they need to be aware of PCs at both domiciles when conducting CBAs as it influences the deal completion and duration after the announcement of the bid.

Fourth, the chapter documents that target firms' market benefit from higher levels of PCs at their domicile and acquirers firms' market can gain more by purchasing firms domiciled in nations with higher PCs. It complements the voluminous literature on whether CBAs create market value, such as Moeller and Schlingemann (2005). Strategically, the results imply that managers of target firms in nations with low levels of PCs may look for ways to enhance their position to benefit from CBAs during the announcement period. The acquiring firm in nations with lower levels of PCs, on the other hand, may look for acquisition opportunities in nations with better PCs as this helps create value.

Fifth, by providing evidence that firms domiciled in a nation with lower levels of PCs may relocate their assets through CBAs. This chapter adds to the M&A literature that suggests that M&A represents the market discipline that helps reallocate assets to better use (Jovanovic and Rousseau, 2008; Martynova and Renneboog, 2008; Andrade and Stafford, 2004). This also adds to the limited but growing literature on home institutional factors as determinants of CBAs, such as that of Zhu *et al.* (2017).

Finally, the findings contribute to the literature that documents that heterogeneity with regard to economic development (Blonigen and Wang, 2004), the nation's institutional setup (Bris and Cabolis, 2008) and the country's legal origin (La Porta *et al.*, 1998) impact investors and firm's investment and financing decisions. By documenting that these heterogeneities impact the influence of PC on CBAs, it thus

contributes to this strand of literature. Strategically, findings provide that stakeholders, when considering PCs in their decision-making concerning CBAs, should also consider these heterogeneities.

The remainder of the chapter proceeds as follows, Section 4.2 discusses related literature and defines the testable hypotheses. Section 4.3 describes the key explanatory variable, while Section 4.4 presents and discusses the empirical results. Finally, Section 4.5 concludes the chapter.

4.2 Related Literature and Hypotheses Development

This section presents hypotheses to guide the empirical analysis. The hypotheses are provided in seven parts. The first six show the relationship between PCs and target domicile's inbound CBAs, acquirer's domicile's outbound CBAs, the likelihood of deal completion, the duration of deal completion, acquirers' announcement period returns and targets' announcement period returns. The seventh hypothesis shows how the heterogeneity with regard to the level of economic development, institutional quality and legal origin of the domicile can influence the impact of PCs on CBAs.

4.2.1 PCs in Targets' Domiciles and Inbound Cross-border Mergers and Acquisitions

Target firms operate under the institutions at their domicile (Maung *et al.*, 2019); intuitively, any benefits and obstacles in these institutions can influence acquirers' merger decisions. Institutions are humanly devised rules of game devised to provide a stable structure (North, 1990). These institutions can be formal and informal.

Scholars differentiate formal and informal institutions based on the degree to which their rules are structured, referring to formal institutions as written rules and informal as unwritten ones (Zhang, 2020). From the nexus of formal institutions, PCs at the target's domicile can be one factor that may influence CBA's bid decisions.

Literature documents that political actors' flexibility in changing policies (i.e., lower levels of PCs), among many factors, expound on the likelihood of implementing destructive policies (Wang and Sui, 2019). Destructive policies can occur as tax and capital control policies or pressuring firms into activities outside their interest (Wang and Sui, 2019). Moreover, the government may interfere with contracts, provide licenses to interested parties, assume board positions forcefully, and so on (Wang and Sui, 2019). Given these drawbacks, acquirers would look to acquire in nations with higher levels of PCs.

Furthermore, higher levels of PCs at the target's domicile also advocate higher levels of transparency at the domicile (Boubakri *et al.*, 2015). This can be an avenue to influence acquirer's decisions. The notion of the importance of transparency for foreign direct investments is not novel. Lower levels of transparency increase information asymmetry, which makes it harder to obtain the right amount of company information for decision-making (Bushman, Piotroski and Smith, 2004). This can also lead to adverse selection, as in a more transparent environment, one can effectively gather and verify information. Erel, Liao and Weisbach (2012), using the sample of CBAs from 1990 to 2007, find that transparency in accounting disclosure increases the likelihood of mergers between two countries. As such, higher levels of PCs could influence acquirer's decision through this avenue.

Moreover, one of the merger motives, amongst many others that literature highlights, is to increase the debt capacity of the combined firm (Ghosh and Jain, 2000)⁶⁶. It has been documented that nations with higher levels of PCs have an efficient financial sector and low cost of debt capital (Qi *et al.*, 2010); such acquirers would look to acquire in nations with higher PCs. Even without such a motive, higher levels of financial sector development at target's domicile indicate better cost of debt capital and lower financial constraints for firms (Rajan and Zingales, 1998; Love, 2003), making such firms more attractive for acquisitions.

It has also been documented that lower levels of restriction on political actors give them the liberty to engage in predatory government behaviour (Boubakri *et al.*, 2015; Graham, Johnston and Kingsley, 2017). Predatory government behaviour usually gives rise to explicit cost of bribes paid to the government officials and costs associated with gathering and familiarising with the information to cope with the levels of corruption in a country (Donaldson, 1996). These adversarial behaviours have been documented to impact global capital flows (Wei and Shleifer, 2000). PCs may thus influence acquisitions through this path.

Taken as a whole, the hindrances with lower levels of PCs identified above is likely to increase transaction cost for acquirers. Theoretical and empirical studies with regard to the influence of political environment and CBAs posit an adverse effect of high transaction costs on CBAs for example caused by costs generated from adverse political actions such as political corruption (Lambsdorff, 2003; Luu *et al.*, 2019; Ghosh *et al.*, 2022). Nguyen *et al.* (2020) for example for domestic M&A also report that it is the lower levels of government predatory behaviour that attracts acquirers.

⁶⁶ Ghosh and Jain (2000) for example find that financial leverage of combined firms increases significantly following mergers.

This indicates that lower levels of transaction cost has a higher likelihood of providing solidity to invest. To this end, this chapter posits that fragmented political decision-making process due to its power of lowering transaction costs for investors can attract acquirers and lead to *investment motivation view*.

On the other hand, contrary to the above, higher levels of PCs reduce the government's ability to address business and social needs of its various stakeholders (Aguilera *et al.*, 2021). This is because a fragmented political decision-making process impacts the implementation of any policies swiftly, should a situation demand it (Aguilera *et al.*, 2021). At times, politically constrained governments may also have the will to stop popular but detrimental policies but often cave when implementing such changes out of fear of playing into the hands of their political opponents (Kanbur and Myles, 1992). Engaging in CBAs under such an environment could bring an element of uncertainty regarding their success and value creation, thus deterring potential acquirers (this, therefore, forms the *Deterrence view* concerning inbound CBAs).

Given the two contrasting arguments, some nations may benefit from inbound CBAs due to higher levels of PCs, while others may discourage inbound CBAs with higher PCs. Taken together, it is possible that these opposite effects may offset each other's impact on the relationship between the target domicile's PCs and the target domicile's number and volume of inbound CBAs (i.e., no significant effect)⁶⁷. This discussion leads to the formation of the following hypothesis:

⁶⁷ That is some firms with maybe driven to conduct an inbound CBAs (i.e., *investment motivation view*), while other maybe discouraged to do so (i.e., *deterrence view*).

Hypothesis 1 (H1): There is no significant relationship between the level of inbound CBAs and the levels of PCs at the targets' domicile.

4.2.2 PCs in Acquirers' Domiciles and Outbound Cross-border Mergers and Acquisitions

In simultaneity to the institutional factors at the targets' domicile, the institutional factors at acquirers' domicile can also influence acquirers' CBA's decisions. It is documented that firms flee from hindrances of the home country conditions by moving to more attractive, foreign locations (Barnard, 2014; Lessard and Lucea, 2009). This is rightly so as neoclassical theory suggests that mergers occur to redeploy corporate assets towards more efficient use (Gort, 1969; Harford, 1999; Xu, 2017). Precisely, firms have been documented to internationalise to escape discriminatory factors based on their country of origin (Barnard, 2014), institutional voids (Luo and Tung, 2007) or to benefit from institutions in a foreign country. One, for example, is to access cheaper finance by issuing instruments in countries with more stable institutions, even if that means complying with more stringent corporate governance standards (Lessard and Lucea, 2009). As mentioned above, lower levels of PCs can lower the financial sector development, increasing the cost of debt financing (Qi *et al.*, 2010); this, therefore, can be one reason that firms would want to acquire outbound to benefit from cheaper finance. Moreover, under lower levels of PCs, because of heightened fear of expropriation, firms may need to shield their liquid cash (Boubakri *et al.*, 2015; Boubakri *et al.*, 2013); this may encourage outbound acquisitions. This is rightly so, as researchers (Myers and Rajan, 1998; Stulz, 2005;

Caprio, Faccio and McConnell, 2011) provide that firms pursue policies to shield themselves from local officials' expropriation.

Theoretical and empirical studies with regard to the influence of political environment on M&A for example Nguyen *et al.* (2020) for domestic M&A report on how higher levels of government predatory behaviour encouraged acquirers to hedge and shield (i.e., redeploy) their assets by acquiring in areas with less of such behaviour. Nguyen *et al.* (2020) base their reasoning on a large body of theoretical and empirical studies positing that firms flee from hindrances of the home country conditions by moving to more attractive, foreign locations (see for example Smith, 2016; Shleifer and Vishny, 1993). Overall, this indicates that any inefficiency in the institutional environment (to this end, lower levels of PC) can be a driver of outbound CBAs; this is referred as *the hedging view*.

On the other hand, contrary to the above, lower levels of PCs may also discourage outbound acquisition. Nations with lower PCs may fail to flourish their domiciled firms to make outbound acquisitions. As mentioned above, lower levels of PCs are attached to higher costs of debt financing (Qi *et al.*, 2010). Under such circumstances, firms would be exposed to higher default risk, higher cash flow volatility, and it would be hard and costly to raise external funds for acquisitions; this may dampen the acquirer's ability to make an outbound acquisition. Additionally, Boubakri *et al.* (2015) provide that lower levels of PCs dampen a firm's growth. As such, lower levels of PCs would make it harder for its domiciled firms to acquire outbound.

Given the two opposing arguments, taking them together⁶⁸ may cancel out each other's effect and could thus offset the relationship between the acquirer's domicile's PCs and the acquirer domicile's number and volume of outbound CBAs. This leads to the formation of the following hypothesis:

Hypothesis 2 (H2): There is no significant relationship between the level of outbound CBAs and the levels of PCs at the acquirers' domicile.

4.2.3 PCs and Likelihood of CBA Deal Completion

Acquirers need to comply with policies, rules and regulations of the targets' domiciles and involve negotiations with the targets after the public announcement of CBAs. These are, in most cases, complex due to uncertainties triggered by various institutional factors (Popli, Akbar, Kumar and Gaur, 2016). In fact, despite the involvement of sophisticated institutional intermediaries such as investment banks, cross-border deals remain complex (Popli *et al.*, 2016). A large number of initiated CBAs are abandoned or delayed even after their public announcement. For example, in 2021, out of USD 4.1 trillion M&As bids (which also includes CBAs), USD 2 trillion reached completion, USD 208 billion were terminated, and as reported in early 2022, the rest (USD 1.9 trillion) were pending yet to be closed (Grace, 2021).

Here I argue that PCs at targets' and acquirers' domiciles may play a role in this. Specifically, higher levels of PCs at the target's domicile, as explained in the previous sections, have less information asymmetry (Boubakri *et al.*, 2015); this would help acquirers gather sufficient information about the targets beforehand and thus

⁶⁸ That is some firms with lower levels of PCs maybe driven to conduct an outbound CBAs (i.e., *hedging view*), while other maybe discouraged to do so.

increase the likelihood of deal completion. Moreover, with stability in regulations, laws and procedures, an attribute of higher levels of PCs (Boubakri *et al.*, 2013), acquirers may be able to comprehend the requirements of deal completion easily, which can conversely increase the likelihood of the deal completion. This is rightly so, as Thompson and Kim (2020) and Kim and Song (2017), among others, provide the importance of information and stability in the investment environment for the success of deal completion.

Likewise, higher PCs at the acquirers' nation can also support acquirers in the acquisition completion. Because of their advantages, higher PCs can help flourish their domiciled firms, and such firms can be in a better position to meet the terms of target firms. Such firms can also be in a better position to afford gathering relevant information about the target as it is well known that acquirers need support from M&A advisors in gathering information (Very and Schweiger, 2001), which could be very expensive. The arguments thus suggest that higher levels of PCs both at the acquirer's and target's domicile strengthen the chances of deal completion and lead to the formation of the following hypothesis:

Hypothesis 3 (H3): The likelihood of CBAs' deal completion is positively related to the levels of PCs at the domiciles of targets and acquirers.

4.2.4 PCs and Duration of CBA Deal Completion

The levels of PCs could also play a role in the duration of CBA deal completion (i.e., the number of days taken for deal completion). In most cases, prolonged deal-making is likely to be costly for the bidding firm. Precisely, longer duration leads to the overdue hypothesis, which posits that acquirers suffer when deals

close beyond an optimal closing time because of rising expenditures and opportunity costs from delays (Luypaert and De Maeseneire, 2015). Also, delays indicate loss of expected deal synergies disseminated by changes in target fundamentals and repercussions from loss of focus on daily operations due to prolonged negotiations (Thompson and Kim, 2020). Higher levels of PCs, both at the target's domicile and the acquirer's nation, can increase acquirers' ability to gather information regarding the target firm and its environment and comprehend with the requirements of CBAs. This could lower further negotiations after the merger announcement, reducing the deal completion duration. Based on these arguments, the following hypothesis is formed:

Hypothesis 4 (H4): The duration of CBAs deal completion is positively related to the levels of PCs at the targets' and acquirers' domicile.

4.2.5 PCs in Acquirers' Domiciles and Acquirers' Announcement Period Gains

Prior literature on CBAs has widely analysed the announcement period gains/losses from CBAs and several factors that may have impacted it. However, there have been mixed findings; for example, Moeller and Schlingemann (2005) report negative cross-border effects on acquirers' value. Kiyamaz (2004) and Doukas and Travlos (1988) find that CBAs enhance firm values. Moreover, studies have not examined the implications of PCs at acquirers' domiciles on acquirers' outbound returns. As such, this study bridges this gap. Two economic predictions are plausible. First, following the *hedging hypothesis*, acquirers may benefit from outbound acquisitions in the face of lower levels of PCs at their domicile and higher levels at the

domicile of the target firms. This is rightly so as literature on political environment and M&As posits that acquiring firms' shareholders appreciate outbound acquisition and react positively, gaining a higher market return during the announcement period when firms pre-empt and actively hedge against political costs through diversification (Nguyen *et al.*, 2020). To this end, this chapter posits that unfragmented political decision-making process at acquirers domicile can lead to similar outcomes.

In contrary to the above explanation, lower levels of PCs at the acquirer's domicile could be in a position to provide lower support for its domiciled firms to flourish and acquire (as explained while defining the first hypothesis). Precisely, the disadvantages generated by lower levels of PCs in a domicile could weaken its domiciled firm's ability and bargaining position in an acquisition deal; as such, acquirers could gain lower at the announcement period. For example, literature on political environment and M&A (Nguyen *et al.*, 2020) find that acquirers domiciled in a location with higher expropriation pay a higher premium. to this end, lower levels of PCs at the acquirer's domicile could lower the acquirer's bargaining power and increase their cost of outbound acquisition, which may reduce their returns during the announcement period.

Given that both views are plausible, taking them together may cancel out each other's effect and could thus offset the relationship (i.e., no significant effect) between PCs and the acquirer's announcement period gains. This leads to the following hypothesis:

Hypothesis 5 (H5): There is no significant relationship between the acquirers' announcement period gains and the level of PCs at the acquirers' domicile.

4.2.6 PCs in Targets' Domiciles and Targets' Announcement Period Gains

Following the *investment motivation hypothesis*, the target firms domiciled in a nation with higher levels of PCs, as explained above, have a higher benefit. All this can make target firms more attractive, resulting in better terms for the targets during the announcement period. For example, Nguyen *et al.* (2020) find that targets with lower expropriation rates receive a higher premium. Therefore, I posit that higher PCs at the targets' domicile can result in value gains for the target firms during the announcement period. On the contrary, governments would be better positioned to provide generous incentive packages with lower levels of PCs than higher levels (Aguilera *et al.*, 2021). Such a standpoint could put the targets in a disadvantageous position weakening their bargaining power and resulting in lower market returns during the announcement of the CBA. Given that both these opposing scenarios are plausible, taking them together may cancel out each other's effect and offset the relationship (i.e., no significant effect) between PCs at the targets' domicile and targets' announcement period gains. I, therefore, hypothesize the following:

Hypothesis 6 (H6): There is no significant relationship between the targets' announcement period gains and the level of PCs at the targets' domicile.

4.2.7 PCs and Level of Economic Development, Institutional Quality and Legal Origin

This section provides hypotheses for three factors that may influence the consideration of PCs in CBAs' decision-making and its outcomes. The three factors are the levels of economic development of the merging firms' domiciles, the

institutional quality and the legal origin of the targets' domiciles, as discussed hereunder.

4.2.7.1 PCs and Level of Economic Development of the Merging Firms' Domiciles

Extant literature documents that levels of economic development of a nation shapes its domiciled firms differently, and they have different reasons for internationalisation and consider factors differently (Blonigen and Wang, 2004); as such, their consideration for PCs may differ, yet one does not see any studies linking these factors, especially for the questions this chapter investigates. Firms domiciled in emerging markets have been documented to expand into markets, among other factors, to escape from voids at home and benefit from institutions in a foreign country (Barnard, 2014; Lessard and Lucea, 2009). In contrast, acquirers from developed markets are supported by a strong institutional environment at their domicile; benefits in other areas can compensate for voids in one area. Given this and the fact that lower levels of PC have voids attached to them, as seen earlier, one can argue that outbound acquisitions with regard to lower levels of PCs can accrue more to firms domiciled in emerging markets in comparison to those domiciled in developed markets.

It has been documented that the voids in emerging markets are one of the reasons firms shy away from investing in the emerging market especially coming from developed markets (Rottig, 2016). As such, it is plausible that the benefits of attracting inbound acquisitions with higher levels of PCs could accrue more to firms from emerging markets than developed markets. The discussion leads to the formation of the following hypothesis.

Hypothesis 7 (H7a): Emerging market and its domiciled firms compared to others would benefit more from outbound acquisition in the face of lower levels of PCs and in attracting inbound acquisitions in the face of higher levels of PCs.

4.2.7.2 PCs and Institutional Quality of the Targets' Domiciles

Boubakri *et al.* (2015) and Boubakri *et al.* (2013) find that the importance of PCs on firms' growth and risk-taking reduces when other institutional qualities are strong. This shows that other institutions can compensate for lower levels of PCs. Literature (such as North, 1990; Choi, Lee and Kim, 1999) document that nations with better quality of institutions have higher power of enforcing rules. Rottig (2016) also suggests that strong institutions provide efficient judicial systems capable of enforcing contracts reliably and predictably. Such institutions can compensate for lower levels of PCs. As such, the importance of PCs for CBAs might differ based on other institutional variables, yet one does not see any studies linking these factors, especially for the questions this chapter investigates. As such, this implication is examined using the following hypothesis:

Hypothesis 7b (H7b): If a relationship between PCs at the targets' domiciles and CBAs is established, high quality of institutions at the targets' domiciles can compensate for lower levels of PCs at the targets' domiciles.

4.2.7.3 PCs and Legal Origin of the Targets' Domiciles

Another important institution of a country is its legal origin. A country's legal foundations can influence how the legislations are promulgated, interpreted and enforced. The two crucial legal origins are civil law which is codified, and common

law, which is not codified. Unlike the common law system, the civil law system is more structured and comprehensive because both civil and criminal dealings may require court adjudication (La Porta *et al.*, 1998). Under the common law, the judiciary actively interprets the legislation, and judgements often form the major source of ‘interpreted’ laws. Civil law judiciary tends to be more inquisitorial, where the courts investigate to establish the facts of a case prior to applying the codes to reach a verdict.

La Porta *et al.* (1998) and Djankov, La Porta, Lopez-de-Silanes and Shleifer (2008) suggest that countries belonging to common law legal origin countries, compared to civil law legal origin (such as the French law), have better investors rights, creditor rights and developed capital market; they also attract higher levels of capital flows. The legal system has also been shown to influence the acquisitiveness of the target firms (Rossi and Volpin, 2004). One can argue that common law support can play a stronger substitutive role for lower levels of PCs. In this way, PCs' role could be reduced if targets were domiciled in a nation of common law origin, yet we do not have clear answers for this. As such, the chapter investigates the following hypothesis:

Hypothesis 7c (H7c): If a relationship between PCs at the targets’ domiciles and CBAs is established, the common law origin of the targets’ domiciles can compensate for lower levels of PCs at the targets’ domiciles.

4.3 Key Explanatory Variable - Political Constraints (PCs)

This chapter employs three different measures of PCs (one for the main analysis and two to check the Robustness) – all of which proxy the commitment of political institutions over policies. It employs the Political Constraint index (Polconv) (Henisz, 2017 data release) for the main analysis. Henisz (2000a) explains that the

index is based on the theoretical concept of veto player of Tsebelis (1995) – which captures how either an individual or collective actors' agreement is required for a change of the status quo (policy). Thus, with lower levels of PCs, government officials have lower constraints on policy changes and vice versa. The index is measured on a scale of zero (lower constraint) to one (most constrained). This index is the most popular proxy used in political economics literature because of its detailed construction and extensive coverage (Boubakri *et al.*, 2013). It is a time-varying index⁶⁹ available for each year from 1960 to 2016 and for all 45 countries in the investigation. For more details about the construction of the index, see Henisz (2000a)⁷⁰. In simple words, a value of 0 reflects the absence of veto players, and this is a complete concentration of policymaking authority. Each additional veto player has a positive value on the index. Greater fractionalisation within the branches of the government (i.e., executive, legislative, judicial, and sub-federal branches) also increases the index value but in a diminishing manner (Boubakri *et al.*, 2013).

Table 4.3 (Panel B) of the descriptive statistics provides critical points of the PCs index for the countries in our sample. First, it shows PCs at two points in time, at the beginning and the end of our sample (i.e., in 1991 and 2016). Second, it shows the average PCs for each of the 45 nations in our analysis. The average PCs range from 0.000 to 0.892, indicating least constrained to most constrained. While some countries like Saudi Arabia, China, Singapore and Egypt have low scores for PCs, others like France, Spain, Australia, and Belgium have high scores. PC's scores find the middle

⁶⁹ Countries like Saudi Arabia remain static. I therefore re-run all the investigations without these samples and empirical results are consistent to the main findings.

⁷⁰ Henisz derives the measure from a spatial model of political interaction that incorporates the institutional constraints on the number of independent veto points in the political system (executive, legislative, judicial, and sub-federal branches of government) and the distribution of political preference both across and within these branches (Qi *et al.*, 2010).

ground in Brazil, Chile, Italy, UK and Poland. This provides desirable variation in PCs across countries and time for a robust study. We can also observe that countries like Singapore with high GDP per capita have a lower score, and countries like the UK and Brazil, which are very different in their economic characteristics, fall almost with similar PC values. Thus, the sample includes a mix of countries with different values.

Figures 4.1 and 4.2 plot the average PCs along with the total number of CBA deals (Figure 4.1) and the total dollar volume of CBA deals (Figure 4.2). A casual eyeballing of the Figures indicates that CBAs spike when PCs are higher at many points, indicating a positive potential relationship between PCs and CBA activities. However, the figures also show some noisier points, indicating the need to control for other factors in the model.

For Robustness, this chapter further employs Checks from the Database of Political Institutions (*Checks- DPI*) (Cruz, Keefer and Scartascini, 2021) and Constraints on the Chief Executive from Polity V (*Exec Const*) (Marshall and Gurr, 2021). *Checks-DPI* captures the number of veto players in the political system⁷¹. The score is from 1 (least constrained) to 10 (most constrained). *Exec Const* refers to the extent of institutionalized constraints on the decision-making powers of chief executives, whether individuals or collectives. This index is again time-varying. The score is from 1 (least constrained) to 7 (most constrained).

⁷¹ This was previously hosted by World Bank. Checks “counts the number of veto players in a political system, adjusting for whether these veto players are independent of each other, as determined by the level of electoral competitiveness in a system, their respective party affiliations, and the electoral rules” (Beck, Clarke, Groff, Keefer and Walsh, 2001, p. 170).

4.4 Empirical Results

4.4.1 Descriptive Statistics

4.4.1.1 Descriptive Statistics of the Sample Data

After imposing the screening qualification as explained in Chapter 2, 179,015 M&A transactions with a total value of USD 38.994 trillion survived in the sample. Of this full sample, 37,316 are CBAs (where the acquirer nation is not equal to the target nation). Of these, 31,426 are completed CBAs deals with a total disclosed value of USD 8.52 trillion, and 5,890 are incomplete CBAs with a total disclosed value of USD 2.12 trillion. 24,991 CBAs are public acquirers, and 3,062 are public targets; the rest are private and subsidiary firms. Public, private, and subsidiary acquirers and targets are considered to investigate the bilateral number and volume of bilateral CBAs and the completion stage of CBAs (i.e., likelihood and duration of CBAs). To investigate the wealth effect, only the public acquirers and targets are used as firm-level data, and market returns are only available for these firms⁷².

Table 4.1 reports the sample distribution of the number and volume (in USD) of all M&A transactions by the domiciles of the acquirers and the targets. The United States (US) and The United Kingdom (UK) witness the largest volume of domestic and CBAs. Firms from US and UK are involved in 68,603 and 22,147 number of total M&As with 8,753 and 6,098 outbound CBAs, respectively. The countries receiving the highest number of inbound acquisitions are also the US and the UK market, reporting 9,047 and 4,497 inbound CBAs. Other countries active in the CBA market

⁷² For investigating the likelihood of acquisition completion, I use full sample (completed and otherwise, as done by Dikova *et al* (2010)) and these are the results I report; however, I also separately investigate the likelihood of acquisition completion by removing pending deals (that is deals in progress) as done by Kim and Song (2017) and I obtain qualitatively the same results.

and account take a significant sample share include Canada, Australia, France, Germany, Netherlands and China. Other countries in the sample are less active comparatively in terms of both number and volume.

To create the country-pair and year of 37,316 CBA activity, a record of the numbers of mergers between country-pair is identified for each year, making a total number of country-pair-year observations to 8,907 bilateral CBAs. For viewing the cross-country pair, see Table 4.2, which shows the total number of bilateral CBA distributions between the acquirer nation (rows) and target nation (columns). The main message from Table 4.2 is that there are significant bilateral differences in CBA activities among country pairs. For example, we can see that the US and the UK also witness the largest pair-wise bilateral CBA between the two nations. This means that firms in the UK acquire more of the firms in the US. However, we also see that firms in the UK acquire more in France and Germany and less in countries like Peru, and Venezuela, which receive more inbound acquisitions by firms in the US. Among various factors that are potentially responsible for these variations, this study examines the role of PCs.

4.4.1.2 Descriptive Statistics of the Variables

Table 4.3 presents descriptive statistics of the variables used in our analysis. The table reveals that CBA (volume) occupies an average of 51.14% (54.99%) of the total number (total value) of M&A emerging from a target-country-industry each year. On average, 84.09% of announced deals are completed, which on average, takes 55.78 days to complete the deal. On average, 0.3318 bilateral deals per year during our study period from 100 listed companies in the target's domicile are associated with bilateral

country-pair acquisitions. In terms of the total value (volume) of deals, 0.79 million (USD) from one billion of GDP (USD) of the target country is associated with cross-border deals. Acquirer market's cumulative abnormal return (ACAR) of a five-day window period around CBAs announcement on average is 2.78%, and the target market's cumulative abnormal return (TCAR) of a five-day window period around CBA announcement on average is 12.47%. In terms of the key explanatory variable, the average PCs of the target's (acquirer's) domicile is (0.7715) 0.6557 for our sample. This suggests that the target countries' PCs are marginally higher than the acquirer countries.

Concerning deal characteristics, the average deal size is 285.30 million (USD), 40.22% of deals are settled in cash, and deals in the same industry account for 50.34%. Furthermore, of all the CBAs, 1.32% are competing, and only 0.8% are in the form of tender offers. The vast majority of the remaining cases do not have more than one bidder; hence the bids are not competing bids. The majority of the remaining cases are also not in the form of tender offers where the current shareholders get an open offer or invitation from an acquirer to sell their shares. Industry-level controls show that the industry's median firm size on average is 11.8825, the median return on assets on average is 5.07%, leverage is 16.90%, and the median MTBV is 1.3665. Lastly, concerning firm-level characteristics, acquirers, on average, have larger firm size, higher ROA, higher levels of leverage and higher-growth rate (i.e., MTBV) than the targets.

4.4.2 Univariate and Multivariate Analysis

The investigation in this chapter first conducts a univariate analysis. Specifically, the chapter first examines the statistical significance of the means to check if the means are significantly different from zero. Furthermore, for a preliminary view of the hypotheses, the investigation compares the differences in means using a two-sample t-test. The sample is divided into two, one sample includes the upper percentile of PCs, and the other includes the lower percentile of PCs. Following this, for all the areas investigated in this chapter, multivariate regression analysis is conducted to control for other factors that are seen to impact CBAs. This ensures that the results obtained are due to acquirers' pre-bid host-country experience rather than other factors. The results of the investigations are presented hereunder. For each of the areas investigated, the results of the univariate analysis are discussed, followed by the discussion of the multivariate analysis (except for the likelihood of deal completion, where I only investigated multivariate regression analysis).

4.4.2.1 PCs in Targets' Domiciles and Inbound CBA Bids

The chapter (especially hypothesis 1) suggests that higher levels of PCs at the targets' domiciles', on the one hand, may encourage inbound CBAs because of all the advantages that higher levels of PCs can provide. However, on the other hand, higher levels of PCs, because of their lower flexibility in policy changes, may also discourage inbound CBAs. I empirically test this argument by first using the univariate analysis. Table 4.4 reports the findings from the univariate analysis. It shows that higher levels of PCs in the targets' domiciles are associated with a higher number and volume of inbound CBAs. Specifically, the difference between the means of high and low PCs is

12.24 percentage points (for the number of CBAs bids) and is statistically significant (at 1% level). The results of the volume of CBAs (i.e., the value of CBAs bids) also corroborate these findings. These results support the literature that emphasises that higher levels of PCs at the target's domicile would attract inbound CBA - *the investment motivation view* rather than *the deterrence view* (further discussion of these findings follows the multivariate analysis). Next, I empirically test this argument using the multivariate regression based on equation (4.1) defined hereunder to ensure that the results are due to PCs rather than other factors.

$$CBA_{j,tgt,t} = \alpha + \beta_1 PC_{tgt,t-1} + \mathbf{aX}_{tgt,t-1} + \mathbf{bI}_{tgt,t-1} + \gamma_{tgt} + \vartheta_{tgt} + \tau_t + \epsilon_{acq-tgt,t} \quad (4.1)$$

In equation (1), $CBA_{j,tgt,t}$ stands for the measures of two dependent variables, that is, the number or Volume of CBAs bids as defined in equations (2.1) and (2.2) in Chapter 2, Section 2.1. The subscript j denotes industry, tgt refers to the target domicile, and t refers to the year. The key explanatory factor of interest is $PC_{tgt,t-1}$, which is the PC's index of Henisz (2017 – Data release) which captures PCs of the targets' domiciles as explained in section 4.3 above. $\mathbf{aX}_{tgt,t-1}$ is a vector of country-level control of the target domicile (precisely, they include, *In (GDPCap)*, *GDPGr*, *Trade*, *Exchange Rate*, *Market Capitalisation*, *Credit Market Development*, *Quality of Institution and Business Environment*) and $\mathbf{bI}_{j,tgt,t-1}$ is a vector for industry-level control variables of the target domicile (precisely, they include the target domicile's industry median - *Firm Size*, *ROA*, *Leverage* and *MTBV*), all explained in Chapter 2,

Section 2.3 of control variables and defined in Appendix 4.1. γ_{tgt} , ϑ_{tgt} and τ_t are target industry, target country, and year fixed effects, respectively. The key explanatory variable and all other control variables are lagged by one year. The investigation also clusters the standard errors at the target country, industry and year level. Finally, the dependent variable $CBA_{j,tgt,t}$ is bounded between 0 and 1, the investigation therefore employs Tobit regression. Tobit regression accounts for the censoring of the response variable and therefore the appropriate analytical method when analysing bounded dependent variables (Greene, 2004). The application of this method is consistent with various studies in CBA analysing inbound CBAs (see for example, Alimov, 2015; Alimov and officer, 2017).

Table 4.5 reports the outcomes of the different variants of equation (4.1). Estimates reported in Panel A of Table 4.5 (columns (1) to (4)) are based on the number of CBAs, while those in Panel B (columns (5) to (8)) are based on the volume of CBAs (i.e., the value of CBAs). The columns account for additional explanatory variables. Column (1) of Panel A reports the analysis of inbound CBAs with the PCs of the targets' domiciles (i.e., PCs_{tgt}) as the only key explanatory variable. The coefficient of PCs is 0.1156 (Table 4.5, column 1) and statistically significant. Columns (2) and (3) examine the effect of PCs on the number of CBA bids after controlling for the effects of industry and country-level factors. Results qualitatively remain the same. As explained earlier (in chapter 2 while defining the measure), the scaling of dependent variables used in columns (1) to (3) could lead to a mechanical positive relationship. As such, I use the definition of the number of CBA used by Alimov (2015) and Alimov and Officer (2017) as defined in equation (2.3) in Chapter 2, Section 2.2.

The results are reported in column (4) of Table 4.5. Results again show that PCs in the target country are statistically significant and positively related to the number of CBA deals. In terms of economic significance, estimates in column (4) of Table 4.5 suggest that a 1% increase in the yearly PCs index at the target's domicile is associated with a 9.09% increase in the number of target domicile's inward CBA. The potential explanations for these results are presented in the hypothesis section. In brief, these results suggest that the inward number of CBA and PCs at the targets' domiciles are positively related, advocating that firms based in countries with higher levels of PCs attract foreign acquirers. These findings support the argument that higher levels of PCs lead to an *investment motivation* rather than the *deterrence view*. The results help reconcile the two conflicting views and align with the theoretical justification put forward by Dunning and Lundan (2008) that host nation institutions can drive inbound investment decisions. The results also complement the studies investigating the influence of PCs on corporate investment decisions (Ashraf, 2017; Boubakri *et al.*, 2015; Boubakri *et al.*, 2013; Aguilera *et al.*, 2021). To this end, we see the influence of PCs on CBAs' decisions.

The market for acquisitions may change to fewer but larger deals (in terms of value) from a higher number of smaller bids. As a result, the relationship between PCs and the number of CBA bids may not show an accurate picture. To account for this, equation (4.1) replaces the dependent variable (number of CBAs) with the volume of CBAs (i.e., the total value of CBA bids) as defined in equation (2.2) in Chapter 2, Section 2.2. The results are reported in Panel B of Table 4.5 (columns (5) to (8)). The estimate of column (8), which includes logarithmic values of one plus dollar volume of CBA deals (based on equation (2.3) of Chapter 2), implies that a 1% increase in the

PCs index in the target's domicile in a given year is associated with a 19.54% increase in the volume of inward CBA. This evidence reconfirms that firms are motivated to acquire targets in countries with high PC levels.

With regard to the control variables, all significant ones (except for *GDP Cap*) are in line with the predictions as defined in Chapter 2, Section 2.3 of control variables. For example, *Exchange Rate* is negative and significant; this aligns with Erel *et al.* (2012), who posits that acquisition activity in a country dampens when the currency gets more expensive. *Market Cap* and *Credit Mkt Dev* are positive and significant and align with Giovanni (2005) and Hyun and Kim (2010), who provide that the financial sector development of the country increases inbound acquisitions. The result of *GDP Cap* is contrary to our expectations. However, it is not surprising, especially with how CBAs have expanded in recent years; it is highly likely to see acquisitions take place in nations with lower levels of GDP per Capita. Results also show that the statistical insignificance found in most country and industry-country-level control variables is similar to other studies (see Alimov, 2015; Alimov and Officer, 2017).

4.4.2.2 PCs in Targets' and Acquirers' Domiciles and Bilateral CBAs

The chapter extends the analysis of PCs' impact on bilateral country-pair settings. The country-pair analysis enables one to examine the impact of the PCs separately from the domiciles of acquirers and targets. Bilateral analysis also enables to examine the effect of the difference in PCs between the merging firm's domiciles. This, therefore, helps examine hypothesis 2. Just as the first hypothesis (H1), the second hypothesis (H2), because of two conflicting views discussed earlier, provides

no significant relationship between outbound CBAs and the levels of PCs at a domicile. I empirically test this hypothesis by first using the univariate analysis.

The univariate analysis of bilateral CBA reveals two important findings. One, targets with high levels of PCs receive high inbound acquisitions. Two, acquirers domiciled in nations with low levels of PCs have high levels of outbound acquisition. Moreover, the mean difference between high and low in both analyses is statistically significant (at 1% significance level). Although contrary to hypotheses 1 and 2, these results support the *investment motivation* and *hedging views* (further discussion of these findings follows the multivariate analysis). I further empirically test hypotheses 1 and 2 using the multivariate regression based on equation (4.2) defined below, which is similar to the gravity model often featured in international economics to model bilateral trade flows.

$$\begin{aligned}
 \text{Bilateral Deals}_{tgt,acq,t} = & \alpha + \beta_1 PC_{s_{t-1}} + cX_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \tau_t + \\
 & \epsilon_{acq-tgt,t}
 \end{aligned}
 \tag{4.2}$$

In equation (2), *Bilateral Deals*_{*tgt,acq,t*} stands for the measures of two dependent variables, the number (NB) or volume (VB) of bilateral CBAs, as defined in equations (2.4) and (2.5) in Chapter 2, Section 2.2. The subscript *tgt*, *acq* and *t* represent targets' domiciles, acquirers' countries and year, respectively. The key explanatory factor of interest $PC_{s_{t-1}}$ stands for three variations; The first is $PC_{tgt,t-1}$ that captures PC index of the targets' domiciles. The Second is $PC_{s_{acq,t-1}}$ which captures the PC index of the acquirers' domiciles. The third is $PC_{s_{tgt-acq,t-1}}$ which captures the difference between the PCs of targets' and acquirers' domiciles.

$\mathbf{cX}_{tgt-acq,t-1}$ is a vector of control variables which are the difference between the target's and acquirer's country-level characteristics and country-pair characteristics (which include: *In (GDPCap)*, *GDPGr*, *Trade*, *Exchange Rate*, *Market Capitalisation*, *Credit Market Development*, *Quality of Institution*, *Business Environment*, *Bilateral Trade*, *Same Religion*, *Same Border*, *Same language and Colonial Tie*), all explained in Chapter 2, Section 2.3 of control variables and defined in Appendix 4.1. ϑ_{tgt} , ϑ_{acq} and τ_t are target country, acquirer country and year fixed effects, respectively. The key explanatory variable and all other control variables are lagged by one year. The standard errors are clustered by the target's country-industry and year level. Finally, since the dependent variable $Bilateral\ Deals_{tgt,acq,t}$ is bounded at one of the extremes (i.e., between 0 and 1), the investigation employs Tobit regression for the same reason as mentioned in the investigation above. This is consistent with various studies in CBA analysing bilateral CBAs between country-pair (see for example, Rossi and Volpin, 2004; Alimov, 2015; Alimov and officer, 2017).

Table 4.6 reports the outcomes of the different variants of equation (4.2). Estimates reported in Panel A are based on the number of bilateral CBAs, while Panel B reports the Volume of Bilateral CBAs. Results in columns (1) and (2) of Table 4.6 in Panel A show the effect of PCs originating from the targets' and acquirers' domiciles. Results show a positive and significant coefficient for the relationship between bilateral CBA deals and targets' PCs and a negative and significant coefficient for acquirers' PCs. The potential explanations for these results are presented in the hypothesis section. In summary, these results provide two important contributions; one, they show that managers prefer to invest in domiciles with higher levels of PCs and, two, those with lower levels of PCs at their domicile conduct outbound

acquisitions. The first finding reiterates our suggestion above that higher levels of PCs lead to *the investment motivation view* rather than *the deterrence view*.

The results with regard to outbound acquisition support the *hedging view* and align with the theoretical underpinnings and empirical evidences put forward by Luo and Tung (2007), Lessard and Lucea (2009) and Barnard (2014) that firms internationalise to hedge the institutional voids at home. These results are in line with those of Nguyen *et al.* (2020), who find that better investment environment (with less government predatory government behaviour) promotes acquisition inflows, and a weak investment environment (i.e., an environment with high levels of predatory government behaviour) promotes outward acquisitions. These results show that CBAs represent the market discipline that helps reallocate assets to better use and thus supplement the studies appreciating this aspect of CBAs (Jovanovic and Rousseau, 2008; Martynova and Renneboog, 2008; Andrade and Stafford, 2004).

Columns (3) to (4) show a positive and significant coefficient of the difference of PCs originating from the domiciles of targets' and acquirers' firms (i.e., $PC_{S_{tgt-acq}}$). This shows bilateral investments increase when PCs at targets' domiciles are higher than those of the acquirers' domicile. This, therefore, complements both of the above findings of the investment motivation view and the hedging view. Again, for the same reasons cited above (in section 4.4.2.1), I also replace the dependent variable (number of bilateral CBAs bids) with the volume of bilateral CBAs (i.e., the value of bilateral CBA bids) as defined in equation (2.5) in Chapter 2, Section 2.2. Again, the results corroborate the above findings.

With regard to the control variables, the significant ones are in line with our predictions as defined in Chapter 2, Section 2.3 of control variables. For example,

Exchange Rate is negative and significant, and *Business Environment* is positive and significant; this aligns with Erel *et al.* (2012). Country-pair levels are significant with regard to *Same Border* and *Same Religion* and align with Erel *et al.* (2012) and Alimov and Officer (2017), who provide that closer the nations of acquirers and targets in terms of geographical proximity and cultural ties, the lower the transaction cost and higher levels of CBA.

Results also show that the statistical insignificance found in most country and country-pair-level control variables is similar to other studies (see Alimov, 2015; Alimov and Officer, 2017). For example, GDP per Capita (*GDPCap*) was expected to be positive and significantly related to bilateral CBAs. However, the insignificance results is not surprising as CBAs do at times take place from acquirers nation with higher levels of GDP per capita than the target nation (Alimov, 2015; Alimov and Officer, 2017); hence, some target nations may have a higher level of GDP per capita and some may have a lower level compared to the acquirers' nations, this therefore may have offset the relationship. The quality of institution is positively related to bilateral CBAs and is in line with the prediction that the quality of institution reduces transaction costs for economic actors and foreign investors, which as a result, attracts foreign investors (Hewko, 2002). It however is insignificant indicating that some acquirers maybe investing in countries with lower levels of the quality of institutions and some with higher levels as compared to them, this therefore offsets the relationship.

Some country-pair characteristics such *Bilateral Trade*, *Same Language* and *Colonial Ties* are insignificant and in cotrary to expectation of positive and significant relationship. The insignificance shows that acquisitions may have taken place between

country-pairs not common to these variables and this might have offset the relationship. This is not surprising as we do see acquisitions happening between parties from countries not analogous in terms of language or legal origins. This may also be the result of factors such as legitimacy spillover which provides that firms from the same country of origin help each other obtain relevant information and reduce cultural differences (Kostova and Zaheer, 1999).

4.4.2.3 PCs and Likelihood of Deal Completion

Hypothesis 3 advocates that higher levels of PCs at both merging firms' domiciles' can increase the likelihood of CBAs' deal completion. I empirically test this prediction using multivariate regression based on equation (4.3).

$$DealComp_{dit} = \alpha + \beta_1 PCs_{t-1} + eD_d + fI_{tgt-acq,t-1} + cX_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t} \quad (4.3)$$

Where $DealComp_{dit}$ is a dummy variable that takes the value of one if the deal d for the firm i is completed and zero otherwise. eD_d is a vector of deal-level control variables (*Transaction Value, Cash Deals, Same Industry, Competing bid and Tender Offer*) $fI_{tgt-acq,t-1}$ is a vector of the difference between the target's and acquirer's industry-level characteristics (*Firm size, ROA, leverage and MTBV*), all explained in Section 3.3.6 and defined in Appendix 4.1. γ_{acq} and γ_{tgt} are industry-fixed effects of the acquirer and target firm, respectively. All other specifications are the same as equation (4.2). Again, the key explanatory variable and all other control

variables are lagged by one year. The standard errors are clustered at target-acquirer nation pair. Since the dependent variable $DealComp_{dit}$ is a binary variable one or zero, the analysis employs a logit model. Logit regression is a technique that allows categorical or dichotomous response variable (a variable that can have only one of two values, typically, 0 or 1) to be modelled using regression analysis (Moutinho, 2011). The application of this method is consistent with various studies in CBA investigating the likelihood of deal completion (see for example, Dikova *et al.*, 2010; Kim and Song, 2017).

Table 4.9 (Panel A - columns (1) to (4)) reports results of the likelihood of deal completion based on equation (4.3). The coefficient of PCs of the target firms' domiciles in column (2) of Table 4.9 is 0.0488, and PCs of the acquirer firms' domiciles in the same column (2) of Table 4.9 is 0.0326; both coefficients are statistically significant. These results indicate that stronger policymaking institutions at the domiciles of the targets and acquirers help complete the deal. The coefficient of the difference of political constraints between the domiciles of the targets' and the acquirers' firms in column (4) of Table 4.9 is 0.0316, which is also positive and statistically significant, indicating that when PCs at the targets' domiciles are higher than PCs at the acquirers' domiciles, deals have higher chances of completion.

These results support hypothesis 3 (H3); a potential explanation for these findings is presented in the hypothesis section. In brief, results indicate that higher levels of PCs at the targets' domiciles may have helped acquirers comprehend with the laws, rules and regulations and gather sufficient information about the targets. These results lend support to the literature which provide the importance of information (Thompson and Kim, 2020) and stability in the investment environment (Kim and

Song, 2017) for the success of the likelihood of CBAs deal completion. The results also supplement the findings of Nguyen *et al.* (2020), who, for domestic M&As, find that firms domiciled in disadvantaged areas find it hard to complete a deal.

With regard to the control variables, bid level characteristics are the only ones with significant signs and are in line with the expectations as defined in Chapter 2, Section 2.3. For example, the coefficient of *Deal Size* is negative and aligns with Alexandridis *et al.* (2013), who posits that acquisitions with large transaction value have unobserved complexity inherent in them. *Cash* and *Same Industry* is positive and aligns with Franks *et al.* (1988) and Ngo and Susnjara (2016). The coefficient of *hostile bid* is negative and aligns with the expectations. Results also show that the statistical insignificance found in most country, industry and country-pair-level control variables is similar to other studies (see Huang *et al.*, 2016).

4.4.2.4 PCs and Duration of Deal Completion

Hypothesis 4 suggests that acquirers and targets benefit lower duration of CBAs deal completion (i.e., the number of days it takes to complete the deal) when PCs at the target's domicile and the acquirer's nation are high. The chapter empirically tests this argument using the univariate analysis, which reveals that it takes fewer days to complete the deals when the target's domicile has higher levels of PCs. The difference in the means between high and low is statistically significant (at 1% significance level). However, the investigation finds no significant relationship between deal duration and PCs at the acquiring firms' domicile. These results, therefore, only partly lend support to hypothesis 4. Next, to ensure that the results are

due to PCs rather than other factors, the chapter further empirically tests this argument using the multivariate regression based on equation (4.4) defined hereunder.

$$DealDur_{dit} = \alpha + \beta_1 PC_{s_{t-1}} + eD_d + fI_{tgt-acq,t-1} + cX_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t} \quad (4.4)$$

Where $DealDur_{dit}$ is the number of days taken for the deal d of the firm i to complete; all other specifications are the same as equation (4.3). Table 4.9, Panel B (columns (5) to (8)) reports the outcomes of different variants of equation (4.4). The differences across the columns represent different combinations of explanatory variables. The results are similar to those reported above in the univariate analysis. Specifically, the coefficient of PCs of the target firms' domiciles is negative and significant, indicating that the acquisition process is likely to be shorter when the PCs of a target's domicile are high. PCs of the acquirers' domiciles are indistinguishable from zero and do not support the hypothesis. Results further document that the coefficient of the difference of political constraints between the domiciles of the targets' and the acquirers' firms (i.e., $PC_{stgt-acq}$) in columns (7) and (8) is negative and statistically significant, indicating that PCs at the target's domicile is relatively higher than PCs at the acquirer's domicile, the deal duration will be lower.

The potential explanation of these findings is presented in the hypothesis section. In brief, results indicate that higher levels of PCs at the domiciles of the targets can help acquirers comprehend with the laws, rules and regulations and be able to gather sufficient information about the targets, which can reduce further negotiation after the announcement of the deal. These results therefore reiterate and align with the

results reported in the findings above on the importance of information and stability in the investment. With regard to the control variables, just as the previous investigation Bid level characteristics are the only ones with significant signs and align with the above-reported findings (see also Chapter 2, Section 2.3).

4.4.2.5 PCs in Acquirers' Domiciles and Acquirers' Announcement Period Gains

Hypothesis 5 suggests that acquirers, on the one hand, may benefit from higher CBAs announcement period return when they have lower levels of PCs at their domicile (especially because of the *hedging view*). On the contrary, acquirers may lose during the announcement period return when they have lower levels of PCs at their domicile because lower levels of PCs reduce their support to flourish and make good acquisitions. I empirically test this argument by first using the univariate analysis; the analysis reveals that acquirers benefit from a higher announcement period when PCs are lower at their domicile. The difference between the means of high PCs and low PCs in Table 4.4 under PCs_{acq} and ACAR (-2, +2) is 1.48 percentage points and is statistically significant (however, at a 10% significance level). Therefore, the results indicate that the acquirers' market appreciates the *hedging* of their firms. Next, the multivariate regression based on equation (4.5) defined hereunder is examined to ensure that the results are due to PCs rather than other factors.

$$ACAR_{it} = \alpha + \beta_1 PC_{acq,t-1} + eD_d + gF_{i,t-1} + cX_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t} \quad (4.5)$$

Where $ACAR_{it}$ is the 5-day cumulative abnormal return of the acquiring firm (i) measured as equations (2.7) and (2.8) defined in Chapter 2, Section 2.2.3. $F_{i,t-1}$ are for the firm level variables of the acquiring firm lagged by one year (*Firm size, ROA, leverage* and *MTBV*). The vector $PCS_{acq,t-1}$ is the political constraint at the acquirer's domicile. All other specifications are the same as equation (4.3). The analysis employs the OLS regression method, whose results are reported in Table 4.10. Results show a negative and significant coefficient for the relationship between ACAR and the acquirers' PCs. Specifically, results (from column 1 of Table 4.10) show that a 1% drop in the acquirer's PCs leads to a 2.76% increase in ACAR. Although contrary to hypothesis 5, these results support the contention that acquirer's market appreciates when firms pre-empt and actively hedge against uncertainty and national expropriation in the face of lower levels of PCs (i.e., *the hedging view*). These results are again in line with Nguyen et al. (2020), who also find that acquirer's market appreciates when firms hedge against undesirable government behaviour. The chapter also adds to the voluminous literature studying if CBAs create market value during the announcement period, such as Moeller and Schlingemann (2005) and Kiymaz (2004), among others.

Concerning the control variables, for bid level characteristics, the coefficient of *Deal Size* is negative and aligns with such as Loderer and Martin (1990), Grinstein and Hribar (2004) and Roll (1986), among others. They all posit that larger deals are negatively related to announcement period gains. *Cash* is positive and statistically significant and aligns with Fuller *et al.* (2002), who advocate that market appreciates cash payment as it shows that managers are more confident in the outcome of an M&A. Other bid-level characteristics are statistically insignificant. While all control variables

are not reported, the statistically significant ones are in line with the expectations defined in Chapter 2, Section 2.3, and the statistical insignificance ones align with various literature, such as Alimov (2015) and Alimov and Officer (2017).

4.4.2.6 PCs in Targets' domiciles and Targets' Announcement Period Gain

Hypothesis 6 suggests that targets may benefit from higher CBAs announcement period return when they have higher levels of PCs at their domicile because of the various advantages of higher levels of PCs. On the contrary, targets may offer better terms with lower levels of PCs, which may increase their bargaining power and thus earn a higher premium and higher return with lower levels of PCs. The chapter empirically tests these conflicting arguments by first using the univariate analysis.

The univariate analysis reveals that targets benefit from higher announcement period returns when PCs are higher at their domicile. Specifically, the difference between the means of high and low PCs in Table 4.4 under PCs_{tgt} and TCAR (-2, +2) is 8.80 percentage points and statistically significant (at 1% significance level). These results support the positive influence of higher levels of PCs at targets domicile rather than those that indicate the negative effects of high levels of PCs on target's announcement period market returns. Next, to ensure that the results are due to PCs rather than other factors, the multivariate regression based on equation (4.6) defined hereunder is examined.

$$TCAR_{it} = \alpha + \beta_1 PC_{tgt,t-1} + eD_d + gF_{i,t-1} + cX_{tgt-acq,t-1} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t} \quad (6)$$

(4.6)

Where $TCAR_{it}$ is the abnormal return of the target firm(i) measured as equations (2.7) and (2.8) defined in Chapter 2, Section 2.2.3. $F_{i,t-1}$ is a vector of firm-level control variables of the target firms lagged by one year (*Firm size, ROA, leverage* and *MTBV*). The vector $PCs_{tgt,t-1}$ is the political constraint at the target's domicile. All other specifications are the same as equation (4.3), and the analysis employs the OLS regression method.

Table 4.11 reports the outcomes of equation (4.6). Results show a positive and significant coefficient for the relationship between the target's announcement period return and targets' PCs, which upholds the positive effect of higher levels of PCs in the target's domicile and inbound CBA, supporting the *investment motivation view*. Specifically, results show (from Table 4.11 column 1) that a 1% increase in the acquirer's PCs would lead to a 14.75% increase in TCAR.

In summary, the results above support the contention that firms domiciled in nations with higher levels of PCs because of investment motivation can make them more attractive, which can lead them to receive a higher premium. These results align with the study of Nguyen *et al.* (2020), who find that targets domiciled at a place with lower levels of expropriation receive a higher premium and higher announcement period market returns.

Under the control variables, the coefficient of *Cash Payment* is negative and statistically significant; this aligns with Davidson and Cheng (1997), who documents that target firms may benefit from cash payment as they can ask for larger cash payment to meet the tax requirements (the explanation of these variables are provided in Chapter 2, Section 2.3). Other deal-level characteristics are not significant. Additionally, other control variables are not reported, but the statistically significant

ones align with the expectations defined in Chapter 2, Section 2.3, and the statistical insignificance align with various literature such as Alimov (2015) and Alimov and Officer (2017).

4.4.2.7 PCs and Level of Economic Development, Institutional Quality and Legal Origin

4.4.2.7.1 PCs and Level of Economic Development of Target and Acquirer Firms' Domiciles

This section provides results examining Hypothesis 7 (H7a), which provides that the outcome of PCs may differ based on the levels of economic development of the nations where the firms are domiciled. To capture this, the chapter groups the merging firms as AD, AE, TD and TE pairs, where A and T represent acquiring and target firms and E and D show whether the domicile belongs to emerging or developed markets. The classification of developed and emerging markets is done using the International Monetary Fund (IMF) classification.

Table 4.5 (Panel C) provides estimates of the effect of PCs on targets' domiciles' inbound CBAs based on the sub-sample and interaction of the heterogeneity of the economic development of the targets' domiciles, which include Target Developed (TD) and Target Emerging (TE). Results reveal that the *investment motivation view* concerning inbound acquisitions accrues more to emerging markets (i.e., TE - where the sample has emerging markets as targets) than developed markets. These findings support the argument in the hypothesis that emerging markets' improvement of institutional qualities is important for investors.

Table 4.7 provides estimates of the sensitivity of the effect of PCs on bilateral CBAs based on the heterogeneity of emerging and developed market pairs⁷³. Results reveal two important findings; one, the *investment motivation view* regarding inbound acquisitions accrues more to firms domiciled in emerging markets, especially when the acquirers are from developed markets (i.e., for the pair Acquirer Developed Target Emerging - ADTE). These findings reiterate the importance of higher levels of PCs in the emerging market. Second, the results show that the *hedging view* regarding outbound acquisitions accrues more to acquirers domiciled in emerging markets, especially when the target is from developed market (i.e., for the pair Acquirer Emerging Target Developed - AETD). These findings align with studies such as Barnard (2014) and Lessard and Lucea (2009), who provide that emerging markets expand into developed markets, among other factors, to escape from voids at home and gain benefit from institutions in a foreign country

Table 4.10, columns (3) to (6) provide estimates of the sensitivity of the effect of PCs on ACAR based on the heterogeneity of emerging and developed market pairs. Results reveal that the highest gains accrue to pair - Acquirer Emerging Target Developed (AETD). Finally, Table 4.11, columns (3) to (6) provide estimates of the sensitivity of the effect of PCs on TCAR based on the heterogeneity of emerging and developed market pairs. Results reveal that the highest announcement period gains accrue to pair - Acquirer Developed Target Emerging (ADTE). These findings complement the underpinnings Blonigen and Wang (2004) put forward that economic development of where the firms are domiciled can impact their decision-making and consideration of factors.

⁷³ Which include Acquirer Developed Target Developed (ADTD), Acquirer Developed Target Emerging (ADTE), Acquirer Emerging Target Developed (AETD), Acquirer Emerging Target Emerging (AETE)

4.4.2.7.2 *PCs and Institutional Qualities of the Target Firms' Domiciles*

Hypothesis 7b provides that PCs' importance may reduce when interacting with higher levels of other country-level institutional qualities at the target's domicile. The chapter re-runs all equations (4.1) to (4.6) by including the interaction variable of PCs and the levels of institutional qualities. Specifically, the investigation first interacts PCs with the country-level measure of institutional qualities at the target's domicile (i.e., *Quality of Institution*). Second, the investigation interacts PCs with *Business Environment* at the target's domicile (see Chapter 2, Section 2.3 and Appendix 4.1 for definitions of these variables). Table 4.12 (columns 1 and 3) shows that stronger and amicable institutional variables (*Quality of Institution*) reduce the importance of PCs for attracting inbound acquisitions, as other strong institutions offset the voids of lower levels of PCs. Table 4.13 (column 2 and 4) which reports the interactions for the analysis of bilateral CBA show a statistically significant negative coefficient for the interactions of *Business Environment* and targets' PCs. This suggests that the strong business environment at the target's domicile may reduce the importance of PCs.

Concerning the likelihood and duration of CBAs' deal completion. Results in Table 4.14 show a statistically significant negative coefficient for the likelihood of CBAs' deal completion and the interactions of *Quality of Institution* and *Business Environment* with PCs of the targets' domiciles. Investigations do not find significance in the coefficients of the interactions with regard to the duration of CBAs' completion. Concerning ACAR, Results in Table 4.15, column (2) suggests that the acquirers market gives less importance to PCs under amicable *Business Environment* at the

target's domicile. Overall, results imply that a sound institutional environment at the targets' domiciles can compensate for lower levels of PCs. These results align with Boubakri *et al.* (2013) and Boubakri *et al.* (2015), who report that the importance of PCs on corporate decisions reduces when interacted with higher levels of other institutions.

4.4.2.7.3 *PCs and Legal Origin of the Target Firms' Domiciles*

This section provides results for the influence of the target firm's legal origin on the relationship between PCs and CBAs. The legal origin is identified using La Porta *et al.* (1998), using which a dummy variable is generated that takes the value of one if the target legal origin is common law and zero otherwise. Similarly, a separate dummy variable is generated for the Civil law target domicile. The investigation re-runs the baseline equations by interacting the legal origin dummy variables with PCs. Table 4.16 shows that the common law legal origin of the target firm reduces the impact of the target firm's PCs on the number and volume of CBA deals significantly. Similarly, the civil law legal origin seems to positively augment the impact on CBAs (though statistically insignificant). Table 4.17, using bilateral CBAs, corroborates these findings.

Further, Table 4.18 shows that the coefficient of common law origin reduces the importance of PCs for the probability of deal completion, whereas the importance is augmented among civil law countries. This indicates that the civil law legal structure based on code and judicial process may enhance the need for PCs for deal completion. Finally, the results in Table 4.19 and Table 4.20 show that legal origins do not significantly impact the time of deal completion, ACAR and TCAR. This suggests that

legal origin does not contribute to these areas beyond what the PCs capture. Taken together, these findings add to the studies, such as La Porta *et al.* (1998) and Djankov *et al.* (2008), among others, who document that legal origin can significantly influence the strategic decisions of both investors and corporations.

4.4.3 Additional Tests and Robustness Check.

4.4.3.1 Various Subsamples

A series of robustness checks are carried out. To begin with, firms from specific countries may drive the results⁷⁴; US and UK attract most of the inbound acquisitions, moreover, a high number of acquisitions happen between these two nations, and since US has a higher level of PCs than the UK, this could be confounding results. The chapter, therefore, run all the tests (i.e., from equations (4.1) to (4.6)) by dropping US and UK. Results for this are provided in Table 4.21 (Panel A). Although one remains with fewer observations, the results corroborate with the main analysis.

4.4.3.2 Alternative Key Explanatory Variable

The chapter additionally employs two alternative key explanatory variables instead of PCs as a proxy for political constraints. These are Checks from the Database of Political Institutions (Checks- DPI) (Cruz *et al.*, 2021) and Constraints on the Chief Executive from Polity V (Exec Const) (Marshall and Gurr, 2021) – all variables explained in Section 4.3 above. I re-run all the investigations (i.e., from equations (4.1)

⁷⁴ As done by Alimov and Officer (2017) and Alimov (2015).

to (4.6)). Results for this are provided in Table 4.21 (Panel B). Most of the results corroborate with the main analysis.

4.4.3.3 Alternative Dependent Variable

Furthermore, an alternative measure is used for analysing the bilateral CBA-number and volume, which has been used by Alimov (2015) and Alimov and Officer, 2017. i.e., the natural logarithm of (one plus) the total number or volume of CBA deals (as shown in equation (2.6) in Chapter 2, Section 2.2). Results for this are provided in Table 4.21 (Panel C). My results corroborate the main analysis that higher PCs at the targets' domiciles encourage inbound acquisitions, and lower PCs at acquirers' domiciles encourage outbound acquisitions.

4.4.3.4 Politically Sensitive Industry

The effect of politically sensitive industry is also controlled. This is because investments in extractive sectors (i.e., politically sensitive sectors) can be particularly at higher risk to adverse policy changes (Roberts, 2018), which could thus drive the importance of PCs to these sectors and confound my results. The chapter follows similar to the first empirical chapter follows Julio and Yook (2012) to classify politically sensitive industries. Firms in tobacco products, pharmaceutical, health care service, defence, petroleum and natural gas, telecommunication and transportation industries are classified as politically sensitive.

Following the classification, I re-run all the deal-level tests of this chapter by conducting a sub-sample analysis. The results are presented in Table 4.21 (Panel D).

Results indicate that irrespective of the political sensitivity of the industry, PCs still explain CBAs.

4.4.3.5 Two Stage Estimation with Instrumental Variable

For further robustness (precisely for reducing endogeneity), the investigation applies a Two-Stage-Least-Squares (2SLS) analysis for the country-level investigation. Following Boubakri *et al.* (2013), the investigation uses country fragmentation as the instrument for PCs. Aghion, Alesina and Trebbi (2004) suggest that societal fragmentation (such as ethnicity) correlates to higher levels of PCs. Fragmentation in society is unlikely to directly affect CBAs unless through PCs. To investigate this the time series ethnicity data is extracted from Ethnic Fractionalization Index (Drazanova, 2020), whose results are presented in Table 4.21 (Panel E). The results of the first-stage regression confirm the evidence in Aghion et al. (2004) that PCs are positively related to country fractionalization. The second-stage regressions show that the fitted values of PCs are positively related to inbound CBAs, providing further support to the findings in the main analysis. I also report the Cragg-Donald Wald F-statistics which supports the validity of the employed instruments. Moreover, I find that the correlation between the measure of target nation's inbound CBAs and the instrument is very low, which indicates the validity of my instrument. Moreover, I find that the correlation between the measures of the key areas of CBAs and the instrument is very low, which indicates the validity of my instrument.

4.5 Conclusion

The objective of this chapter has been to examine how the variations in the levels of PCs of acquirer and target firms' domiciles explain the temporal and cross-sectional variations in CBA activity and its related outcomes. Thus far, the role of PCs from the point of both merging partner's domiciles on CBAs has been scant, especially none that look at its impact on the success/failure of CBAs' deal completion, duration and target and acquiring firm's market value creation/destruction during the announcement period. As such, this chapter fills this gap. The investigation was conducted using CBAs bids from 45 countries over the period spanning 1992-2017.

The findings suggest that the levels of PCs not only at targets' domiciles but also at acquirers' domiciles explain the variation in CBAs activity and its related outcomes. Specifically, the examination of target domiciles' inbound CBA bids shows that higher levels of PCs at the targets' domiciles motivate inbound CBA bids. These results reconcile the contradictory view as explained in the text above and are consistent with the theoretical underpinnings of Dunning and Lundan (2008) that investors get motivated to invest in a better institutional environment. The investigation of bilateral CBAs bids further reveals that lower PCs at acquirers' domicile levels encourage outbound acquisitions. These results are consistent with the theoretical underpinnings of Luo and Tung (2007) and Denis *et al.* (2002) that managers can reduce costs at home by internationalising. The chapter further underscores the importance of PCs even after the bid announcement, as findings show that higher levels of PCs at targets' and acquirers' domiciles increase the likelihood of deal completion. The chapter also underlines that during the announcement period, acquirers' markets gain higher returns with lower levels of PCs at their domicile and

targets' markets benefit from higher gains with higher levels of PCs at their domicile. The chapter finally underscores that levels of economic development of the merging firms' domiciles, including institutional qualities and the legal origin at the target firm's domicile, play a role in influencing the role of PCs on CBAs.

Strategically, the results indicate that economies and policymakers aiming to attract inbound acquisitions and retain domestic firms from escaping their markets must strive to improve PCs. The results also indicate that managers of the acquiring firm need to be aware of PCs of both merging firm's domicile when conducting CBAs, as higher levels of PCs can prove to support the CBAs exercise (as reflected in the findings of the likelihood, duration of CBAs, acquirers also receive higher returns when PCs at the targets domiciles are high). Findings also indicate that managers may acquire outbound to hedge against lower levels of PCs, as the market appreciates the *hedging view* as reflected in the findings. Targets, on the other hand, if domiciled in nations with lower levels of PCs, may work towards strengthening their position as they can lose during the announcement period, as reflected in the findings. Finally, policymakers, managers and investors should consider other institutional quality and the legal origin of the target's domicile, including the levels of economic development at acquirers' and targets' domicile as these factors moderate the influence of PC on CBAs.

Table 4.1: Number and Volume of M&A Bids

This table reports bids/deals (in terms of number and value) for all domestic and CBAs as reported in SDC database from 1992 to 2018. It filters out samples, as explained in the text.

Country	All Bids by Acquirer Nation			Cross-border Bids by Acquirer Nation (Outbound CBAs)			All Bids by Target Nation			Cross-border Bids by Target Nation (Inbound CBAs)		
	Number	Volume millions)	(USD	Number	Volume millions)	(USD	Number	Volume millions)	(USD	Number	Volume millions)	(USD
Argentina	444	38,182.96		48	9,453.57		834	66,680.34		438	37,950.95	
Australia	10,222	1,155,699.00		1,790	408,245.60		10,342	1,093,942.00		1,910	346,489.00	
Austria	340	40,381.42		216	24,961.26		325	59,208.56		201	43,788.39	
Belgium	760	374,735.50		464	278,355.10		754	228,894.00		458	132,513.60	
Brazil	1,684	441,553.30		165	82,464.02		2,260	494,304.10		741	135,214.80	
Canada	14,895	1,838,175.00		4,967	794,415.40		12,478	1,686,522.00		2,550	642,762.30	
Chile	492	67,916.46		124	17,930.32		700	96,854.81		332	46,868.67	
China	16,004	1,789,314.00		780	281,911.10		16,230	1,576,691.00		1,006	69,288.24	
Colombia	176	36,787.18		48	12,741.09		345	46,672.65		217	22,626.56	
Czech Republic	162	8,830.87		22	2,945.80		338	46,026.89		198	40,141.83	
Denmark	789	141,720.60		394	68,684.41		893	155,140.30		498	82,104.10	
Egypt	142	13,639.54		16	2,563.76		203	41,713.45		77	30,637.67	
Finland	911	145,765.80		386	104,835.90		931	123,349.60		406	82,419.69	
France	3,443	1,529,504.00		1,437	842,973.30		3,849	1,102,205.00		1,843	415,673.90	
Germany	2,691	1,454,281.00		1,415	1,005,051.00		3,429	1,182,372.00		2,153	733,142.60	
Greece	315	32,755.19		62	8,464.94		328	41,694.96		75	17,404.71	
Hungary	120	7,489.34		22	2,753.10		210	15,403.04		112	10,666.79	
India	1,935	191,589.20		588	48,933.73		1,803	194,681.10		456	52,025.60	
Indonesia	584	47,136.20		61	6,959.70		935	74,251.71		412	34,075.21	
Ireland-Rep	1,185	217,909.30		769	183,267.50		925	276,984.30		509	242,342.60	
Israel	854	176,615.20		456	151,237.50		752	97,237.22		354	71,859.52	
Italy	2,642	703,220.80		620	177,006.10		2,958	842,641.80		936	316,427.20	
Japan	7,250	1,184,038.00		1,007	319,456.60		6,552	954,560.30		309	89,979.22	
Luxembourg	381	136,094.00		352	128,331.90		153	107,233.30		124	99,471.20	
Malaysia	3,235	188,266.40		446	27,841.82		3,117	180,820.90		328	20,396.30	
Mexico	621	179,686.70		181	66,252.09		1,090	203,866.60		650	90,431.96	

Netherlands	1,741	897,749.10	1,162	629,454.80	1,731	792,371.80	1,152	524,077.50
New Zealand	902	65,891.96	220	26,508.41	1,171	80,830.60	489	41,447.05
Norway	1,340	205,810.40	575	84,579.90	1,352	240,635.70	587	119,405.10
Pakistan	36	3,082.08	5	91.04	53	9,426.94	22	6,435.90
Peru	181	13,474.38	34	1,483.92	380	32,632.96	233	20,642.50
Philippines	477	39,149.01	58	5,816.25	537	41,762.55	118	8,429.79
Poland	830	45,409.47	99	7,869.00	1,096	80,728.23	365	43,187.75
Portugal	361	98,159.93	103	12,241.74	456	113,369.70	198	27,451.50
Russian Fed	840	250,761.60	126	52,167.95	976	249,007.90	262	50,414.20
Saudi Arabia	108	28,384.02	39	19,719.60	86	13,392.72	17	4,728.30
Singapore	2,584	306,116.50	1,212	166,269.80	1,928	216,431.60	556	76,584.84
Spain	2,497	641,897.80	680	261,845.60	2,865	653,262.80	1,048	273,210.60
Sri Lanka	91	814.98	3	37.43	113	1,652.36	25	874.81
Sweden	2,740	325,028.20	1,149	174,354.10	2,528	344,155.70	937	193,481.60
Thailand	777	58,301.23	106	13,103.46	851	60,642.71	180	15,444.93
Turkey	421	32,371.98	47	6,658.28	594	65,953.89	220	40,240.19
United Kingdom	22,147	3,632,441.00	6,098	1,725,334.00	20,546	3,889,589.00	4,497	1,982,482.00
United States	68,603	20,200,000.00	8,753	2,399,044.00	68,897	21,100,000.00	9,047	3,303,810.00
Venezuela	62	8,115.61	11	1,481.77	121	13,680.47	70	7,046.64
Total	179,015	38,994,246.21	37,316	10,646,097.66	179,015	38,989,479.56	37,316	10,646,097.80

Table 4.2: Number of Country-Pair CBA Bids

This table reports the distribution of all announced CBA bids in the SDC (with filtrations as explained in the text). It covers the total number of CBA bids between acquirer nation (columns) and target nation (rows) between 1992 and 2017.

Acq / Tgt Nation	AR	AU	AS	BL	BR	CA	CE	CH	CO	CC	DN	EG	FN	FR	WG	GR	HU	IN	ID	IR	IS	IT	Total
Argentina (AR)	0	0	0	0	16	0	6	1	4	0	0	0	0	0	0	0	0	0	0	0	0	0	48
Australia (AU)	12	0	2	16	30	132	45	55	12	2	8	1	8	18	51	3	4	13	64	12	12	12	1,790
Austria (AS)	4	4	0	6	3	3	0	4	0	13	2	0	3	7	53	0	7	2	0	3	1	16	216
Belgium (BL)	2	8	2	0	5	7	0	5	0	2	7	1	4	95	39	1	2	6	0	4	0	16	464
Brazil (BR)	41	5	1	1	0	9	7	2	9	0	1	0	0	5	1	0	0	1	0	0	0	5	165
Canada (CA)	97	207	9	14	111	0	93	92	73	5	10	8	24	71	86	3	2	17	14	28	26	17	4,967
Chile (CE)	24	1	0	1	33	2	0	0	22	0	1	0	0	0	0	0	1	0	0	0	0	0	124
China (CH)	4	92	3	5	15	60	3	0	3	2	7	2	5	29	50	0	0	3	10	5	12	29	780
Colombia (CO)	3	0	0	0	4	4	5	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	48
Czech Republic (CC)	0	1	0	0	0	0	0	0	0	0	1	0	0	0	3	0	0	0	1	0	0	1	22
Denmark (DN)	0	9	0	7	3	9	0	8	0	1	0	1	13	21	40	0	0	5	0	2	1	12	394
Egypt (EG)	0	0	0	0	0	2	0	2	0	0	0	0	0	1	1	0	0	0	0	0	0	0	16
Finland (FN)	0	7	4	5	4	5	0	6	1	2	20	0	0	14	38	0	1	6	0	1	0	13	386
France (FR)	12	32	5	59	50	43	7	34	5	6	13	7	12	0	129	6	6	26	2	6	14	97	1,437
Germany (WG)	3	39	55	24	18	20	4	14	3	18	28	2	17	134	0	5	12	27	5	12	12	57	1,415
Greece (GR)	2	1	0	1	0	1	0	2	0	0	0	2	0	0	3	0	2	0	1	0	0	6	62
Hungary (HU)	0	0	2	0	0	0	0	0	0	2	0	0	0	1	1	1	0	0	0	0	0	0	22
India (IN)	2	28	1	5	12	15	3	6	2	8	3	7	4	22	24	2	0	0	11	4	3	15	588
Indonesia (ID)	0	13	0	0	0	2	0	5	0	0	0	0	0	0	0	0	0	1	0	0	0	1	61
Ireland-Rep (IR)	2	16	4	11	5	20	0	7	2	3	8	1	6	16	30	1	0	3	0	0	5	8	769
Israel (IS)	2	4	1	3	9	12	0	2	0	2	3	0	2	20	29	3	3	2	0	0	0	15	456
Italy (IT)	13	14	10	10	24	13	4	14	0	7	2	2	1	89	62	4	0	11	0	5	2	0	620
Japan (JP)	2	59	3	10	19	24	3	60	0	4	7	0	8	18	40	1	0	34	26	4	2	21	1,007
Luxembourg (LU)	4	4	0	5	6	14	0	6	1	5	3	1	10	48	40	3	4	2	1	4	2	33	352
Malaysia (MA)	0	54	0	2	2	9	0	35	0	0	1	0	0	1	6	0	0	14	83	0	0	4	446
Mexico (MX)	13	2	0	1	21	6	6	1	14	0	0	0	0	0	2	0	0	2	0	1	1	0	181
Netherlands (NT)	2	24	7	56	8	30	4	16	2	15	20	1	13	97	103	8	11	11	6	8	6	40	1,162
New Zealand (NZ)	0	139	0	0	0	6	2	4	0	0	1	0	0	2	2	0	0	0	0	0	0	3	220
Norway (NO)	0	13	3	5	9	16	5	2	0	2	59	0	25	20	24	0	0	3	0	4	0	7	575
Pakistan (PK)	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	5
Peru (PE)	3	0	0	0	0	6	12	0	6	0	0	0	0	0	0	0	0	0	0	0	2	1	34
Philippines (PH)	0	6	0	0	1	3	2	7	0	0	0	0	0	0	1	0	0	1	0	0	0	0	58
Poland (PO)	0	1	3	1	1	2	0	1	0	14	2	0	0	3	18	0	7	0	0	2	0	5	99
Portugal (PR)	1	1	0	0	24	0	1	1	0	0	0	2	0	4	4	1	0	1	0	1	0	3	103
Russian Fed (RU)	2	1	3	3	0	9	0	2	0	4	1	1	2	3	6	4	1	3	0	0	1	5	126
Saudi Arabia (SA)	1	0	0	0	0	1	0	0	0	0	0	9	0	2	0	1	0	0	0	0	0	1	39
Singapore (SG)	0	183	2	6	4	9	1	248	1	0	3	1	2	10	24	0	2	50	135	2	1	2	1,212
Spain (SP)	43	10	3	6	54	7	29	7	10	5	1	2	7	61	30	2	2	8	0	2	1	58	680
Sri Lanka (SL)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	3
Sweden (SW)	7	17	7	14	6	25	3	8	1	11	121	1	136	55	86	2	9	7	1	9	5	23	1,149
Thailand (TH)	0	5	1	0	0	2	0	9	0	0	0	0	0	5	0	0	0	2	11	1	0	2	106
Turkey (TU)	0	1	1	0	0	2	0	0	1	0	1	0	0	2	5	0	2	0	1	0	2	2	47
United Kingdom (UK)	28	374	33	96	57	233	13	69	12	34	78	13	47	459	506	10	14	49	22	240	23	205	6,098
United States (US)	107	535	36	85	187	1,787	74	271	31	31	86	12	57	509	616	14	21	144	18	148	220	201	8,753
Venezuela (VE)	2	0	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	11
Total	438	1910	201	458	741	2,550	332	1,006	217	198	498	77	406	1,843	2,153	75	112	456	412	509	354	936	37,316

Acq / Tgt Nation	JP	LU	MA	MX	NT	NZ	NO	PK	PE	PH	PO	PR	RU	SA	SG	SP	SL	SW	TH	TU	UK	US	VE	Total
Argentina (AR)	0	0	0	3	2	0	0	0	1	0	0	0	0	0	0	4	0	0	0	0	0	9	2	48
Australia (AU)	11	6	28	12	22	273	7	0	10	20	13	4	6	1	65	21	1	10	8	5	244	511	0	1790
Austria (AS)	0	1	1	1	7	0	2	0	0	0	13	1	5	0	1	7	0	8	1	4	13	20	0	216
Belgium (BL)	1	11	2	1	61	0	2	0	1	0	5	7	4	0	1	19	0	4	2	8	58	70	1	464
Brazil (BR)	1	1	0	5	2	0	4	0	6	0	1	6	0	0	0	4	0	0	0	1	6	37	3	165
Canada (CA)	6	2	3	289	44	29	14	1	115	7	9	6	22	0	9	40	3	27	1	12	298	3005	18	4967
Chile (CE)	1	0	0	3	1	0	0	0	19	0	0	0	0	0	0	4	0	0	0	0	0	8	3	124
China (CH)	30	3	15	4	23	12	9	6	5	0	1	1	5	1	49	10	1	8	11	3	47	197	0	780
Colombia (CO)	0	0	1	7	1	0	0	0	8	0	0	1	0	0	0	1	0	0	0	0	0	10	2	48
Czech Republic (CC)	0	0	0	0	1	0	0	0	0	0	8	0	2	0	0	2	0	1	0	1	0	0	0	22
Denmark (DN)	3	1	2	2	17	1	31	0	1	0	13	1	2	0	4	10	0	68	0	1	52	51	2	394
Egypt (EG)	0	0	0	0	2	0	1	0	0	0	0	0	0	0	0	2	0	0	0	1	2	2	0	16
Finland (FN)	0	0	2	1	17	1	35	0	0	0	6	0	13	0	4	2	0	81	0	1	28	68	0	386
France (FR)	9	11	3	5	60	2	16	0	1	2	19	14	7	2	12	119	0	27	4	8	213	331	1	1437
Germany (WG)	10	14	7	5	70	2	24	0	0	0	53	6	3	0	14	74	0	56	1	16	215	336	0	1415
Greece (GR)	2	0	0	0	2	0	1	0	0	0	1	0	2	0	0	6	0	1	0	6	10	10	0	62
Hungary (HU)	0	0	0	0	1	0	0	0	1	0	2	0	4	0	0	0	0	0	0	2	3	2	0	22
India (IN)	3	2	7	3	7	1	2	0	0	1	2	3	2	1	32	10	9	3	5	3	88	227	0	588
Indonesia (ID)	1	0	7	0	2	0	1	0	0	1	0	0	0	0	16	0	0	0	3	0	4	4	0	61
Ireland-Rep (IR)	1	1	1	4	30	0	3	0	0	0	4	1	2	0	3	12	0	10	0	1	328	220	0	769
Israel (IS)	4	0	0	3	10	2	2	0	1	0	10	0	5	0	1	14	0	1	2	2	42	245	0	456
Italy (IT)	2	8	0	6	25	0	7	0	0	0	13	5	11	1	4	59	0	8	1	12	80	90	1	620
Japan (JP)	0	2	26	2	22	5	1	0	0	13	2	2	2	1	58	11	0	9	24	10	96	376	0	1007
Luxembourg (LU)	2	0	1	3	17	0	7	0	1	0	11	4	4	0	1	15	0	1	0	4	40	44	1	352
Malaysia (MA)	4	1	0	0	6	5	4	1	1	10	0	0	0	0	107	3	2	1	28	1	36	25	0	446
Mexico (MX)	0	3	1	0	0	0	2	0	4	2	0	0	0	0	1	16	0	0	1	1	1	76	3	181
Netherlands (NT)	6	6	8	9	0	6	21	4	3	2	30	9	25	1	8	60	1	45	2	24	175	228	1	1162
New Zealand (NZ)	0	1	2	3	2	0	2	0	0	0	0	1	0	0	0	0	0	1	0	14	35	0	220	
Norway (NO)	2	0	0	0	9	4	0	0	1	0	12	2	4	0	8	23	0	163	1	2	67	80	0	575
Pakistan (PK)	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	5
Peru (PE)	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1	0	0	34
Philippines (PH)	1	0	7	3	0	2	1	0	0	0	0	0	0	0	7	1	0	1	1	0	2	11	0	58
Poland (PO)	0	2	0	0	5	0	0	0	0	0	0	1	6	0	0	4	0	5	0	5	4	7	0	99
Portugal (PR)	0	0	0	1	0	0	1	0	1	0	4	0	0	0	0	39	0	1	0	3	5	4	0	103
Russian Fed (RU)	1	2	1	0	8	0	1	0	0	0	0	1	0	0	1	1	0	2	0	10	16	30	1	126
Saudi Arabia (SA)	0	0	2	1	1	0	1	1	0	0	0	0	0	0	0	2	0	0	1	5	3	7	0	39
Singapore (SG)	51	1	140	2	18	24	5	1	1	20	0	0	2	1	0	6	3	8	45	4	83	111	0	1212
Spain (SP)	2	2	1	27	18	0	5	0	13	2	11	67	4	0	2	0	0	8	1	4	56	103	6	680
Sri Lanka (SL)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	1	0	3
Sweden (SW)	0	3	2	5	38	2	147	0	1	0	15	5	18	0	6	28	1	0	1	4	140	179	0	1149
Thailand (TH)	5	0	7	0	1	4	0	0	0	5	1	1	0	0	16	0	3	0	0	1	9	15	0	106
Turkey (TU)	0	0	0	0	7	0	0	0	0	0	1	1	4	1	0	1	0	1	0	0	1	10	0	47
United Kingdom (UK)	21	14	23	22	331	41	115	3	6	11	63	36	49	2	45	229	1	184	12	27	0	2246	2	6098
United States (US)	129	26	28	215	259	73	113	5	32	22	42	13	48	5	80	188	0	195	23	28	2016	0	23	8753
Venezuela (VE)	0	0	0	1	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	3	0	11
Total	309	124	328	650	1152	489	587	22	233	118	365	198	262	17	556	1048	25	937	180	220	4497	9047	70	37316

Table 4.3: Descriptive Statistics

Panel A of the table presents the descriptive statistics of dependent and explanatory variables for the full sample, covering 45 countries over the period 1992-2017. The subscripts *tgt* and *acq* represent variables specific to targets and acquirers, respectively. All variables are defined in Chapter 2 and in Appendix 4.1. % A point to note: those figures in percentage are expressed in decimals. For example, the mean value of Acquirers' Cumulative Abnormal Return (ACAR) is 0.0278, it should be read as 2.78%. Panel B of the table represents the Average PCs and Average GDP of 45 nations.

Panel A: Dependent, key explanatory and control variables						
Variable	Number of observations	Mean	Median	Standard deviation	25th Percentile	75th Percentile
Dependent variable						
Number of Inbound CBA _{tgt} (% of the total number of all bids)	13,755	0.5114	0.4250	0.2953	0.2428	0.8500
Volume of Inbound CBA _{tgt} (% of the total number of all bids)	13,755	0.5499	0.7131	0.3277	0.2083	0.8500
NB _{tgt, acq} (per 100 listed companies in target nation)	8,907	0.3318	0.1310	0.6770	0.0460	0.3371
VB _{tgt, acq} (per billion of GDP of target nation)	8,907	0.7928	0.0882	3.0010	0.0184	0.4007
Deal completion duration (days)	31,426	55.7872	15.0000	113.9094	0.0000	73.0000
Deal Completion (0-1)	37,304	0.8409	1.0000	0.3657	1.0000	1.0000
Acquirers' Cumulative Abnormal Return (ACAR) (+2-2) %	24,991	0.0278	0.0087	0.1170	-0.0241	0.0540
Targets' Cumulative Abnormal Return TCAR (+2-2) %	3,062	0.1247	0.0587	0.2002	-0.0008	0.1846
Key explanatory variable						
PCs _{tgt}	8,907	0.7715	0.7439	0.1699	0.6485	0.8534
PCs _{acq}	8,907	0.6557	0.7430	0.1905	0.6461	0.8530
PCs _{tgt - acq}	8,907	0.0157	0.0041	0.2386	0.0875	0.0775
Country-level characteristics						
Ln (GDPCap) _{tgt}	8,907	9.7928	10.1851	1.1448	9.1701	10.6342
GDPGr _{tgt} %	8,907	0.0306	0.0288	0.0325	0.0148	0.0449
Trade (fraction of GDP) _{tgt} %	8,907	0.0762	0.0582	0.0655	0.0436	0.0808
Exchange Rate _{tgt} (per USD)	8,907	0.0857	0.0924	0.0325	0.05970	0.1088
Market Cap _{tgt} %	8,907	0.0722	0.0639	0.0459	0.0363	0.0980
Credit Mkt Dev _{tgt} %	8,907	0.0931	0.0951	0.0470	0.0531	0.1231
Quality of Institution _{tgt}	8,907	0.7044	0.7692	0.2318	0.5000	0.9231
Investment Profile _{tgt}	8,907	0.7298	0.7544	0.2391	0.5263	0.9518
Ln (GDPCap) _{acq}	8,907	10.1169	10.3825	0.9663	9.9783	10.7055
GDPGr _{acq} %	8,907	0.0298	0.0279	0.0293	0.0154	0.0417
Trade (fraction of GDP) _{acq} %	8,907	0.0832	0.0597	0.0755	0.0450	0.0838

Exchange Rate _{acq} (per USD)	8,907	0.0948	0.1000	0.0297	0.0802	0.1137
Market Cap _{acq} %	8,907	0.0855	0.0773	0.0468	0.0532	0.1127
Credit Mkt Dev _{acq} %	8,907	0.1050	0.1055	0.0432	0.0766	0.1294
Quality of Institution _{acq}	8,907	0.7712	0.8331	0.1967	0.6923	0.9231
Investment Profile _{acq}	8,907	0.7739	0.8609	0.2240	0.5826	0.9957
Country-pair-level characteristics						
Bilateral Trade _{tgt, acq} %	8,907	0.0220	0.0090	0.0352	0.0026	0.0273
Same Language _{tgt, acq} (0-1)	8,907	0.2499	0.0000	0.4330	0.0000	0.0000
Same Border _{tgt, acq} (0-1)	8,907	0.1202	0.0000	0.3253	0.0000	0.0000
Colonial Tie _{tgt, acq} (0-1)	8,907	0.0889	0.0000	0.2846	0.0000	0.0000
Same Religion _{tgt, acq} (0-1)	8,907	0.7002	1.0000	0.4582	0.0000	1.0000
Industry-country-level Characteristics						
Firm Size ((ln (Total assets)))	37,304	11.8825	11.9600	1.0070	11.3617	12.5315
ROA (%)	37,304	0.0507	0.0511	0.0311	0.0347	0.0697
Leverage (%)	37,304	0.1690	0.1247	0.2627	-0.0276	0.2797
MTBV	37,304	1.3665	1.3400	0.4067	1.1300	1.5700
Deal/Bid-level characteristics						
Deal size (millions of USD)	37,304	285.2958	26.0350	2383.0852	7.3325	113.2355
Cash Bids/Deals (0-1)	37,304	0.4022	0.0000	0.4904	0.0000	1.0000
Same Industry (0-1)	37,304	0.5034	1.0000	0.5000	0.0000	1.0000
Competing bid (0-1)	37,304	0.0132	0.0000	0.1140	0.0000	0.0000
Tender offer (0-1)	37,304	0.0080	0.0000	0.0890	0.0000	0.0000
Firm-level Characteristics						
Firm Size ((ln (Total assets)) _{acq})	24,991	13.0063	12.8720	2.6687	11.4103	14.6969
ROA (%) _{acq}	24,991	0.0843	0.0909	0.0697	0.0565	0.1348
Leverage (%) _{acq}	24,991	0.5077	0.2595	1.2296	0.0112	0.6915
MTBV _{acq}	24,991	3.0602	1.9600	4.4211	1.3000	3.4300
Firm Size ((ln (Total assets)) _{tgt})	3,062	12.7018	12.4753	2.1603	11.1013	14.2855
ROA (%) _{tgt}	3,062	0.0406	0.0479	0.1920	-0.0414	0.1031
Leverage (%) _{tgt}	3,062	0.4822	0.2461	2.1380	0.0003	0.7274
MTBV _{tgt}	3,062	2.6705	1.8600	4.1377	1.0700	3.0600
Legal Origin						
Common Law _{tgt}	8,907	0.3171	0.0000	0.4654	0.0000	1.0000
Civil Law _{tgt}	8,907	0.6041	1.0000	0.4891	0.0000	1.0000

Panel B: Average PCs and GDP per Capita

45 Nations in the analysis	PCs: Sample Start	PCs: Sample End	Average PCs	Average GDP (per Capita)
Argentina	0.3902	0.2141	0.5706	8,138
Australia	0.8666	0.8727	0.8667	34,712
Austria	0.7508	0.7374	0.7462	35,883
Belgium	0.8902	0.8926	0.8927	33,545
Brazil	0.8144	0.7353	0.7235	6,313
Canada	0.8582	0.8459	0.8586	33,095
Chile	0.7329	0.6838	0.7284	8,039
China	0.0000	0.2676	0.0321	2,700
Colombia	0.4089	0.6571	0.3804	3,948
Czech Republic	0.7511	0.7651	0.7525	11,788
Denmark	0.7701	0.7785	0.7740	43,895
Egypt	0.2431	0.4082	0.2281	1,739
Finland	0.7735	0.7777	0.7749	35,227
France	0.8726	0.8479	0.8594	31,751
Germany	0.8424	0.8478	0.8461	33,825
Greece	0.7431	0.7597	0.6558	18,197
Hungary	0.7651	0.7535	0.7493	8,619
India	0.5950	0.7318	0.7505	796
Indonesia	0.0000	0.5861	0.2775	1,713
Ireland-Rep	0.7551	0.7620	0.7592	37,964
Israel	0.5224	0.7818	0.7802	23,495
Italy	0.7675	0.7640	0.7287	28,099
Japan	0.7559	0.7462	0.7541	37,186
Luxembourg	0.7701	0.7678	0.7676	74,126
Malaysia	0.2955	0.8373	0.7225	6,095
Mexico	0.2927	0.7639	0.5005	7,381
Netherlands	0.7665	0.7823	0.7735	37,562
New Zealand	0.7165	0.7557	0.7533	24,678
Norway	0.7692	0.7703	0.7704	58,878
Pakistan	0.2529	0.3248	0.3313	755
Peru	0.2209	0.1665	0.3539	3,341
Philippines	0.3609	0.1282	0.4134	1,566
Poland	0.6877	0.7424	0.7460	7,641

Portugal	0.7437	0.7595	0.7439	16,139
Russian Fed	0.0000	0.4295	0.3927	6,306
Saudi Arabia	0.0000	0.0000	0.0000	13,529
Singapore	0.0165	0.7088	0.1709	32,901
Spain	0.8667	0.8689	0.8610	22,159
Sri Lanka	0.3996	0.2093	0.3760	1,641
Sweden	0.7639	0.7737	0.7683	41,145
Thailand	0.5822	0.4084	0.5059	3,419
Turkey	0.3430	0.3959	0.6366	6,611
United Kingdom	0.7388	0.7485	0.7428	33,828
United States	0.8537	0.8518	0.8525	40,173
Venezuela	0.5456	0.2990	0.4406	7,246

Table 4.4: Univariate Analysis

The table presents the statistical significance and univariate mean differences of inbound CBA, outbound CBA, deal duration and acquirers' and targets' cumulative abnormal returns (i.e., ACAR and TCAR) between two groups. One group with the upper 25 percentile of PCs (i.e., whose score is in the upper 25th percentile of the PCs' score), and second with low levels of PCs (those whose PCs' score falls in the lower 25th percentile of PCs' score). Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

		Full Sample	High PCs (Higher percentile)	Low PCs (Lower Percentile)	High Minus Low PCs
PCs _{igt} and Inbound CBA (Number)	Mean	0.5114***	0.6940***	0.5716***	0.1224***
	Mean P-Value	0.0000	0.0000	0.0000	0.0000
	N	13,757	1,747	1,632	
PCs _{igt} and Inbound CBA (Volume)	Mean	0.5499***	0.7836***	0.5699***	0.2136***
	Mean P-Value	0.0000	0.0000	0.0000	0.0000
	N	13,757	1,747	1,632	
PCs _{igt} and Bilateral CBA (Number)	Mean	0.3318***	0.2123***	0.2038***	0.0085*
	Mean P-Value	0.0000	0.0000	0.0000	0.0470
	N	8,907	1,181	1,136	
PCs _{igt} and Bilateral CBA (Volume)	Mean	0.7928***	1.0029***	0.4344***	0.5673***
	Mean P-Value	0.0000	0.0000	0.0000	0.0000
	N	8,907	1,181	1,136	
PCs _{acq} and Bilateral CBA (Number)	Mean	0.3318***	0.2373***	0.2931***	-0.0558*
	Mean P-Value	0.0000	0.0000	0.0000	0.0416
	N	8,907	1,161	1,078	
PCs _{acq} and Bilateral CBA (Volume)	Mean	0.7928***	0.6006***	0.6369***	-0.0362*
	Mean P-Value	0.0000	0.0000	0.0000	0.0358
	N	8,907	1,161	1,078	
PCs _{igt} and Deal Duration	Mean	50.8570	43.6749	76.5993	-32.9243***
	Mean P-Value	0.0000	0.0000	0.0000	0.0000
	N	31,426	3,710	2,356	
PCs _{acq} and Deal Duration	Mean	50.8570	53.1194	66.7989	-13.6795
	Mean P-Value	0.0000	0.0000	0.0000	0.1500
	N	31,426	1,918	1,656	
PCs _{igt} and TCAR (-2, +2)	Mean	0.0887	0.1151	0.0286	0.0887***
	P-value	0.0000	0.0000	0.0000	0.0000
	N	3,062	111	251	
PCs _{acq} and ACAR (-2, +2)	Mean	0.02778	0.0242	0.0390	0.0148*
	P-value	0.0000	0.0000	0.0000	0.0353
	N	24,991	2,340	1,062	

Table 4.5: PCs at Targets' Domiciles and Inbound CBA Bids

This table report estimates of Tobit regressions for the effect of PCs on the Number (Panel A) and Volume (Panel B) of inbound CBA bids at the target country, industry, and year level, Panel C provides subsample analysis based on the level of economic development of the domiciles. The key explanatory variable is the level of PCs of the targets' domiciles. Depending on specifications, the regressions control for country-level and industry-country-level characteristics. The fixed effects (FE) in the analysis are indicated at the end. The key explanatory variable and all country-level and industry-country-level controls are lagged one year and are defined in Chapter 2 and in Appendix 4.1. Industries are classified as the 48 industries defined by Fama-French 48 industry classification. Heteroscedasticity robust standard errors are clustered at the target country-industry level and reported in parentheses. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	Panel A				Panel B			
	Number of CBA				Volume (Value) of CBA			
	Without control	Country-level characteristics	Industry-country-level characteristics	OLS Model: ln (1+ number of CBA)	Without control	Country-level characteristics	Industry-country-level characteristics	OLS Model: ln (1+ volume of CBA)
	1	2	3	4	5	6	7	8
Key explanatory variable								
PCs _{tgt}	0.1156*** (0.0285)	0.1560*** (0.0298)	0.1687*** (0.0301)	0.0909** (0.0440)	0.1212*** (0.0356)	0.1646*** (0.0365)	0.1721*** (0.0367)	0.1954** (0.0981)
Country-level characteristics								
ln (GDPCap) _{tgt}		-0.2063*** (0.0177)	-0.2034*** (0.0183)	0.0464* (0.0258)		-0.1810*** (0.0211)	-0.1797*** (0.0216)	0.1572** (0.0644)
GDPGr _{tgt}		0.0017 (0.0013)	0.0009 (0.0014)	0.0041** (0.0017)		0.0026* (0.0016)	0.0014 (0.0016)	0.0054 (0.0051)
Trade _{tgt}		0.0005* (0.0002)	0.0006** (0.0002)	0.0002 (0.0004)		0.0002 (0.0003)	0.0003 (0.0003)	0.0011 (0.0010)
Exchange Rate _{tgt}		-0.0558*** (0.0106)	-0.0593*** (0.0110)	-0.0288 (0.0527)		-0.0375*** (0.0124)	-0.0392*** (0.0127)	-0.1541 (0.1311)
Market Cap _{tgt}		0.0006*** (0.0001)	0.0499*** (0.0117)	0.0007*** (0.0002)		0.0005*** (0.0001)	0.0450*** (0.0148)	0.0026*** (0.0005)
Credit Mkt Dev _{tgt}		0.0005*** (0.0002)	0.0717*** (0.0160)	0.0001 (0.0003)		0.0005*** (0.0002)	0.0544*** (0.0173)	-0.0006 (0.0006)
Quality of Institution _{tgt}		0.0422 (0.0468)	0.0122 (0.0470)	0.0002 (0.0705)		0.0179 (0.0535)	0.0463 (0.0543)	0.0583 (0.1776)
Business Environment _{tgt}		0.0241	0.0360	-0.0358		0.0360	0.0414	0.0525

		(0.0251)	(0.0247)	(0.0369)		(0.0289)	(0.0290)	(0.0922)
Industry-country-level characteristics								
Firm Size _{tgt}			0.0297***	-0.0233**			0.0152**	-0.0266
			(0.0052)	(0.0095)			(0.0063)	(0.0202)
ROA _{tgt}			-0.0335	0.3034			-0.0320	0.3820
			(0.1364)	(0.2226)			(0.1581)	(0.4917)
Leverage _{tgt}			-0.0172	0.0412*			-0.0132	0.1581***
			(0.0163)	(0.0235)			(0.0193)	(0.0593)
MTBV _{tgt}			0.0507***	0.0101			0.0258**	0.0261
			(0.0097)	(0.0150)			(0.0108)	(0.0342)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Prob. > F	0.0000	0.0000	0.0000		0.0000	0.0000	0.0000	0.0000
Pseudo R ²	0.7436	0.773	0.7811	0.3765	0.4703	0.482	0.4831	0.106
Observations	13,755	13,755	13,755	13,755	13,755	13,755	13,755	13,755

Panel C: Analysis of Economic Development

Dependent Variable	Number of CBA			Volume (Value) of CBA		
	Target Developed (TD)	Target Emerging (TE)	PCs _{tgt} × TE	Target Developed (TD)	Target Emerging (TE)	PCs _{tgt} × TE
	1	2	3	4	5	6
Sub-Sample Analysis						
Key explanatory variable						
PCs _{tgt}	0.0891* (0.0585)	0.1784** (0.0360)	0.1521** (0.0567)	0.1225** (0.0839)	0.1798* (0.0406)	0.1937** (0.0823)
Interaction Analysis						
PCs _{tgt} × TE			0.0231* (0.0658)			0.0303* (0.0909)
Country-level characteristics	Yes	Yes		Yes	Yes	
Industry-country-level characteristics	Yes	Yes		Yes	Yes	
Year FE	Yes	Yes		Yes	Yes	
Target Industry FE	Yes	Yes		Yes	Yes	
Target Country FE	Yes	Yes		Yes	Yes	
Prob. > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Pseudo R ²	0.7436	0.763	0.7532	0.5275	0.4376	0.4831
Observations	10,016	3,739	13,755	10,016	3,739	13,755

Table 4.6: PCs and Bilateral CBAs Bids

This table reports estimates of Tobit regressions showing the effects of PCs on the number and volume of bilateral CBA bids (i.e., CBA between target-acquirer domicile pairs). In Panel A the dependent variable is the *Number of Bilateral CBAs* (per 100 listed firms in target nations), and in Panel B, the dependent variable is the *Volume of Bilateral CBA* (per billion USD of GDP of target nation). There are three variations of the key explanatory variables used. The first is PC_{tgt} that captures PCs' index of the targets' domiciles. The Second is PCs_{acq} which captures the PC index of the acquirers' domiciles. The third is $PCs_{tgt-acq}$ which captures the difference between the PCs of target's and acquirer's domiciles. Depending on the specification, the regressions control for the differential country-level characteristics between target-acquirer domicile and bilateral country-pair characteristics. The key explanatory variable and all controls are by lagged one year and are defined in Chapter 2 and in Appendix 4.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable:	Panel A				Panel B			
	Number of bilateral bids				Volume (Value) of bilateral bids			
	Without Control	With all Control	Without Control	With all Control	Without Control	With all Control	Without Control	With all Control
1	2	3	4	5	6	7	8	
Key explanatory variable								
PCs_{tgt}	0.0330** (0.0129)	0.0357*** (0.0131)			0.0568** (0.0257)	0.0551** (0.0274)		
PCs_{acq}	-0.0599*** (0.0229)	-0.0661*** (0.0236)			-0.1264* (0.0659)	-0.1252* (0.0667)		
$PCs_{tgt-acq}$			0.0632*** (0.0200)	0.0665*** (0.0203)			0.1335*** (0.0382)	0.1347*** (0.0402)
Country-level Characteristics (difference)								
$In (GDPCap)_{tgt-acq}$		-0.0197 (0.0372)		-0.0248 (0.0388)		0.0169 (0.1197)		-0.0005 (0.1220)
$GDPGr_{tgt-acq}$		0.0050** (0.0020)		0.0056*** (0.0020)		0.0311** (0.0127)		0.0331*** (0.0128)
$Trad_{tgt-acq}$		0.0022*** (0.0007)		0.0023*** (0.0007)		-0.0057* (0.0031)		-0.0054* (0.0031)
$Exchange\ rate_{tgt\ per\ acq}$		0.0052 (0.0214)		0.0102 (0.0215)		-0.2721** (0.1135)		-0.2578** (0.1107)
$Market\ Cap\ quality_{tgt-acq}$		0.0663***		0.0724***		0.0662		0.0842

Credit Mkt Dev _{tgt-acq}		(0.0232)		(0.0225)		(0.1044)		(0.1025)	
		0.0741*		0.0718*		0.1901		0.1862	
		(0.0393)		(0.0380)		(0.1180)		(0.1178)	
Quality of Institution _{tgt-acq}		0.0318		-0.0360		-0.1134		-0.2878	
		(0.0934)		(0.0914)		(0.5027)		(0.5045)	
Business Environment _{tgt-acq}		0.1687***		0.1740***		0.7276**		0.7394**	
		(0.0457)		(0.0454)		(0.2958)		(0.2994)	
Country-pair-level Characteristics									
Bilateral Trade _{tgt, acq}		0.3363		0.2418		0.4865		0.2738	
		(0.5368)		(0.5257)		(1.8105)		(1.8073)	
Same language _{tgt, acq}		0.0019		0.0045		0.5103***		0.5145***	
		(0.0432)		(0.0420)		(0.1889)		(0.1894)	
Same Border _{tgt, acq}		0.2498***		0.2507***		0.3696		0.3709	
		(0.0938)		(0.0948)		(0.2251)		(0.2257)	
Colonial Tie _{tgt, acq}		0.0366		0.0397		-0.0294		-0.0228	
		(0.0769)		(0.0771)		(0.2315)		(0.2317)	
Same Religion _{tgt, acq}		0.1488***		0.1479***		0.2329*		0.2336*	
		(0.0311)		(0.0311)		(0.1286)		(0.1279)	
Target Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Acquiror Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Prob. > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	
Pseudo R ²	0.2425	0.2631	0.2545	0.2759	0.0297	0.0322	0.0305	0.0331	
Observations	8,907	8,907	8,907	8,907	8,907	8,907	8,907	8,907	

Table 4.7: PCs and Bilateral CBAs – Interaction and Sub-Sample Analysis

This table presents the results of the interaction and subsample analysis of the above table (i.e., Table 4.6) based on the level of economic development of the targets’ and acquirers’ nations. In Panel A the dependent variable is the Number of Bilateral CBA (per 100 listed firms in target nation), and in Panel B, the dependent variable is the Volume of Bilateral CBAs (per billion USD of GDP of target nation). The key explanatory variables are PCs_{tgt} that captures PCs index of the targets’ domiciles and PCs_{acq} which captures the PC index of the acquirers’ domiciles. The regressions control for the differential country-level characteristics between target-acquirer domicile and bilateral country-pair characteristics as Table 4.6. The key explanatory variable and all controls are lagged by one year and are defined in Chapter 2 and in Appendix 4.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable	Panel A				Panel B			
	Number of bilateral bids				Volume (Value) of bilateral bids			
	Acquirer Developed Target Developed (ADTD)	Acquirer Developed Target Emerging (ADTE)	Acquirer Emerging Target Developed (AETD)	Acquirer Emerging Target Emerging (AETE)	Acquirer Developed Target Developed (ADTD)	Acquirer Developed Target Emerging (ADTE)	Acquirer Emerging Target Developed (AETD)	Acquirer Emerging Target Emerging (AETE)
	1	2	3	4	5	6	7	8
Panel A: Interaction Analysis								
Key explanatory variable								
PCs_{tgt}	0.0262*** (0.0157)	0.0399*** (0.0088)	0.0340*** (0.0141)	0.0230** (0.0140)	0.0394*** (0.0301)	0.0722* (0.0277)	0.0592*** (0.0297)	0.0589* (0.0287)
PCs_{acq}	-0.0533** (0.0184)	0.0649 (0.0242)	-0.0766*** (0.0272)	-0.0704* (0.0095)	-0.1018* (0.0495)	0.1189* (0.0701)	-0.1521*** (0.0775)	-0.1301* (0.0707)
$PCs_{tgt} \times ADTD$	0.0172 (0.0148)				0.0619 (0.0342)			
$PCs_{acq} \times ADTD$	-0.0384 (0.0228)				-0.0645 (0.0695)			
$PCs_{tgt} \times ADTE$		0.0034* (0.0186)				0.0318* (0.0360)		
$PCs_{acq} \times ADTE$		-0.0060 (0.0157)				-0.0243 (0.0412)		
$PCs_{tgt} \times AETD$			-0.0184 (0.0104)				-0.5373 (0.3897)	
$PCs_{acq} \times AETD$			-0.0355*				0.0897	

			(0.0139)				(0.0469)	
PCs _{tgt} × AETE				-0.0121 (0.0095)				-0.0158 (0.0264)
PCs _{acq} × AETE				0.0252 (0.0111)				0.0307 (0.0402)
Panel B: Subsample analysis								
PCs _{tgt}	0.0459* (0.0154)	0.0665* (0.0260)	0.0530** (0.0063)	-0.0327 (0.0036)	0.0159* (0.0467)	0.0605* (0.0492)	0.0330** (0.0498)	-0.0307 (0.0257)
PCs _{acq}	-0.0469* (0.0550)	0.0545 (0.0517)	-0.0780** (0.0032)	-0.0014 (0.0038)	-0.0185* (0.1714)	0.0420 (0.0297)	-0.0377* (0.0411)	-0.0172 (0.0228)
Country-level Characteristics (difference)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-pair-level Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquiror Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Prob. > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Observations (Panel A)	8,907	8,907	8,907	8,907	8,907	8,907	8,907	8,907

Table 4.8: PCs and Bilateral CBA – Interaction and Sub Sample Analysis

This table presents the results of the interaction and subsample analysis of the above table (i.e., Table 4.6) based on the level of economic development of the targets’ and acquirers’ nations. In panel A the dependent variable is the *Number of Bilateral CBA* (per 100 listed firms in target nation), and in Panel B, the dependent variable is the *Volume of Bilateral CBAs* (per billion USD of GDP of target nation). The key explanatory variables $PCs_{tgt-acq,t-1}$ which captures the difference between the PCs of target’s and acquirer’s domiciles. The regressions control for the differential country-level characteristics between target-acquirer domicile and bilateral country-pair characteristics as Table 4.6. The key explanatory variable and all controls are lagged one year and are defined in Chapter 2 and in Appendix 4.1. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors, clustered at country-pair level, are reported in parentheses. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Panel A				Panel B			
Dependent variable:	Number of bilateral deals				Volume (Value) of bilateral deals			
	Acquirer Developed Target Developed (ADTD)	Acquirer Developed Target Emerging (ADTE)	Acquirer Emerging Target Developed (AETD)	Acquirer Emerging Target Emerging (AETE)	Acquirer Developed Target Developed (ADTD)	Acquirer Developed Target Emerging (ADTE)	Acquirer Emerging Target Developed (AETD)	Acquirer Emerging Target Emerging (AETE)
	1	2	3	4	5	6	7	8
Panel A: Interaction Analysis								
Key explanatory variable								
PCs _{tgt-acq}	0.0710*** (0.0221)	0.0574*** (0.0148)	0.0727*** (0.0223)	0.0698*** (0.0212)	0.1373*** (0.0409)	0.1119*** (0.0370)	0.1405*** (0.0443)	0.1310*** (0.0422)
PCs _{tgt-acq} × ADTD	0.0211 (0.0195)				0.0202 (0.0461)			
PCs _{tgt-acq} × ADTE		0.0209 (0.0245)				0.0543 (0.0479)		
PCs _{tgt-acq} × AETD			0.0328 (0.0145)				-0.0631 (0.0338)	
PCs _{tgt-acq} × AETE				-0.0279 (0.0109)				-0.0462 (0.0238)
Panel B: Sub-sample Analysis								
ADTD	0.0891*** (0.0318)				0.2068** (0.0839)			

ADTE		0.0702** (0.0359)				0.1824** (0.0726)			
AETD			0.0957** (0.0126)					0.2615* (0.0357)	
AETE				-0.0012 (0.0026)					-0.0095 (0.0193)
Country-level Characteristics (difference)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-pair-level Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquiror Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Prob. > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Pseudo R ² (Panel A)	0.2678	0.2768	0.2775	0.2769	0.0331	0.0332	0.0332	0.0332	0.0331
Observations (Panel A)	8,907	8,907	8,907	8,907	8,907	8,907	8,907	8,907	8,907

Table 4.9: PCs and the Likelihood and Duration of CBA completion.

This table reports the regression estimates of the effect of PCs on the likelihood and duration of CBA completion. Specifically, Panel A reports the likelihood of CBA completion. It uses logit regression where the dependent variable is a dummy variable, “Completed,” which equals one if the CBA is completed and zero if otherwise, as reported in SDC. Panel B reports the investigation on the number of days to CBA completion. It uses OLS regression, where the dependent variable is the natural logarithm of the number of days to CBAs deal completion (ln(1+days)). Similar to the analysis above, there are three variations of the key explanatory variable: the PCs of the targets’ domiciles, the PCs of the acquirers’ domiciles and the difference between the PCs of target’s and acquirer’s domiciles. Depending on the specification, the regressions control for the deal-level characteristics, differential industry-country-level characteristics between target-acquirer domicile, differential country-level characteristics between target-acquirer domicile, and bilateral country-pair characteristics. The key explanatory variable and all control variables are lagged one year and are defined in Chapter 2 and in Appendix 4.1. Industries are classified as the 48 industries defined by Fama-French 48 industry classification. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable	Panel A				Panel B			
	Probability of deal completion				Number of days to deal completion			
	Without Control	With all Control	Without Control	With all Control	Without Control	With all Control	Without Control	With all Control
	1	2	3	4	5	6	7	8
Key explanatory variable								
PCs _{tgt}	0.0517** (0.0226)	0.0488** (0.0231)			-0.0581** (0.0254)	-0.0708*** (0.0243)		
PCs _{acq}	0.0435** (0.0236)	0.0326** (0.0227)			0.0231 (0.0252)	0.0274 (0.0213)		
PCs _{tgt-acq}			0.0339** (0.0164)	0.0316* (0.0168)			-0.0389** (0.0168)	-0.0496*** (0.0150)
Deal-level Characteristics								
Deal Size		-0.1624*** (0.0242)		-0.1623*** (0.0242)		0.4611*** (0.0200)		0.4611*** (0.0200)
Cash Payment		0.2113*** (0.0422)		0.2115*** (0.0422)		-0.0368 (0.0394)		-0.0370 (0.0393)
Same Industry		0.1351*** (0.0424)		0.1367*** (0.0422)		0.0745** (0.0333)		0.0739** (0.0333)
Competing Bids/Deals		-2.2403 (0.1815)		-2.246 (0.1822)		0.7559 (0.0947)		0.7618 (0.0946)
Hostile Bids/Deals		-2.2889*** (0.2005)		-2.2915*** (0.2002)		0.6665*** (0.1597)		0.6645*** (0.1597)

Industry-country-level Characteristics (difference)

Firm size _{tgt-acq}	-0.0076 (0.0347)	-0.0102 (0.0342)	0.0185 (0.0255)	0.0192 (0.0255)
ROA _{tgt-acq}	-1.378 (0.9184)	-1.3252 (0.8880)	0.5594 (0.7286)	0.5369 (0.7248)
Leverage _{tgt-acq}	0.0313 (0.1326)	0.0185 (0.1315)	0.0500 (0.0952)	0.0492 (0.0952)
MTBV _{tgt-acq}	0.0679 (0.0599)	0.0690 (0.0598)	0.1154** (0.0539)	0.1134** (0.0537)

Country-level Characteristics (difference)

In (GDPCap) _{tgt-acq}	0.0840 (0.1123)	0.0957 (0.1074)	-0.1569 (0.1167)	-0.1598 (0.1148)
GDPGr _{tgt-acq}	-0.0122 (0.0097)	-0.0114 (0.0096)	0.0080 (0.0072)	0.0081 (0.0073)
Trad _{tgt-acq}	0.0017 (0.0016)	0.0022 (0.0017)	-0.0031** (0.0014)	-0.0032** (0.0014)
Exchange rate _{tgt per acq}	0.0259 (0.1295)	0.0173 (0.1291)	-0.1773 (0.1082)	-0.1752 (0.1080)
Market Cap quality _{tgt-acq}	-0.0585 (0.0706)	-0.0729 (0.0721)	0.0523 (0.0626)	0.0564 (0.0615)
Credit Mkt Dev _{tgt-acq}	0.1168 (0.0941)	0.1020 (0.0933)	0.0343 (0.0656)	0.0364 (0.0648)
Quality of Institution _{tgt-acq}	-0.2140 (0.3634)	-0.2313 (0.3598)	0.4485* (0.2306)	0.4390* (0.2313)
Business environment _{tgt-acq}	-0.0195 (0.1574)	-0.0048 (0.1585)	-0.0048 (0.1156)	-0.0117 (0.1160)

Country-pair-level Characteristics

Bilateral Trade _{tgt, acq}	-0.9703* (0.5031)	-0.9383* (0.5048)	0.9710** (0.4038)	0.9561** (0.4031)
Same language _{tgt, acq}	-0.0019 (0.0666)	-0.0016 (0.0667)	-0.0902 (0.0553)	-0.0907 (0.0553)
Same Border _{tgt, acq}	-0.0692	-0.0732	-0.0135	-0.0110

		(0.0679)		(0.0682)		(0.0653)		(0.0651)
Colonial Tie _{tgt, acq}		0.0013		0.0035		0.0552		0.0546
		(0.0664)		(0.0663)		(0.0434)		(0.0431)
Same Religion _{tgt, acq}		0.2686***		0.2651***		0.5780***		0.5748***
		(0.0719)		(0.0726)		(0.1204)		(0.1203)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Prob. > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Pseudo R ²	0.1062	0.1391	0.1059	0.1389				
Adjusted R ²					0.1246	0.2545	0.1246	0.2544
Observations	37,304	37,304	37,304	37,304	31,426	31,426	31,426	31,426

Table 4.10: PCs and Acquirers' Announcement Period Gains

This table presents OLS estimates explaining the five days announcement period (-2 to +2) returns of acquirers' firms. There are three variations of the key explanatory variable: PCs of the acquirers' domiciles, PCs of the targets' domiciles and the difference between the PCs of target's and acquirer's domiciles. Depending on the specification, the regressions control for the deal-level characteristics, acquirers' firm-level characteristics, differential country-level characteristics between target-acquirer domicile, and bilateral country-pair characteristics. The key explanatory variable and all controls are lagged one year and are defined in Chapter 2 and in Appendix 4.1. Industries are classified as the 48 industries defined by Fama-French 48 industry classification. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable	ACAR(Control of Deal levels and only Acquirers' firm and country-level characteristics)	ACAR	ACAR Acquirer Developed Target Developed (ADTD)	ACAR Acquirer Developed Target Emerging (ADTE)	ACAR Acquirer Emerging Target Developed (AETD)	ACAR Acquirer Emerging Target Emerging (AETE)	ACAR	ACAR
	1	2	3	4	5	6	7	8
Panel A: Base Line Test								
Key explanatory variable								
PCs _{acq}	-0.0276** (0.0122)	-0.0262** (0.0126)	-0.0326*** (0.0138)	0.0080* (0.0155)	-0.0433*** (0.0114)	-0.0300*** (0.0132)		
PCs _{tgt}							0.0316*** (0.0137)	
PCs _{tgt-acq}								0.0313*** (0.0104)
Deal-level Characteristics								
Deal Size	-0.0025*** (0.0005)	-0.0025*** (0.0005)	0.0025*** (0.0005)	0.0024*** (0.0005)	0.0025*** (0.0005)	0.0025*** (0.0005)	-0.0025*** (0.0005)	-0.0025*** (0.0005)
Cash Payment	0.0031** (0.0014)	0.0030** (0.0014)	-0.0030** (0.0014)	-0.0031** (0.0014)	-0.0029** (0.0014)	-0.0030** (0.0014)	0.0030** (0.0014)	0.0030** (0.0014)
Same Industry	-0.0023* (0.0014)	-0.0023 (0.0014)	-0.0022 (0.0014)	-0.0022 (0.0014)	-0.0023 (0.0014)	-0.0023 (0.0014)	-0.0022 (0.0014)	-0.0023 (0.0014)
Competing Bids/Deals	-0.0085 (0.0077)	-0.0084 (0.0077)	-0.0085 (0.0077)	-0.0086 (0.0077)	-0.0084 (0.0077)	-0.0084 (0.0077)	-0.0084 (0.0077)	-0.0086 (0.0077)
Hostile Bids/Deals	-0.0004	-0.0005	-0.0005	-0.0005	-0.0005	-0.0006	-0.0005	-0.0005

	(0.0081)	(0.0082)	(0.0082)	(0.0080)	-(0.0082)	(0.0082)	(0.0082)	(0.0082)
PCs _{tgt-acq} × ADTD			0.0197 (0.0171)					
PCs _{tgt-acq} × ADTE				-0.0727 (0.0322)				
PCs _{tgt-acq} × AETD					-0.0623* (0.0294)			
PCs _{tgt-acq} × AETE						0.0364 (0.0291)		
Panel B: Sub-Sample Analysis								
ADTD			-0.0052 (0.0199)					
ADTE				0.0097 (0.0133)				
AETD					-0.0207* (0.0418)			
AETE						0.0253 (0.0447)		
Firm-level characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-level characteristics (difference)	Acquirers Only	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-pair-level characteristics	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country FE		Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country FE		Yes	Yes	Yes	Yes	Yes	Yes	Yes
Prob. > F	0	0	0	0	0	0	0	0
Adjusted R ² (Panel A)	0.039	0.0392	0.0392	0.0401	0.0394	0.0392	0.0394	0.0396
Observations (Panel A)	24,991	24,991	24,991	24,991	24,991	24,991	24,991	24,991

Table 4.11: PCs and Targets' Announcement Period Gains

This table presents OLS estimates explaining the five days announcement period (-2 to +2) returns of targets' firms. The key explanatory variable here is PCs of targets' domiciles and the difference between the PCs of target's and acquirer's domiciles. Depending on the specification, the regressions control for the deal-level characteristics, targets' firm-level characteristics, differential country-level characteristics between target acquirers' domiciles, and bilateral country-pair characteristics. The key explanatory variable and all controls are lagged one year and are defined in Chapter 2 and in Appendix 4.1. Industries are classified as the 48 industries defined by Fama-French 48 industry classification. The fixed effects (FE) in the analysis are indicated at the end. Heteroscedasticity robust standard errors (reported in parentheses) are clustered at the country-pair level. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable	TCAR (Control of Deal levels and only Target's firm and country-level characteristics)	TCAR	TCAR Acquirer Developed Target Developed (ADTD)	TCAR Acquirer Developed Target Emerging (ADTE)	TCAR Acquirer Emerging Target Developed (AETD)	TCAR Acquirer Emerging Target Emerging (AETE)	TCAR
	1	2	3	4	5	6	7
Panel A: Base Line Test							
Key explanatory variable							
PCs _{tgt}	0.1475** (0.0699)	0.1349** (0.0666)	0.1258* (0.0651)	0.1716* (0.0785)	0.1533** (0.0640)	0.1450** (0.0713)	
PCs _{tgt-acq}							0.1544*** (0.0424)
Deal-level Characteristics							
Deal Size	0.0009 (0.0023)	0.0005 (0.0023)	0.0005 (0.0023)	0.0005 (0.0023)	0.0005 (0.0023)	0.0005 (0.0023)	0.0004 (0.0023)
Cash Payment	0.0316*** (0.0078)	0.0315*** (0.0077)	0.0315*** (0.0077)	0.0315*** (0.0077)	0.0317*** (0.0077)	0.0314*** (0.0077)	0.0323*** (0.0076)
Same Industry	0.0060 (0.0069)	0.0072 (0.0068)	0.0071 (0.0068)	0.0070 (0.0068)	0.0071 (0.0068)	0.0071 (0.0068)	0.0071 (0.0068)
Competing Bids/Deals	-0.0124 (0.0148)	-0.0118 (0.0147)	-0.0118 (0.0147)	-0.0116 (0.0147)	-0.0116 (0.0147)	-0.0119 (0.0147)	-0.0118 (0.0145)
Hostile Bids/Deals	-0.0046 (0.0099)	-0.0027 (0.0097)	-0.0025 (0.0097)	-0.0029 (0.0098)	-0.0023 (0.0097)	-0.0026 (0.0097)	-0.0024 (0.0096)
PCs _{tgt-acq} × ADTD			0.0465 (0.0586)				

PCs _{tgt-acq} × ADTE					0.1285*			
					(0.0744)			
PCs _{tgt-acq} × AETD						-0.1167		
						(0.0577)		
PCs _{tgt-acq} × AETE							-0.0627	
							(0.0722)	
Panel B: Sub-Sample Analysis								
ADTD					0.1439*			
					(0.1885)			
ADTE						0.1877**		
						(0.0949)		
AETD							0.0463	
							(0.2036)	
Firm-level characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-level characteristics (difference)	Targets Only	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-pair-level characteristics	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Prob. > F	0	0	0	0	0	0	0	0
Adjusted R ² (Panel A)	0.0547	0.0567	0.0561	0.0566	0.0566	0.0566	0.0561	0.0591
Observations (Panel A)	3,062	3,062	3,062	3,062	3,062	3,062	3,062	3,062

Table 4.12: PCs and Institutional Quality Interaction Analysis - Inbound CBAs

This table presents the estimation results of the interaction of PCs with institutional quality and level of economic development on CBA activity. The dependent variable is *Number of CBA*, defined as the total number of CBA bids divided by the total number of domestic and CBA bids (for Panel A) and *Volume of CBA*, defined as the total value of CBA bids divided by the total value of domestic and CBA bids (for Panel B). The variables of interest are PCs and interactions. All other variables are as applied in Table 4.5. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	Panel A		Panel B	
	Number of CBA		Volume (Value) of CBA	
	PCs _{tgt} × Quality of Institution _{tgt}	PCs _{tgt} × Business Environment _{tgt}	PCs _{tgt} × Quality of Institution _{tgt}	PCs _{tgt} × Business Environment _{tgt}
	1	2	3	4
PCs _{tgt}	0.3142*** (0.0613)	0.1709** (0.0617)	0.3244*** (0.0731)	0.0154* (0.0713)
PCs _{tgt} × Quality of Institution _{tgt}	-0.3167*** (0.1257)		-0.3316*** (0.1584)	
PCs _{tgt} × Business environment _{tgt}		0.0003 (0.0857)		0.2383 (0.1008)
Control Variable (as Table 4.5)	Yes	Yes	Yes	Yes
FE (as Table 4.5)	Yes	Yes	Yes	Yes
Pseudo R ²	0.7812	0.7813	0.4814	0.484
Number of observations	13,755	13,755	13,755	13,755

Table 4.13: PCs and Institutional Quality Interaction Analysis - Bilateral CBAs

This table presents the estimation results of the interaction of PCs with institutional quality at the target’s domicile for Bilateral CBAs. The dependent variable is the *Number of Bilateral CBA* (per 100 listed firms in target nations) (Panel A) and *Volume of Bilateral CBA* (per billion USD of GDP of target nation) (Panel B). The variables of interest are PCs and interactions. All other variables are as applied in Table 4.6. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable	Panel A		Panel B	
	Number of bilateral bids		Volume (Value) of bilateral bids	
	PCs × Quality of Institution _{tgt}	PCs × Business Environment _{tgt}	PCs × Quality of Institution _{tgt}	PCs × Business Environment _{tgt}
	1	2	3	4
PCs _{tgt}	0.0240* (0.0323)	0.0096* (0.0173)	0.0130* (0.0663)	0.0105* (0.0559)
PCs _{acq}	-0.0708*** (0.0266)	-0.0520** (0.0214)	-0.1886** (0.0698)	-0.1701** (0.0709)
PCs _{tgt} × Quality of Institution _{tgt}	0.0138 (0.0400)		0.1242 (0.0993)	
PCs _{acq} × Quality of Institution _{tgt}	0.0070 (0.0173)		0.0947* (0.0607)	
PCs _{tgt} × Business environment _{tgt}		-0.0339* (0.0171)		-0.0729* (0.0622)
PCs _{acq} × Business environment _{tgt}		-0.0177 (0.0142)		0.0611* (0.0491)
Control Variables (as Table 4.6)	Yes	Yes	Yes	Yes
FE (as Table 4.6)	Yes	Yes	Yes	Yes
Pseudo R2	0.2624	0.2645	0.0323	0.0321
Number of observations	8,907	8,907	8,907	8,907

Table 4.14: PCs and Institutional Quality Interaction Analysis - Likelihood and Duration of CBAs Completion

This table presents the estimation results of the interaction of PCs with institutional quality at the target’s domicile for the likelihood and duration of CBA completion. The dependent variable is a dummy variable “Completed,” which is equal to one if the CBA is completed and zero if otherwise, as reported in SDC (Panel A) and the natural logarithm of the number of days to CBAs deal completion (ln(1+days)) (Panel B). The variables of interest are PCs and interactions. All other variables are as applied in Table 4.9. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	Panel A		Panel B	
	Probability of deal completion		Number of days to deal completion	
	PCs × Quality of Institution _{tgt}	PCs × Business Environment _{tgt}	PCs × Quality of Institution _{tgt}	PCs × Business Environment _{tgt}
	1	2	3	4
PCs _{tgt}	0.0633* (0.0469)	0.0315* (0.0458)	-0.0373* (0.0378)	-0.0629* (0.0341)
PCs _{acq}	0.0153* (0.0280)	0.0259* (0.0371)	-0.0064 (0.0298)	0.0217 (0.0266)
PCs _{tgt} × Quality of Institution _{tgt}	-0.2292* (0.0970)		0.0187 (0.0675)	
PCs _{acq} × Quality of Institution _{tgt}	0.0233 (0.0413)		0.0161 (0.0383)	
PCs _{tgt} × Business environment _{tgt}		-0.0241* (0.0601)		0.0222* (0.0423)
PCs _{acq} × Business environment _{tgt}		0.0091 (0.0483)		-0.0079 (0.0271)
Control Variables (as Table 4.9)	Yes	Yes	Yes	Yes
FE (as Table 4.9)	Yes	Yes	Yes	Yes
Pseudo R ²	0.1395	0.1393		
Adjusted R ²			0.0122	0.0122
Number of observations	37,304	37,304	31,380	31,380

Table 4.15: PCs and Institutional Quality Interaction Analysis – Acquirers’ and Targets’ Announcement Period Gains

This table presents the estimation results of PCs with institutional quality at the target’s domicile for acquirers’ and targets’ five-day announcement period (-2 to +2) market returns. The variables of interest are PCs and interactions. All other variables are as applied in Table 4.10 and Table 4.11, respectively. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	Panel A		Panel B	
	ACAR		TCAR	
	PCs _{tgt} × Quality of Institution _{tgt}	PCs _{tgt} × Business environment _{tgt}	PCs _{tgt} × Quality of Institution _{tgt}	PCs _{tgt} × Business Environment _{tgt}
	1	2	3	4
PCs _{tgt}	0.0155* (0.0298)	0.0733*** (0.0232)	0.1392** (0.1377)	0.1206* (0.1310)
PCs × Quality of Institution _{tgt}	-0.0972 (0.0561)		-0.1777 (0.2849)	
PCs × Business environment _{tgt}		-0.0600** (0.0299)		0.1557 (0.1697)
Control Variables (as Table 4.10 and Table 4.11, respectively)	Yes	Yes	Yes	Yes
FE (as Table 4.10 and Table 4.11, respectively)	Yes	Yes	Yes	Yes
Adjusted R ²	0.0433	0.0447	0.055	0.0549
Number of observations	24,991	24,991	3,062	3,062

Table 4.16: PCs and Legal Origin Interaction Analysis – Inbound CBAs

This table presents the estimation results of the interaction of PCs with the legal origin of the targets' domiciles (i.e., Common Law, Civil Law) on inbound CBAs at targets' domiciles. The dependent variable is *Number of CBA*, defined as the total number of CBA bids divided by the total number of domestic and CBA bids (for Panel A) and *Volume of CBA*, defined as the total value of CBA bids divided by the total value of domestic and CBA bids (for Panel B). The variables of interest are PCs and interactions. All other variables are as applied in Table 4.5. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable	Panel A		Panel B	
	Number of CBA		Volume (Value) of CBA	
	Common Law	Civil Law	Common Law	Civil Law
	1	2	3	4
PCs _{tgt}	0.1932*** (0.0349)	0.1926*** (0.0461)	0.2225*** (0.0406)	0.1687** (0.0609)
Common Law _{tgt} × PCs _{tgt}	-0.0865 * (0.0633)		-0.1779** (0.0825)	
Civil Law _{tgt} × PCs _{tgt}		0.0407 (0.0586)		0.0058 (0.0739)
Control Variables as the Baseline Analysis (Table 4.5)	Yes	Yes	Yes	Yes
FE as the Baseline Analysis (Table 4.5)	Yes	Yes	Yes	Yes
Pseudo R2	0.7835	0.7814	0.4837	0.4831
Adjusted R ²				
Number of observations	13,755	13,755	13,755	13,755

Table 4.17: PCs and Legal Origin Interaction Analysis - Bilateral CBAs

This table presents the estimation results of PC's interaction with the legal origin of the targets' domiciles (i.e., Common Law, Civil Law) on bilateral CBAs. The dependent variable is the *Number of Bilateral CBA* (per 100 listed firms in target nations) (Panel A) and *Volume of Bilateral CBA* (per billion USD of GDP of target nation) (Panel B). The variables of interest are PCs and interactions. All other variables are as applied in Table 4.6. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable	Panel A		Panel B	
	Number of bilateral bids		Volume (Value) of bilateral bids	
	Common Law	Civil Law	Common Law	Civil Law
	1	2	3	4
PCs _{tgt}	0.0391** (0.0214)	0.0330*** (0.0117)	0.0373* (0.0392)	0.0771** (0.0430)
PCs _{acq}	-0.0664** (0.0241)	-0.0672*** (0.0251)	-0.1283* (0.0608)	-0.1179* (0.0739)
PCs _{tgt} × Common Law _{tgt}	-0.0182* (0.0226)		0.0456 (0.0537)	
PCs _{acq} × Common Law _{tgt}	0.0006 (0.0096)		0.0084 (0.0377)	
PCs _{tgt} × Civil Law _{tgt}		0.0038** (0.0305)		0.0533* (0.0497)
PCs _{acq} × Civil Law _{tgt}		0.0029 (0.0084)		-0.0144 (0.0339)
Control Variables as the Baseline Analysis (Table 4.6)	Yes	Yes	Yes	Yes
FE as the Baseline Analysis (Table 4.6)	Yes	Yes	Yes	Yes
Pseudo R ²	0.2625	0.2623	0.0322	0.0322
Number of observations	8,907	8,907	8,907	8,907

Table 4.18: PCs and Legal Origin Interaction Analysis - Likelihood and Duration of CBAs Completion

This table presents the estimation results of the interaction of PCs with the legal origin of the targets' domiciles (i.e., Common Law, Civil Law) on the likelihood and duration of CBA completion. The dependent variable is a dummy variable "Completed," which is equal to one if the CBA is completed and zero if otherwise, as reported in SDC (Panel A) and the natural logarithm of the number of days to CBAs deal completion ($\ln(1+\text{days})$) (Panel B). The variables of interest are PCs and interactions. All other variables are as applied in Table 4.9. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable	Panel A		Panel B	
	Probability of deal completion		Number of days to deal completion	
	Common Law	Civil Law	Common Law	Civil Law
	1	2	3	4
PCs _{tgt}	0.0131** (0.0236)	0.0852** (0.0387)	-0.0486** (0.0231)	-0.0337* (0.0280)
PCs _{acq}	0.0240* (0.0222)	0.0420* (0.0420)	-0.0100 (0.0208)	-0.0159 (0.0216)
PCs _{tgt} × Common Law _{tgt}	-0.1079** (0.0533)		0.0052 (0.0383)	
PCs _{acq} × Common Law _{tgt}	0.0174 (0.0171)		0.0128 (0.0154)	
PCs _{tgt} × Civil Law _{tgt}		-0.0669 (0.0468)		0.0230 (0.0364)
PCs _{acq} × Civil Law _{tgt}		-0.0179 (0.0166)		0.0020 (0.0155)
Control Variables as the Baseline Analysis (Table 4.9)	Yes	Yes	Yes	Yes
FE as the Baseline Analysis (Table 4.9)	Yes	Yes	Yes	Yes
Pseudo R ²	0.1395	0.2623	0.0122	0.0122
Number of observations	37,304	8,907	31,380	31,380

Table 4.19: PCs and Legal Origin Interaction Analysis – Acquirers’ Announcement Period Gains

This table presents the estimation results of the interaction of PCs with the legal origin of the targets’ domiciles (i.e., Common Law, Civil Law) on acquirers’ five-day announcement period (-2 to +2) market returns. The variables of interest are PCs and interactions. All other variables are as applied in Table 4.10. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable	ACAR	
	Common Law 1	Civil Law 2
PCs _{tgt}	0.0192** (0.0157)	0.0073* (0.0155)
PCs _{tgt} × Common Law _{tgt}	0.0422 (0.0286)	
PCs _{tgt} × Civil Law _{tgt}		0.0071 (0.0160)
Control Variables as the Baseline Analysis (Table 4.10)	Yes	Yes
FE as the Baseline Analysis (Table 4.10)	Yes	Yes
Pseudo R ²	0.0443	0.0450
Number of observations	24,991	24,991

Table 4.20: PCs and Legal Origin Interaction Analysis – Targets’ Announcement Period Gains

This table presents the estimation results of the interaction of PCs with the legal origin of the targets’ domicile (i.e., Common Law, Civil Law) on the targets’ five-day announcement period (-2 to +2) market returns. The variables of interest are PCs and interactions. All other variables are as applied in Table 4.11. *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable	TCAR	
	Common Law 1	Civil Law 2
PCs _{tgt}	0.1471* (0.0803)	0.1468 (0.1007)
PCs _{tgt} × Common Law _{tgt}	-0.0280 (0.1429)	
PCs _{tgt} × Civil Law _{tgt}		-0.0298 (0.1256)
Control Variables as the Baseline Analysis (Table 4.11)	Yes	Yes
FE as the Baseline Analysis (Table 4.11)	Yes	Yes
Pseudo R ²	0.0521	0.0522
Number of observations	3,062	3,062

Table 4.21: PCs - Additional Tests, Subsample Analysis and Robustness

This table presents additional results. Panel A presents results of subsample analysis with and without US and UK acquirers and targets. Panel B presents results using alternative key variables. Panel C presents results for bilateral CBAs using an alternative dependent variable as defined in equation (2.6) in Chapter 2. Panel D presents results for subsample analysis of politically sensitive target industry and finally Panel E conducts two stage estimation with instrumental variable for additional robustness. All the control variables are as the main analysis of the respective tests, and all control variables as the main analysis are lagged one year and are defined in Chapter 2 and in Appendix 4.1. Heteroscedasticity robust standard errors are clustered as per the main analysis and are reported in parentheses. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Target Inbound CBAs (Number)	Target Inbound CBAs (Volume)	Bilateral CBAs (Number)	Bilateral CBAs (Volume)	Likelihood of CBA completion	Duration of CBAs	ACAR	TCAR
	1	2	3	4	5	6	7	8
Panel A: Subsample Analysis								
Without UK and US Acquirers								
PCs _{tgt}	0.2061*** (0.0368)	0.2006*** (0.0435)	0.0224* (0.0141)	0.0360* (0.0288)	0.0500* (0.0282)	-0.0582** (0.0239)		0.1595* (0.1373)
PCs _{acq}			-0.0173* (0.1222)	-0.0146** (0.0261)	0.0267* (0.0222)	0.0204 (0.0197)	-0.0267* (0.0126)	
PCs _{tgt-acq}			0.0513*** (0.0228)	0.0898*** (0.0386)	0.0273* (0.0183)	-0.0490** (0.0157)	0.0295** (0.0112)	
Without UK and US Targets								
PCs _{tgt}	0.1636*** (0.0301)	0.1744*** (0.0368)	0.0416** (0.1702)	0.0755* (0.0354)	0.0486* (0.0222)	-0.0381* (0.0193)		0.1772* (0.1111)
PCs _{acq}			-0.0809*** (0.0170)	-0.1473* (0.0792)	0.0254* (0.0209)	0.0183 (0.0218)	-0.0281 (0.0136)	
PCs _{tgt-acq}			0.0811*** (0.0235)	0.1632*** (0.0482)	0.0351*** (0.0163)	-0.0307*** (0.0148)	0.0339*** (0.0111)	
Panel B: Alternative Key Explanatory Variable								
Checks- DPI _{tgt}	0.0032* (0.0025)	0.0013* (0.0028)	0.0069* (0.0040)	0.0057 (0.0194)	0.0044* (0.0187)	0.0102* (0.0111)		0.0025 (0.0056)

Checks- DPI _{acq}			-0.0041*	-0.0202*	0.0013	0.0102	-0.0020*	
			(0.0041)	(0.0163)	(0.0150)	(0.0117)	(0.0006)	
Checks- DPI _{tgt-acq}			0.0187**	0.1175**	0.0303***	-0.0146*	0.0170***	
			(0.0077)	(0.0558)	(0.0110)	(0.0082)	(0.0006)	
Exec Const _{tgt}	0.0257**	0.0136**	0.0013	0.0166*	0.0078*	-0.0074*		0.0030*
	(0.0074)	(0.0081)	(0.0012)	(0.0103)	(0.0121)	(0.0096)		(0.0185)
Exec Const _{acq}			-0.0010	-0.0021*	0.0298*	-0.0141	-0.0040	
			(0.0009)	(0.0031)	(0.0183)	(0.0075)	(0.0010)	
Exec Const _{tgt-acq}			0.0470*	0.0325**	0.1014**	-0.0242*	0.0011*	
			(0.0026)	(0.0134)	(0.0415)	(0.0403)	(0.0007)	

Panel C: Alternative Dependent Variable

ln(1+CBA) (PCs _{tgt})			0.0558***	0.1220***				
			(0.0068)	(0.0196)				
ln(1+CBA) (PCs _{acq})			-0.0181*	0.0273				
			(0.0085)	(0.0277)				
ln(1+CBA) (PCs _{tgt-acq})			0.0385***	0.0923***				
			(0.0074)	(0.0144)				

Panel D: Politically sensitive industry –Sub-sample analysis

Politically Sensitive Industry								
PCs _{tgt}	0.0996***	0.1587***			0.0198*	-0.0765*		0.0999
	(0.0533)	(0.0623)			(0.0281)	(0.0328)		(0.1758)
PCs _{acq}					0.0003*	-0.0158	-0.0090	
					(0.0356)	(0.0397)	(0.0285)	
PCs _{tgt-acq}					0.0312*	-0.0399*	0.0292*	
					(0.0223)	(0.0244)	(0.0171)	
Other Industry								
PCs _{tgt}	0.1930***	0.1630***			0.0869***	-0.0291		0.0270*
	(0.0351)	(0.0462)			(0.0256)	(0.0235)		(0.1493)
PCs _{acq}					0.0373*	0.0287	-0.0350	
					(0.0278)	(0.0214)	(0.0150)	
PCs _{tgt-acq}					0.0452**	0.0294*	0.0310***	
					(0.0212)	(0.0171)	(0.0108)	

Panel E: Two Stage Estimation with Instrumental Variable									
1 st Stage Fractionalisation _{tgt}	0.0137*** (0.0071)	0.0137*** (0.0071)							
2 nd Stage PCs _{tgt}	0.0406*** (0.0102)	0.0332*** (0.0120)							
Cragg-Donald Wald	354***	520***							
Control Variables as the Baseline Analysis	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
FE as the Baseline Analysis	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Figure 4.1: Plot (Times Series) of PCs and Total Number of CBA Bids

The figure depicts the time series of average PC (dashed blue line) in the right vertical axis and the number of CBA bids (orange line) in the left vertical axis. The horizontal axis presents year from 1992 to 2017.

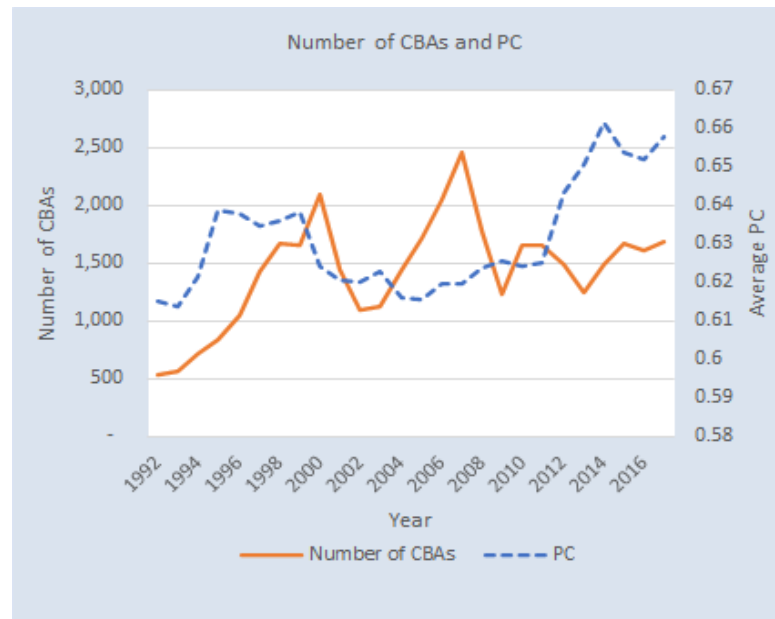
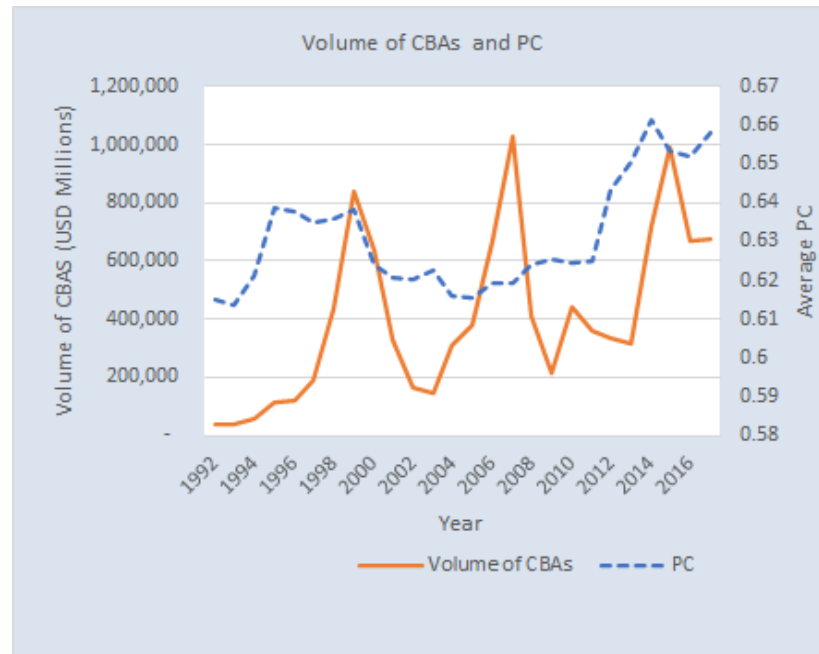


Figure 4.2: Plot (Times Series) of PCs and Total Dollar Volume (Value) of CBA Bids

The figure depicts the time series of average PC (dashed blue line) in the right vertical axis and the total value of CBA bids (orange line) in the left vertical axis. The horizontal axis presents year from 1992 to 2017.



Appendix 4.1: Variables, Definitions and Data Sources

Variable	Definition	Source
<i>Panel A: Dependent variables</i>		
Number of Inbound CBA $_{tgt}$	The total number of CBA bids divided by the total number of (domestic and CBA) bids in a given target's country and industry (as defined in equation (2.1) – in Chapter 2, Section 2.2.1).	SDC
Volume of Inbound CBA $_{tgt}$	The total dollar value of CBA bids divided by the total dollar value of (domestic and CBA) bids in a given target's country-industry and month (as defined in equation (2.2) – in Chapter 2, Section 2.2.1).	SDC
Number of Bilateral Bids $_{tgt, acq}$	The total NB between country-pair per 100 listed firms (NC) in a given target's country (as defined in equation (2.4) – in Chapter 2, Section 2.2.2)	SDC and Datastream
Volume of Bilateral Bids $_{tgt, acq}$	The total VB in millions of USD divided scaled per billion GDP in a given target country (as defined in equation (2.5) – in Chapter 2, Section 2.2.2)	SDC and Datastream
Deal Completion	Dummy variable equals to one if SDC reports deal status as “completed” and zero if “withdrawn.”	SDC
Deal completion duration	The number of calendar days between the deal announcement date and the completion date.	SDC
ACAR	Refers to acquirers' cumulative abnormal returns $(-2, + 2)$ as defined in equations (2.7) and (2.8) (7) and (8) - in Chapter 2, Section 2.2.3	SDC
TCAR	Refers to targets' cumulative abnormal returns $(-2, + 2)$ as defined in equations (2.7) and (2.8) - in Chapter 2, Section 2.2.3	SDC
Combined CAR $(-2, +2)$	Refers to combined CAR $(-2, + 2)$ as defined in Chapter 2, Section 2.2.3	SDC and Datastream
<i>Panel B: Key explanatory variable</i>		
PCs $_{tgt}$	Political constraints index (PCs) of the target's domicile. The index ranges from 0-1, with lower scores representing higher levels of political risk.	Political constraint dataset - Henisz (2017 data release)
PCs $_{acq}$	Political constraints index (PCs) of the acquirer's domicile. The index ranges from 0-1, with lower scores representing higher levels of political risk.	Political constraint dataset - Henisz (2017 data release)
PCs $_{tgt-acq}$	Difference between target and acquirer domicile's PCs	Author's calculation based on the index of Henisz (2017 data release)

Additional key explanatory variable (robustness)

Checks (DPI)	DPI (Database of Political Institutions) index of the target and acquirer's domicile. The index shows the number of veto players in the political system. The index ranges from 1 to 7, with higher numbers denoting more constraints.	Cruz <i>et al.</i> (2020)
Executive Constraints- PolityV	Polity V's executive constraints index of the target and the acquirer's domiciles. The index measures constraints on the powers of the chief executive. The index ranges from 1 to 7, with higher numbers denoting more constraints.	Polity V Database – Marshall and Gurr, (2020)

Panel C: Country-level Characteristics

Ln (GDPCap)	The natural log of per capita GDP in USD.	WDI
GDPGr	The growth rate of gross domestic product.	WDI
Trade	The annual trade (imports + exports) of goods and services divided by GDP.	WDI
Exchange Rate (per USD)	Exchange rate in USD divided by Purchasing Power Parity.	Penn World Tables
Market Cap quality	The total stock market capitalization divided by GDP.	WDI
Credit Mkt Dev	The total credit divided by GDP	WDI
Quality of Institution	Time-varying index measuring the institutional quality of a country, which is calculated by summing the three following sub-components: (1) law and order (0-6); (2) bureaucratic quality (0- 4) and (3) corruption (0-6). A high score (0-16) indicates countries with higher institutional quality and vice versa. The values are then normalised on a scale of 0-1 based on the sample values. For example, for the Quality of Institution variable, the minimum raw (normalised) value in our sample is 3 (0), and the maximum is 16 (1).	ICRG
Business Environment	Business environment is the investment Profile Index from ICRG - A time-varying index measuring the government's attitude towards foreign investment. It ranges from 0-12, with a higher value reflecting lower potential risk for foreign investors.	ICRG
Common Law	Dummy variable equal to one if the domicile belongs to common law origin and zero otherwise.	La porta (1997)
Civil Law	Dummy variable equal to one if the domicile belongs to civil law origin and zero otherwise.	La porta (1997)

Panel D: Country-pair-level Characteristics

Bilateral Trade	Value of imports by acquirer country from target domicile as a percentage of total imports by the acquirer country.	Comtrade
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Same Language	Dummy variable equal to one if the targets and acquirers have the same primary language and zero otherwise.	CIA World Factbook
Same Border	Dummy variable equal to one if targets and acquirers share the same border and zero otherwise.	CEPII
Colonial Tie	Dummy variable equal to one if the target and acquirers have a colonial tie and zero otherwise.	CIA World Factbook
Same Religion	Dummy variable equal to one if targets and acquirers have the same primary religion (Protestant, Catholic, Muslim, Buddhist, or Others) and zero otherwise.	CIA World Factbook

Panel E: Country-industry/firm-level Characteristics

Firm Size	Natural logarithm of the dollar value of the total assets (of firm or industry median).	Datastream
ROA	EBITDA divided by the book value of total assets (of firm or industry median).	Datastream
Leverage	Total debt divided by the book value of Total Assets (of firm or industry median).	Datastream
MTBV	Market-to-book ratio. It is calculated as the market value of common equity divided by the book value of common equity (of firm or industry median).	Datastream

Panel F: Deal/Bid-level Characteristics

Deal size	Natural logarithm of deal transaction value, in millions of USD.	SDC
Cash Bids/Deals	Dummy variable equals one if the deal payment is made with cash and zero otherwise.	SDC
Same Industry	Dummy variable equal to one if the target and bidder firms operate in the same industries using 48 Fama-French industry classification (FF-48) and zero otherwise.	SDC
Competing Bid	Dummy variable equals to one if the deal is identified as having more than one bidder in SDC and zero otherwise.	SDC
Tender Bid	Dummy variable equals to one if the deal is identified as a tender offer in SDC and zero otherwise.	SDC

5. Acquirers' Pre-bid Host Country Experience and Cross-border Mergers and Acquisitions

5.1 Introduction

Cross-border mergers and acquisitions (CBAs), in addition to offering various advantages to the firms⁷⁵, also face various challenges. Specifically, CBAs are imperilled by risks and uncertainties⁷⁶ that partly stem from the impediments highlighted in the first two empirical chapters, among other factors such as differences in language, religion and other formal institutions (Li *et al.*, 2020b; Collins *et al.*, 2009). These challenges can be obstacles for acquirers in obtaining information about the target. It can even heighten acquiring firm's liability of foreignness⁷⁷ and outsidership⁷⁸ related to the target firm's domicile. Such hindrances have been documented to impede the success of CBAs. Precisely, these difficulties can impact the likelihood of the CBA deal completion and can lead to bid withdrawal after its announcement. Withdrawal of bids has several costs for the acquiring firm; one, for example, is high termination fees (Bates and Lemmon, 2002).

Moreover, insufficient information has also been documented to prolong the duration of deal completion (i.e., the number of days from bid announcement to its resolution), which can distract acquirers from other profitable opportunities (Muehlfeld, Sahib and van Witteloostuijn, 2007; Luo, 2005). Additionally, the

⁷⁵ Such as immediate access to technologies, products, distribution channels, and favourable market positions, among others (Morresi and Pezzi, 2014).

⁷⁶ Although there is a formal distinction between risk and uncertainty, both terms frequently replace each other. In its strict sense, uncertainty refers exclusively to the unpredictability of the situation, i.e., changes that are difficult to predict, while risk can be predicted (for more explanation, see Miller, 1992).

⁷⁷ Liability of foreignness relates to additional costs foreign firms incur which local firms do not face (Zaheer, 1995).

⁷⁸ Liability of outsidership relates to the firm being an outsider in local networks and its lack of knowledge of local business opportunities (Johanson and Vahlne, 2009).

acquisition premium can also be affected by how acquirers gather information in the pre-acquisition period, lack of which could lead to overpayment (Barbopoulos, Cheng, Cheng and Marshall, 2019; Guo, Li, Seeger and Vagenas-Nanos, 2019). This, ultimately, can result in lower market returns for the bidders during the announcement period (Barbopoulos *et al.*, 2019).

However, all foreign acquirers may not face the same complexities. For example, some foreign acquirers may have already been embedded in the target's domicile in the form of prior foreign direct investment (FDI) and may face lower levels of the abovementioned challenges, at least for their subsequent investment in that particular nation. Literature appreciates that experiences and embeddedness of subsidiaries in locations play a fundamental and systematic role in influencing the perceptions of risk for rightful decision-making (Buckley and Munjal, 2017; Makhija and Stewart, 2002). Acquirers usually look for ways to overcome the challenges. Hence, they may utilise their experience and embeddedness from their presence in the host-nation (hereafter pre-bid host-country experience) to explore and engage in mergers and acquisitions in the same host rather than acquiring into a new market. It has been documented that acquisition in a particular host country is a stronger predictor of subsequent acquisition (Collins, Holcomb, Certo, Hitt and Lester, 2009). While this is a possibility, one may ask if such a strategy would provide better CBAs outcomes; this is because economic arguments provide two conflicting predictions, as highlighted hereunder.

One line of research points out that pre-bid host-country experience can lead to better subsequent CBAs. This part of the literature emphasises that previous commitments in a country serve as a platform for learning and building strategies that

enables one to make better subsequent investments in that host country (Johanson and Vahlne, 2009; Johanson and Vahlne, 1977). On the contrary, borrowing from the social connection literature (Ding, Hu, Li and Lin, 2021; Guo, Li, Seeger and Vagenas-Nanos, 2019), familiarity with the target or of the target's market may give rise to managerial issues of the hubris hypothesis (Roll, 1986); under such circumstance, managers may choose less favourable investments. It is thus paramount to examine which of the two arguments is more representative of the situation to allow policy implications for the acquirers.

While the literature on CBA appreciates that firms leverage on their experiences to overcome the challenges of CBAs, they, however, concentrate on the experience of the acquisition process (see Dikova, Sahib and Van, 2010; Kusewitt, 1985; Aktas, De Bodt and Roll, 2013; Galavotti, Cerrato and Depperu, 2017)⁷⁹, irrespective of its similarity to the focal acquisition; this could be detrimental. Learning transfer theory (Cormier and Hagman, 1987; Finkelstein and Haleblan, 2002) suggests that not all experiences can be beneficial; for learning to be beneficial, they must be applied to similar undertakings. Basuil and Datta (2015) try to rectify this; however, they only look at the similarity of industry and region and only at acquirers' long-term market performances for the service sector industry of the US acquirers. The possible implication of acquirer's pre-bid host-country experience on the success of subsequent acquisitions is yet to be explored⁸⁰. Against this backdrop, the chapter

⁷⁹ In areas like due diligence, negotiations, and acquisition assimilation in subsequent transaction.

⁸⁰ Literature that appreciate host-country experience include Vermeulen and Barkema (2001), they however analyse how host-country experience would help future investments survival in the country. Collins *et al.* (2009) is also a notable literature to highlight host-country, they however focus only on how acquisition experience and examine how previous M&A predicts subsequent M&As in the host. They do not examine the success of subsequent acquisitions as done in this chapter. One paper that can be closely related to this is that of Doukas and Travlos (1988) who investigated host-country presence, however they focus only on US market in the 1970s and only on the acquirer's return.

investigates the link between acquirers' pre-bid host-country experience and the outcomes of CBAs. Here below, I briefly provide questions the chapter investigates and their key findings. Acquirer's pre-bid host-country experience in this chapter is measured as their presence in the target's domicile in any form of foreign direct investment (i.e., CBAs, greenfield and joint ventures) prior to the focal bid (more explanation is provided in section 5.4.3). The sample of investigation is CBAs between 2005 and 2018 by bidding firms domiciled in 6 countries.

Research Questions and Key Findings

First, the chapter examines *the relationship between acquirers' pre-bid host-country experience and the likelihood of acquisition completion*. To answer this, I draw on the above literature on the benefits of learning and the hubris hypothesis. Empirical investigation in the chapter reconciling the opposing views finds a positive relationship between pre-bid experience in host-country (*Yes Experience*) and the likelihood of acquisition completion. The findings suggest that acquirers' presence in host-country may have facilitated learning and helped them benefit from networks; hence, supporting the view on the benefit of learning.

Second, extending the above investigation, the chapter quantifies *the link between acquirers' pre-bid experience in the target's domicile and the duration of the deal completion (i.e., the number of days from the announcement of the bid to acquisition completion)*. Empirical investigation reports that *Yes Experience* is negatively related to the duration of deal completion. The outcome suggests that acquirers with pre-bid host-country experience take fewer days to complete the CBA deal compared to other acquirers. These findings reiterate the benefits of host-country

learning and reinstate the above findings that near-experiences can help firms overcome the challenges of deal completion.

Third, the chapter examines *if acquirers with pre-bid host-country experience in the target's domicile pay a lower acquisition premium*. The investigation in the univariate analysis reveals that *Yes Experience*, on average, pay 33.17% and *No Experience*, on average, pay 41.94%. These outcomes show that those acquirers with pre-bid experience in host-country, on average, pay 8.77 percentage points lower premium (the difference of mean between *Yes* and *No Experience* is statistically significant). The multivariate analysis corroborates these findings (i.e., a negative and statistically significant relationship is obtained). The results suggest that the acquirers' presence at the host can better determine the target's actual value. The findings align with literature such as that of Guo *et al.* (2019) and Michael (2001), who provide that familiarity of managers enhances acquirers' bargaining power in negotiation.

Fourth, the chapter quantifies the link between *acquirers' pre-bid host-country experience and acquirers' announcement period market gains (i.e., acquirers' cumulative abnormal return, ACAR)*. Results in the univariate analysis show that those acquirers with pre-bid host-country experience receive a 1.04 percentage point higher ACAR than those without pre-bid experience in the host country (the difference of mean between *Yes* and *No Experience* is statistically significant). The multivariate analysis also corroborates with the findings. The results suggest that the acquirers' market appreciates acquisition in a familiar market as it can allow them to target rightful targets and pay targets an actual or lower offer price. The results align with Barbopoulos *et al.* (2019), who document that acquirers' market appreciates when they acquire familiar targets.

Finally, *the relationship between acquirers' pre-bid host-country experience and the target firms' announcement period gains (i.e., targets' cumulative abnormal return, TCAR)* is examined. Results show that targets receive 9.86 percentage points less when acquirers have pre-bid experience in their country (the difference of mean between *Yes* and *No Experience* is statistically significant). Specifically, the univariate analysis shows that *Yes Experience* receives an average return of 22.22%, and *No Experience* receives an average return of 32.08%. The multivariate analysis also corroborates with these findings. These results suggest that targets shareholders lose when acquirers are versed with them and when they receive a more reflective value. These results align with Barbopoulos et al. (2019), who also find that target shareholders gain less during announcements when they receive a more reflective/accurate value of their firm.

Contributions and Policy Implications

This chapter contributes to three strands of literature. First, it contributes to CBAs' learning literature, precisely to the work of Basuil and Datta (2015). Because of equivocal findings in the literature on the influence of experience on CBAs outcome⁸¹, Basuil and Datta (2015) suggests investigating the relevance of the type of experience on subsequent acquisition; they document evidence that acquirer's experience related to prior acquisitions in the same industry (industry-specific acquisition experience) and the same geographic region (region-specific acquisition experience) result in enhanced long-term shareholder value creation in CBAs in the

⁸¹ Dikova et al (2010) and Markides and Oyon (1998) for example find a positive influence of acquirer's previous experience on the outcome of subsequent acquisitions. Some studies report negative and some report insignificant influence of experience on the outcomes of CBAs (see the meta-analysis by Langosch and Tumlinson, 2022).

same industry and region. The current chapter extends this body of literature by showing the relevance of similar experience, however, different from the constructs (industry and region-specific experience), the chapter documents the relevance of acquirer's experiences related to the same host nation (host-specific experience) on the outcomes⁸² of subsequent CBAs in the same host nation. Moreover, the chapter deviates from aforementioned studies which measure experience only in form of previous acquisition of the acquirer, the chapter considers acquirer's pre-bid host-specific experience as acquirer's presence in the target domicile be it either as greenfield, joint ventures or acquisitions. The current chapter also deviates from the aforementioned study which investigate the US acquirers only, the current chapter investigates this for acquirers from six nations including US acquirers, the chapter also provides a comparative investigation between US and non-US acquirers (as reported in the robustness section of the chapter).

Second, the chapter contributes to the limited but growing body of literature examining the completion of CBA after the announcement of the bid (i.e., the likelihood and duration of CBAs' deal completion). Notable studies include Dikova *et al.* (2010), among others. Precisely, Dikova et al (2010) for a very limited sample of US acquirers in the service industry finds that institutional distance impacts deal completion and that learning from previous completed acquisitions reduces the impact of institutional distance. The current chapter reports the importance of learning; however, different from general experience (irrespective of its similarity to focal bids), the chapter focuses on similar experience to the focal bid, precisely, how acquirer's pre-bid host country experience enhances the likelihood of deal completion and

⁸² i.e., on the likelihood and duration of deal completion and the announcement period gains of the acquirer and the target firms

reduces the duration of deal completion on subsequent CBAs in the same host nation. The practical implication from the findings is that, given the prospect, managers may explore acquisition opportunities where they are already present rather than plunging into new markets.

Third, the chapter adds to the growing body of literature that examine the determinants of premium. Notable studies in this strand include that of Denis, Denis and Yost, (2002), who underline the influence of acquiring and target firms' characteristics. Rossi and Volpin (2004) is another notable study that report the importance of regulations for acquisition premium. Huizinga, Voget and Wagner (2012) document the influence of taxation. Barbopoulos *et al.* (2019) go on to document that influence of acquirer's toe-hold in target's firm. I add to this strand of literature by documenting the importance of acquirer's pre-bid host-country experience. As results suggest that acquirers' with pre-bid host-specific experience compared to others pay lower premium, this strategically indicate that acquirers should explore opportunities where they are present as they benefit from it. The target firms, on the other hand, may look for bidders who are not familiar with them or with the environment.

Finally, this chapter contributes to the literature investigating value creation during the CBAs announcement period. Thus far, none of the literature has investigated the effect of acquirers' pre-bid experience in host-country on market return, except for Doukas and Travlos (1988), who also investigated only the US market in the 1970s and only on the acquirer's return. This chapter investigates this for six countries and compares the results of two samples, the US acquirers and non-US acquirers. Additionally, the chapter also looks at the announcement period returns

of the targets. As such, this chapter provides new insights and additional contributions to this debate. These findings reiterate the strategic implications provided in the above contribution that acquirers should explore opportunities where they are present and target firms may look for bidders who are less versed with them or with their domicile's environment.

The rest of the chapter proceeds as follows. Section 5.2 briefly discusses the development of the key testable hypotheses. Section 5.3 describes the sample data employed in this study and explains the methodology. The empirical results are discussed in Section 5.4, and finally, Section 5.5 offers concluding remarks.

5.2 Related Literature and Hypotheses Development

5.2.1 The influence of firm's experience on acquisitions (an overview of the literature)

Organisation learning theory (Argote and Miron-Spektor, 2011; Levitt and March, 1988) suggests that firms learn from their experiences which they retain for future decisions. CBAs can be one such investment strategy where experience can be important because CBAs have various costs attached to them, among which host-specific costs are one of them. The host-specific costs are associated with the lack of knowledge about local markets, lack of relationships in critical networks, institutional distance and cultural differences (Johanson and Vahlne, 2009; Zaheer, 1995). Under such circumstances, context-specific (i.e., host-specific) experience can be highly valuable.

The influence of organisation's experience on M&As is not a new phenomenon, there has been plethora of research in the area giving valuable insights,

however, the empirical findings have been equivocal (Langosch and Tumlinson, 2022). For example, Markides and Oyon (1998) and Ahammad, Tarba, Liu and Glaister (2016) finds that acquirer's previous international experience influences announcement period gains of subsequent acquisitions. Dikova et al (2010) for US acquirers in service industry finds that previous learning reduces the impact of institutional distance on subsequent acquisitions. This however is not always the case, some studies report negative and some report insignificant influence of firm's experience on the outcomes of CBAs (see the meta-analysis by Langosch and Tumlinson, 2022).

Basuil and Datta (2015) suggest that the reason for ambiguous findings is because previous studies investigate the influence of experience irrespective of its similarity to the focal acquisition; application of dissimilar experience may therefore not be useful and thus the ambiguous findings. Basuil and Datta (2015) base their reasoning on the learning transfer theory (Cormier and Hagman, 1987; Finkelstein and Haleblan, 2002) which suggest that not all experiences can be beneficial; for learning to be beneficial, they must be applied to similar undertakings. Basuil and Datta (2015) therefore investigate context specific experience, precisely, if acquiring firm's previous acquisition in the same industry (industry-specific acquisition experience) and the same region (region-specific acquisition experience) influence subsequent acquisition in the same industry and region; they find a positive and significant relationship of such kind of experience on the long-term shareholder value creation. Having seen in the introduction section of this chapter that many challenges in acquisition could be linked to host-country specific factors, as such, the current chapter extends this strand of literature by showing the relevance of context specific

experience, however, different from the constructs (industry and region-specific experience), the chapter documents the relevance of acquiring firm's experiences related to the same host nation (host-specific experience) on subsequent CBAs in the same host nation. This being fundamental as the internationalisation model (Johanson and Vahlne, 1977) provides that host experiences reduces information asymmetry and liability of foreignness for subsequent investment. Barkema, Bell and Pennings (1996) and Delios and Beamish (2001) go on to provide that the host-country experience can help better understand the dominant logic of the host country's institutional requirements, which can help firms make better investment decisions in that host country. Adding to this strand on the importance of host country learning, the network linkage theory (Chen and Chen, 1998) and the revised model of internationalisation, that is, the Uppsala Model of internationalisation (Johanson and Vahlne, 2009) underscore that host experiences help firms benefit from networks that help them reduce the liability of outsidership in that nation.

Kogut (1991), Li and Rugman (2007) and Li (2007) further document that firms' FDI in a specific host enables firms to learn about environmental uncertainties of the host and, as a result, provides firms with a series of options for subsequent opportunities, including the option to deter and the option to grow in the host country⁸³. Given these discussions, acquirers' pre-bid host-specific experience (be it in any form of FDI -i.e., through CBAs, joint venture or greenfield) can provide acquirers with an opportunity of learning and gather information about the target and its domicile or carrying out CBAs when the possibility of success is high. This would mean a higher

⁸³ Although the literature of real option in FDI (Kogut, 1991; Li and Rugman, 2007; Li, 2007) concentrate on the upscale and downscale decisions of joint venture, the same argument can be formed here. Precisely by operating in a certain domicile, firms are likely to familiarise themselves with uncertainties and therefore have the option to undertake or deter future CBAs.

possibility of overcoming, at least in part, the challenges of CBAs in that particular domicile.

However, contrary to the above, one cannot disregard that acquiring firm's pre-bid host-country experience may also lead to less successful mergers in that host country (this forms the second conflicting economic argument). This inference is because a firm's presence in a host nation may lead its managers to issues of overconfidence or self-interest. This proposition is formed borrowing from the literature on social connection. Literature posits that manager's familiarity with the host country (Ding *et al.*, 2021) or the target firm (Ishii and Xuan, 2014; Guo, Li, Seeger and Vagenas-Nanos, 2019) can lead them to engage in value-destroying mergers. The main reason is that familiarity can lead to overconfidence or self-interest, a major concern under the hubris hypothesis of takeover (Roll, 1986).

Moreover, familiarity can lead to managerial issues of over-trust (Ishii and Xuan, 2014)⁸⁴, familiarity bias (Ishii and Xuan, 2014)⁸⁵ and social conformity (Cialdini and Goldstein, 2004)⁸⁶. As pre-bid host-country experience can increase the manager's familiarity with the target, the market and the networks at the target's domicile, similar adverse effects can occur. Despite these underpinnings, attention on acquirers' pre-bid host-country experience on subsequent CBA's success/failure, including its influence on value creation/destruction, have not been investigated. The following section defines the link between them in individual hypotheses.

⁸⁴ Over-trust is a heightened sense of trust created through networking, which in a merger can lead to lower due diligence or overestimating the resulting synergistic gains and thus leading to inefficient decision-making by firm's management (Ishii and Xuan, 2014).

⁸⁵ Familiarity bias refers to a situation where individuals prefer to maintain the status quo and select familiar firms in their investment decisions Firm management may prioritise familiar partners and neglect better business opportunities beyond their networks, resulting in less favourable investment decisions (Ishii and Xuan, 2014).

⁸⁶ Social conformity implies that individuals prefer to follow the decisions of the group, which may lead to acquiring value-destroying targets (Cialdini and Goldstein, 2004).

5.2.2 Pre-bid Host-country Experience and Likelihood of Deal Completion

Dikova *et al.* (2010) provide that many CBAs undertakings fail to complete after the announcement of the bid, which they argue occurs partly because of acquirers' inability to comprehend with the target and target domicile's institutional requirements. To this end, this chapter posits that rendering the benefits of learning in the host country explained above, acquirers' pre-bid host-country experience can allow acquirers to familiarise themselves and access information about the target and the target's domicile. This can help them select the right targets with whom they would be able to comprehend and help them meet the institutional requirements. One can therefore argue that acquirers' pre-bid host-country experience can increase the likelihood of deal completion after its bid announcement. On the contrary, familiarity in the domicile may lead to overconfidence or self-interest (Roll, 1986), among other factors; firms' management may bid for a target whose terms they may not be able to meet, which can decrease the likelihood of the deal completion.

Given the two opposing arguments, some acquirers may benefit from a higher likelihood of acquisition completion, and others may face a lower likelihood of acquisition completion. Taking them together could cancel out each other's effect and could thus offset the relationship between the likelihood of CBAs' deal completion and acquirers' pre-bid host-country experience (that is no significant effect). This argument leads to the formation of the following hypothesis.

Hypothesis 1 (H1): There is no statistically significant relationship between the likelihood of CBA deal completion and acquirers' pre-bid host-country experience.

5.2.3 Pre-bid Host-country Experience and Duration of deal completion

A considerable amount of CBAs are delayed globally (Reddy, Xie and Huang, 2016), and as posited earlier, prolonged deal-making is likely to be costly, at least for the bidding firm. Acquirers' pre-bid host-country experience can provide many advantages to gathering sufficient information about the target and its domicile, which could reduce further negotiation after the announcement of the deal on subsequent acquisitions and hence reduce the duration of deal completion. However, on the contrary, as pre-bid host-country experience can lead to over-confidence (Ishii and Xuan, 2014) or following the decision of a group (Cialdini and Goldstein, 2004), in this case, acquirers may select a difficult target whose terms would be hard to meet, this may lead to further negotiations and hence prolong the duration of deal completion.

Given the two opposing advocacies, some acquirers may benefit from lower duration, while others may face a longer duration; taking them together could cancel out each other's effect and offset the relationship between the duration of CBAs deal completion and acquirers' pre-bid host-country experience (i.e., no significant effect). The chapter examines this argument by testing the following hypothesis.

Hypothesis 2 (H2): There is no statistically significant relationship between the duration of CBAs deal completion and acquirers' pre-bid host-country experience.

5.2.4 Pre-bid Host-country Experience and Acquisition Premium

The acquisition premium is the difference between the offer price an acquirer is willing to pay for a target firm and the pre-acquisition market value of the target firm. Premium offers insights into business decision-making; it accounts for the

acquirer's anticipated bargaining position in its negotiations with the target firm (Comment and Schwert, 1995; Halebian, Devers, McNamara, Carpenter and Davison, 2009). Here I form the hypothesis on how the pre-bid host-country experience of acquirers can impact the acquisition premium. According to the argument explained above (i.e., on the benefits of learning in the host country for acquirers), presence in the target's domicile serves as a platform for acquirers to gather relevant information, build networks and exploit host-country advantages and capabilities. Guo *et al.* (2019) and Michael (2001) provide that acquirers with a network connection and information advantage can better determine the target's actual value and enhance their bargaining power in negotiation, which entails paying a lower acquisition premium⁸⁷. To this end, acquirers with pre-bid host-country experience in their subsequent acquisitions could pay target firms an actual or lower offer price, which could lead to a lower acquisition premium. This, therefore, forms a negative relationship between pre-bid host-country experience and premium paid.

On the other hand, acquirers with experience could pay a higher premium to target firms. Cho and Arthurs (2018) emphasise that acquirers with alliance experiences in the host nation can pay significantly larger premiums to target firms because their knowledge enables them to identify, screen, access and choose valuable targets. Moreover, according to the hubris hypothesis of takeover, managers with pre-bid host-country experience may become overconfident about the target firm and pay a higher premium.

To sum up, some acquirers with pre-bid host-country experience may pay a lower premium, while others may pay a higher premium; taking them together could

⁸⁷ Barbopoulos *et al.* (2019) and Higgins and Rodriguez (2006) also suggest that acquisition premium can be lower when acquirers gather information in the pre-acquisition period as it increases their bargaining strength.

cancel out each other's effect, thus, offsetting the relationship between the acquisition premium and acquirers' pre-bid host-country experience (i.e., no significant relationship). This argument forms the following hypothesis.

Hypothesis 3 (H3): There is no statistically significant relationship between acquisition premium and acquirers' pre-bid host-country experience.

5.2.5 Pre-bid Host-country Experience and Acquirers' Announcement Period Gains

While several studies have been conducted on the relationships between experience and acquisition performance, the concentration has been on the experience of acquisition irrespective of their similarity to the focal acquisition. Perhaps because of this, one sees equivocal findings (Basuil and Datta, 2015). For example, some studies provide a positive relationship between acquisition experience and acquirers' shareholders' value creation (Markides and Ittner, 1994), while others show no relationship (Wright et al., 2002). Here, we define if pre-bid host-country experience has any value indication for the acquirers. Based on the discussion on the benefits of learning in the host-country, acquirers' markets might take pre-bid investment as a sign of successful post-integration and react positively to the acquirer's pre-bid host-country experience.

Additionally, as noted above in the premium hypothesis, acquirers with pre-bid host-country experience may have an opportunity to pay the targets the actual value of the investment. The markets may therefore appreciate this. Barbopoulos *et al.* (2019) document that the acquirers' market during the announcement period appreciates when acquirers try to gather information about the target in the pre-

acquisition period and do not overpay the targets. This indicates a positive relationship between acquirers' pre-bid host-country experience and acquirers' announcement period return.

On the contrary, markets may see acquisitions in the same country as a manager's self-interest and perhaps link it as over-confidence, as such markets could react negatively to such announcements. Roll (1986), Malmendier and Tate (2008), and Hayward and Hambrick (1997) report that overpaying targets can result in acquirer's negative announcement period returns. Moreover, the markets may also react negatively, as Doukas and Travlos (1988) find that markets sometimes prefer new locations as it helps firms diversify. These arguments indicate a negative relationship between acquirers' pre-bid host-country experience and acquirers' announcement period return.

Given both opposing views, some acquirers may benefit higher gains during the announcement period, while others may receive lower gains. Taking them together can cancel out each other's effect and offset the relationship between the acquirers' announcement period return and acquirers' pre-bid host-country experience (i.e., no significant relationship). The chapter examines this argument by testing the following hypothesis.

Hypothesis 4 (H4): There is no statistically significant relationship between acquirers' announcement period return and acquirers' pre-bid host-country experience.

5.2.6 Pre-bid Host-country Experience and Targets' Announcement Period Gains

Here I explore the possible implication of acquirers' pre-bid host-country experience on targets' announcement period returns. As stated above, there is a high possibility that acquirers' pre-bid host-country experience may influence the acquisition premium; this, therefore, might reflect on targets' market returns as well. This is because literature shows that target markets react to acquisition premiums (Cotter and Zenner, 1994; Officer, 2003; Ang and Ismail, 2015). In this facet, Barbopoulos *et al.* (2019) also report that target shareholders gain less during the announcement period when they receive a more reflective/accurate value of their firm as an acquisition premium. Given that acquirers' pre-bid host-country experience may entail paying a more reflective/accurate value to the targets, this can result in negative announcement period returns. However, acquirers may also choose valuable targets (Cho and Arthurs, 2018) or pay a higher premium out of overconfidence. These factors can lead to positive announcement period returns. Taking them together could cancel out each other's effect and offset the relationship between the targets' announcement period return and acquirers' pre-bid host-country experience. This argument leads to the formation of the following hypothesis.

Hypothesis 5 (H5): There is no statistically significant relationship between targets' announcement period return and acquirers' pre-bid host-country experience.

5.3 Key Explanatory Variables – Pre-bid Host-country Experience

The data for this chapter's key explanatory variable -pre-bid host-country experience is collected from various sources - from SDC and annual reports⁸⁸ and includes FDI in the form of CBA, joint ventures and greenfield. A firm is then assigned a value of "1" if the firm has a pre-bid host-country experience and "0" otherwise. Specifically, pre-bid host-country experience is defined as acquirer's foreign direct investment in the host nation prior to the current bid. Specifically, It includes the acquirer's pre-bid FDI in the form of CBA, greenfield and joint venture before the current bid (it is accounted as FDI in the host country in the year prior to the current bid). What matters here is whether the firm has FDI⁸⁹ in the host nation prior to the current bid or not.

Panel B of Table 5.1 reports the distribution of all the deals if they had a pre-bid host-country experience. Out of all the samples, 3,921 deals (44%) had a pre-bid host-country experience, and 5,047 deals (56%) did not have a pre-bid host-country experience. Of 3,921 deals, 2,710 deals had acquisition experience, and 1,211 deals had pre-bid host-specific experience in another form of FDI. Panel C and D (Table 5.1) illustrate the distribution of deals by nations (for all deals and completed deals, respectively). The table shows that acquirers in France take the highest percentage of acquisitions where they have pre-bid experience, followed by Germany.

⁸⁸ To the best of my ability, I include the firm's direct experience in the host nation as the most likely controlling interest exhibited in the reports in any form such as subsidiaries, associates or branches.

⁸⁹ According to IMF (1993, p. 86), "*Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)*". FDI can be inform of subsidiaries, associates or branches.

Figure 5.1 demonstrates the time variation of Yes and No of acquirers' pre-bid host-country experience in our sample. It shows that *Yes Experience* is lower than *No Experience* but starts to increase after 2007; this could be related to the financial crisis of 2007. It keeps on increasing to the point that in later years *Yes Experience* is higher than *No Experience*. This indicates that firms have become more prudent after the financial crisis and prefer to make investments where they are familiar.

5.4 Empirical Results

5.4.1 Descriptive Statistics

5.4.1.1 Descriptive Statistics of the Sample Data

After imposing these screens, 61,617 deals with a total value of USD 18.619 trillion survive in the initial sample, which includes both domestic M&A (mergers and acquisitions) and CBAs. 12,915 deals are CBAs (as my investigation is on CBAs, this is the sample I work on). Out of which 9,263 deals are public listed acquirers. For the key explanatory variable, I needed to trace acquirers' pre-bid host-country experience information, some of whose information is from annual reports, which are available only for public listed firms. Additionally, market returns, and other firm-level variables are only available for public listed firms in Datastream. I, therefore, investigate only public listed acquirers. I could trace whether the firms had pre-bid host-country experience or not for 8,968 deals as distributed in acquiring and target nations shown in Table 5.1. For analysing the likelihood of acquisition completion, acquisition duration and acquirers' announcement period return, the sample includes 8,968 deals. The sample is smaller for acquisition premium and targets' announcement period returns as SDC reports offer price of acquisition for only public listed targets and

Datastream reports market returns and firm-level characteristics for only public listed targets⁹⁰.

Table 5.1, Panel A reports the distribution of the outbound and Inbound CBA. Acquiring firms are from 6 nations: Australia, Canada, France, Germany, the United Kingdom (UK), and the United States (US). Target firms are from 42 nations. Among the nations, US, Canada, and UK are the top three to conduct the most outbound CBA and receive the most inbound CBA. Panel B reports the distribution of all the deals and the status of the deals (completed or otherwise). Out of all the samples, 7,068 deals (79%) are completed, and 1900 (21%) are other deals. For the likelihood of acquisition completion, in the main investigation, I use a full sample (completed and otherwise, as done by Dikova *et al.*, 2010); however, I also separately investigate the likelihood of acquisition completion by removing pending deals (that is deals in progress) as done by Kim and Song (2017) and present its results in Appendix 5.2. For acquisition premium and announcement period returns, I use the full sample.

5.4.1.2 Descriptive Statistics of the Variables

Table 5.2, Panel A provides summary statistics of the key features explained above of acquirers and targets involving with and without the pre-bid host-country experience. The lack of significant differences in almost all mean values of the key features in the two categories of deals (*Yes Experience* and *No Experience*) confirms their suitability for comparison purposes. A significant difference in the mean for the targets' sizes (*TSize*), targets' growth rates (*TMTBV*) and profitability of targets (*TROA*) show that acquirers with experience would look for larger targets with a higher

⁹⁰ The sample for acquisition premium is 690 deals and for targets' announcement period it is 779.

growth rate and profitability. Other variables are as reported in earlier studies on M&A (Guo *et al.*, 2020), targets are much smaller than acquirers in size; for example, *ASize* is (\$Million) 19,300, which is higher than *TSize*, which is (\$Million) 3,351 for the full sample. The same holds in the subsample of *Yes* and *No Experience*, the firm size of acquirers is higher than the firm size of targets. The acquirers also have higher growth opportunities (*MTBV ratios*) than the targets, similar to those reported in earlier studies on M&As (Guo *et al.*, 2020).

Panel B (Table 5.2) summarises the key features of the deals. Estimates show that relatively higher proportions of *Yes Experience* deals are settled in cash (*Cash*) than the matching sample of *No Experience*. This is plausible because host nation experiences may make acquirers more confident in the target firms; thus, they may be willing to make cash payments. This is in line with Fuller *et al.* (2002) that stock payment signals that the acquirer has weaker confidence concerning the ex-post value of the acquisition. An acquirer with more confidence in the outcome of an M&A is likely to pay in cash because it believes that stocks will eventually be worth more in the future. Barbopoulos *et al.* (2018) also provide that acquirers who are confident about the value of the merger may prefer to pay the up-front tranche in cash to limit the transfer of wealth gained from M&As to target owners.

Table 5.3 reports the correlation matrix of the variables. It checks the correlation among the variables used in this chapter to reduce the risk of multicollinearity when conducting multivariate analyses. The estimates show a low correlation between all variables; hence there is no issue of multicollinearity. The correlation matrix also allows us to preliminarily see how the key explanatory variable, *Yes Experience* is related to the five key areas investigated. For example, in Panel A,

the correlation between *Yes Experience* and the likelihood of acquisition is 0.12, indicating a positive relation. This, therefore, is in line with the literature on the benefits of learning in a host-country⁹¹ that predict a positive relationship between acquirers' pre-bid host-country experience and the likelihood of acquisition completion, rather than the hubris hypothesis of takeover and other such related literature which predict a negative relationship between acquirer's pre-bid host-country experience and the likelihood of deal completion.

In Panel B, the correlation of *Yes Experience* and duration of CBA completion is -0.06, indicating a negative relation. This is again in line with the literature on the benefits of learning in a host-country that predict that acquirers' pre-bid host-country experience can help reduce the deal completion duration rather than the hubris hypothesis of takeover and other related literature. In Panel C, the correlation between *Yes Experience* and premium paid is -0.10. The outcome indicates that acquirers with pre-bid host-country experience pay a lower premium, and the wealth can transfer from targets to acquirers. Such inference is reflected in the correlation where *Yes Experience* and ACAR is 0.05, and *Yes Experience* and TCAR is -0.08.

5.4.2 Univariate and Multivariate Analysis

The investigation first conducts a univariate analysis using the t-test to check if the means are significantly different from zero. Furthermore, for a preliminary view of the hypotheses, the difference in mean are compared using a two-sample t-test of the sample that includes acquirers with pre-bid host-country experience (*Yes*

⁹¹ i.e., theory of internationalisation (Johanson and Vahlne, 1977; Johanson and Vahlne, 2009), learning transfer theory (Finkelstein and Halebian, 2002) and other related literature.

Experience) with the second sample that includes acquirers without pre-bid host-country experience (*No Experience*). Following this, a multivariate regression analysis is conducted for all the five areas investigated in this chapter. This allows us to control for other factors that impact CBAs and ensure that the results obtained are due to acquirers' pre-bid host-country experience rather than other factors. The results of these investigations are presented hereunder. For each of the five areas investigated, I first discuss the results of the univariate analysis, followed by the discussion of the multivariate analysis (except for the likelihood of deal completion, where only multivariate regression analysis is examined).

5.4.2.1 Pre-bid Host-country Experience and Likelihood of CBA Deal Completion

Hypothesis 1 suggests no statistically significant relationship between the likelihood of CBA deal completion and acquirers' pre-bid host-country experience because of two conflicting views. I empirically test this argument using the multivariate regression based on equation (5.1).

$$\begin{aligned}
 DealComp_{dit} = & \alpha_1 + \alpha_2 \text{ *Yes Experience* } + aD_d + bF_{f,t-1} + \\
 & cX_{tgt,acq} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t}
 \end{aligned}
 \tag{5.1}$$

Where $DealComp_{dit}$ is a dummy variable that takes the value of one if the deal d for firm i is completed and zero otherwise (I also separately run the analysis by removing the pending deals - results are presented in Appendix 5.2). The key explanatory variable (*Yes Experience*) is the dummy variable that represents the

acquirer's pre-bid host-country experience as defined in section 5.3 above. Specifically, it takes the value of 1 if the acquirer has experience in the target domicile before the current bid and 0 otherwise. The equation also includes a set of control variables, as explained in Chapter 2, Section 2.3 (see Appendix 5.1). Precisely the equation includes \mathbf{D}_d which is a vector of deal-level control variables (that include, *Transaction Value, Cash Deals, Same Industry, Competing bid and Toehold*), \mathbf{F}_f is a vector of acquirer's firm-level characteristics control variables lagged by one year (that include *ASize, AMTBV, ALeverage and AROA*). In an additional test, I also control for the target firm's size (*TSize*) (and present the results in Appendix 5.3)⁹², $\mathbf{X}_{tgt,acq}$ is a vector of country-pair characteristics (that include *Same language, same border, same religion, and Colonial Tie*). ϑ_{acq} , ϑ_{tgt} , γ_{acq} , γ_{tgt} and τ_t are acquirer's nation, target's nation, acquirer's industry, target's industry and year fixed effects, respectively and $\epsilon_{acq-tgt,t}$ is the error term. The standard errors are also clustered at the target-acquirer nation pair. Since the dependent variable *DealComp_{dit}* is a binary variable one or zero, the analysis employs a logit model.

Table 5.5 (Panel A) columns (1) to (4) report the results of equation (5.1). The difference in the columns is the inclusion of control variables. Results show that the coefficient of *Yes Experience* is positive and statistically significant (at 1% significance level) across all the columns (1) to (4). Specifically, the coefficient in column (4) is 0.3415 (at 1% significance level). The positive relationship indicates that acquirers with pre-bid host-country experience can complete the deals. Presence in the domicile may have allowed acquirers to gain access to information about the target

⁹² This is as explained while defining the control variables that Tsize is available only for public targets are very less which reduces the sample size.

and the environment prior to the initial agreement; this may have led them to select the targets they could comprehend. These findings also supplement the literature that emphasises the benefits of host-country learning for CBAs' success⁹³ rather than the hubris hypothesis of takeover and other related literature that predict otherwise. These results also supplement the contentions put forward by Dikova *et al.* (2010) that acquirers' learning helps in comprehending with the likelihood of deal completion; they concentrate on learning related to the procedure of acquisitions irrespective of the similarity of the acquisition. To this end, the results provide evidence of acquirers' pre-bid host country experience.

Concerning the control variables, the transaction value, i.e., *TV* is negative and statistically significant; this is in line with the literature that large-sized deals require greater intra-firm coordination (Ellis *et al.*, 2011) and substantial managerial involvement and interactions with the regulatory authorities (Doan *et al.*, 2018) and are more likely to be withdrawn. *Cash* is positive and significant; this aligns with Fishman (1989), who documents that a cash offer facilitates a higher likelihood of deal completion. Other deal level control variables, i.e., *Same Industry* is positive and statistically significant; this is in line with the argument that when the bidder is in the same industry as the target, the bidder may be able to negotiate more easily and have a higher probability of the deal completion and lower duration of deal completion.

The coefficient of *Competing Bid* is negative and significant; this shows that because of many bidders, the bargaining power of the target firms may have increased, which may have made the bids expensive and complicated the process, thus reducing

⁹³ Under the theory of internationalisation (Johanson and Vahlne, 1977; Johanson and Vahlne, 2009), network linkage theory (Chen and Chen, 1998), learning transfer theory (Finkelstein and Haleblan, 2002) and other related discussion.

the likelihood of deal completion. The findings are in line with Jennings and Mazzeo (1993) on how competing bids may reduce bidders ability to meet the terms of the target firms. *Toehold* is positive and significant and aligns with the prediction that toehold can help acquirers access internal information and develop relation with the target management, which should resolve social uncertainty (Barbopoulos *et al.*, 2019) and thus increase the likelihood of deal completion.

The size of the acquirers (*ASize*) is statistically significant and positive; this implies that the larger acquirers have a higher probability of completing the deals and are as expected. Other firm-level variables, for example, *AMTBV*, *ALeverage* and *AROA* are insignificant, this is in contrary to expectations and shows that some acquirers with higher levels of leverage, lower ROA maybe completing the deals and hence set-off the relationship. Moreover, country-pair characteristics, *Common Language*, *Common Border*, *Common Religion*, and *Colonial Tie* have signs as per the literature (as explained in the chapter of control variable); however, except for *Common Border*, they are all insignificant. A possible explanation may be that firms benefit from other aspects, such as learning, as focused in this chapter, and thus, country-pair characteristics matter less. These statistical insignificance results are similar to other studies (see Huang *et al.*, 2016). Panel C column (1) of the table also controls for political factors: *Country-pair Political Relations* between the merging firms domicile and *Country-specific Political Constraints* of the target domicile. Results are in line with the above findings.

5.4.2.2 Pre-bid Host-country Experience and Duration of CBA Deal Completion

Hypothesis 2 explains the relationship between the duration of CBA deal completion and acquirers' pre-bid host-country experience. The hypothesis states no significant relationship between them because of the conflicting views. I empirically test this argument by first using the univariate analysis. Table 5.4 reports the findings from the univariate analysis. Results of deal duration show that *Yes Experience* is associated with a lower duration for deal completion. Specifically, *Yes Experience*, on average, takes 57 days to complete the deal, and *No Experience*, on average, takes 66 days to complete the deal. The mean difference between *Yes Experience* and *No Experience* is negative and statistically significant (at 1% significance level).

The results indicate that pre-bid host-country experience can provide acquirers with enough information about the target and its domicile, which can help them avoid further negotiation and shun prolonging the deal completion duration. These results, therefore, support the literature favouring the benefits of host-country learning for the success of subsequent CBAs rather than the hubris hypothesis of takeover (Roll, 1986) and other related literature which predict otherwise. These results also align with the contentions put forward by Dikova *et al.* (2010), Kim and Song (2017) and Iii, Rosenstein and Sundaram (2002) that sufficient information in acquisition reduces further negotiation, which can help lower the duration of the deal completion.

Next, to ensure that the results are due to acquirers' pre-bid host-country experience rather than other factors, a multivariate regression based on equation (5.2) below is investigated for hypothesis 2 (H2).

$$DealDur_{dit} = \alpha_1 + \alpha_2 \text{ Yes Experience} + aD_d + bF_{f,t-1} + CX_{tgt,acq} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t} \quad (5.2)$$

Where $DealDur_{dit}$ is the natural logarithm of 1 plus the number of days it takes for the deal d of the firm i to complete; all other specifications are the same as equation (5.1) and are estimated using the OLS. Table 5.5, Panel B (columns (5) to (8)) reports the outcomes of different variants of equation (5.2). The differences across the columns represent different combinations of explanatory variables. Results are similar to the univariate analysis; after controlling for other variables, results show a negative and statistically significant relationship between *Yes Experience* and the deal duration.

Turning to control variables, Transaction Value, i.e., *TV*, is positive and significant, implying that it can take longer to complete a larger deal. This is in line with the explanation provided in the control variable that large-sized deals require greater intra-firm coordination and substantial managerial involvement and are likely to have a longer completion duration (Alexandridis *et al.*, 2013). The coefficient of *Cash* is negative and significant, implying that cash deals take a shorter period to complete the deal. This is in line with what Fishman (1989) explained above that cash offers facilitate a more rapid deal completion. *Toehold* as expected is negative and significant. The size of the acquirers' (*ASize*) is statistically significant and negative; this implies that the larger acquirers can complete the deals in a shorter period.

Again, other firm-level variables, for example, *AMTBV*, *ALeverage* and *AROA* are insignificant, this maybe because some acquirers with higher levels of

leverage, lower ROA maybe completing the deals in a short duration of time compared to others and hence set-off the relationship. Country-pair characteristics (*Common Language, Common Border, Common Religion, and Colonial Tie*) are again insignificant. The same explanation as that explained in the previous results can apply here - that firms may seem to benefit from other aspects such as learning as focused in this chapter and need less cultural and geographical proximities. Panel C (column (2)) of the table additionally controls for political factors, i.e., *Country-pair Political Relations* between the merging firms domicile and *Country-specific Political Constraints* of the target domicile. Results align with the main findings.

5.4.2.3 Pre-bid Host-country Experience and Acquisition Premium

Hypothesis 3, because of two conflicting views explained earlier, suggests no statistically significant relationship between the acquisition premium and acquirers' pre-bid host-country experience. I empirically test this argument by first using the univariate analysis. Table 5.4 reports the findings from the univariate analysis of Premium. Results show that *Yes Experience* is associated with a lower takeover premium. Specifically, *Yes Experience* sub-sample has a mean premium of 33.17%, which is lower than *No Experience* sub-sample, whose mean premium is 41.94%. As such, *Yes Experience* pays 8.77 percentage points lower premium than *No Experience*. The difference in mean between *Yes* and *No Experience* is statistically significant (at 1% significance level). These results indicate that acquirers with experience pay a lower premium. These results therefore complement the literature on the benefits of learning in a host-country that predict a negative relationship between acquisition

premium and acquirers' pre-bid host-country experience rather than the hubris hypothesis of takeover and other related literature that predict a positive relationship.

Next, to ensure that the results are due to acquirers' pre-bid host-country experience rather than other factors, I further investigate hypothesis 3 (H3) using a multivariate regression based on equation (5.3) below.

$$\begin{aligned}
 Premium_{it} = & \alpha_1 + \alpha_2 \text{ *Yes Experience* } + aD_d + bF_{f,t-1} + cX_{tgt,acq} + \vartheta_{acq} + \\
 & \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t}
 \end{aligned}
 \tag{5.3}$$

Where $Premium_{it}$ is of the firm i at time t and is measured as explained in equation (2.9) in Chapter 2, Section 2.24. The vector F_f in this equation, in addition to the acquirer's firm-level characteristics used above, it also controls for the targets' firm-level characteristics, all lagged by one year (it includes *TSize*, *TMTBV*, *TLeverage* and *TROA*). All other specifications are the same as equations (5.1) and (5.2) above and are estimated using the OLS.

Table 5.6 reports the outcomes of different variants of equation (5.3). The differences across the columns represent different combinations of explanatory variables. The coefficient in Panel A of *Yes Experience* in Table 5.6 column (1) is -13.32% and is statistically significant (at 1% significance level). The same result (negative and significant at a 1% significance level) holds across all the other columns when firm and deal controls are included. These results corroborate with the univariate analysis. A potential explanation for the findings is explained in the hypothesis section. In brief, the findings indicate that pre-bid host-country experience provides acquirers with an opportunity for learning, which increases their bargaining power, resulting in

reduced acquisition premium paid to the target. These findings align with Barbopoulos *et al.* (2019) and Higgins and Rodriguez (2006), who find that sufficient information increases acquirers' bargaining strength and reduces the acquisition premium paid to the target.

Turning to the control variables, the coefficient of *Competing bids* is statistically significant and positive. This outcome aligns with the prediction from the winners' curse hypothesis (Varaiya and Ferris, 1987) that competitive bids usually lead to a higher target valuation. A plausible explanation is that firms may benefit from other aspects, such as learning, as focused in this chapter, and thus, other variables matter less.

The insignificance of other variables is also similar to other studies on acquisition premiums (see Rossi and Volpin, 2004; Huizinga, Voget and Wagner, 2012). For example, *TV*, *Cash*, *Same Industry* and *Toehold* are all insignificant. This shows that acquisition premium may sometimes be high and sometimes low irrespective of the mode of the transaction, be it cash transactions or otherwise and be it in the same industry or not and irrespective of the transaction value, such possibility may have set off the relationship. This is not surprising as whether corporate diversification and cash payments positively or negatively impact acquisition premium is still ongoing with some studies supporting and some in contrary (as explained in the chapter of control variable). Country-pair characteristics (*Common Language*, *Common Border*, *Common Religion*, and *Colonial Tie*) are again insignificant. The same explanation as that explained in the previous results can apply here - that firms may seem to benefit from other aspects such as learning as focused in this chapter and need less cultural and geographical proximities. In Panel B of the table, I also control

for political factors - *Country-pair Political Relations* between the merging firms domicile and *Country-specific Political Constraints* of the target domicile. Results corroborate the above findings.

5.4.2.4 Pre-bid Host-country Experience and Acquirers' Announcement Period Gains

Findings in previous sections show that acquirers' pre-bid host-country experience affects the likelihood, the duration of deal completion and acquisition premium. Here, the influence of acquirers' pre-bid host-country experience on the announcement period returns of acquirers is examined. Hypothesis 4, because of two conflicting views, suggests no statistically significant relationship between the acquirers' announcement period gains and acquirers' pre-bid host-country experience. I empirically test this argument by first using the univariate analysis.

Table 5.4 reports the findings from the univariate analysis of ACAR and TCAR. Results show that *Yes Experience* is associated with a higher ACAR. Specifically, *Yes Experience* sub-sample has a mean of 3.77%, which is higher than *No Experience* sub-sample, whose mean is 2.73%. As such, *Yes Experience* receives a 1.04 percentage point higher return than *No Experience*. The difference in mean between *Yes* and *No Experience* is statistically significant (at 1% significance level). The positive relationship indicates that acquirers' markets appreciate acquisition in familiar markets because, as per the theories explained in the literature on the benefit of host-country learning, pre-bid host-country experience allows acquirers to choose targets and timings that signal success. These results align with Barbopoulos *et al.*

(2019), who also find that the acquirers' market reacts positively when acquirers have sufficient information about the bid.

Moreover, acquirers with pre-bid host-country experience, as seen in the analysis on acquisition premium, may have had an opportunity to pay the targets the actual value of the investment rather than overpaying them; as such, the wealth transfers from the targets to the acquirers. Studies such as Malmendier and Tate (2008) and Hayward and Hambrick (1997), and Roll (1986) report that acquirer's market appreciates paying the right amount to the targets as overpayments lead to negative announcement period returns.

Next, to ensure that the results are due to acquirers' pre-bid host-country experience rather than other factors, I further investigate hypothesis 4 (H4) using a multivariate regression based on equation (5.4) below.

$$ACAR_{it} = \alpha_1 + \alpha_2 \text{ *Yes Experience* } + aD_d + bF_{f,t-1} + CX_{tgt,acq} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t} \quad (4)$$

(5.4)

Where $ACAR_{it}$ is the abnormal return of the acquiring firm (i) (which is for 5 days, i.e., +2, -2 days) and is measured as per equations (2.7) and (2.8) provided in Chapter 2, Section 2.2.3. F_f is a vector of firm-level control variables of only the acquirer's firm lagged by one year (*ASize*, *AROA*, *Aleverage* and *AMTBV*). In additional tests, I include target firm-level characteristics and the acquirer's firm-level

characteristics and present the results in Appendix 5.4⁹⁴. All other specifications are the same as the above equations. The analysis employs the OLS regression method.

Table 5.7 reports the outcomes of different variants of equation (5.4). The differences across the columns represent different combinations of explanatory variables. The coefficient *Yes Experience* in Table 5.7 column (1) is 1.56% and is statistically significant (at 1% significance level). The same result (positive and statistically significant) hold across the other columns when firm and deal controls are included. The results, therefore, corroborate with the univariate analysis.

About the control variable, Transaction Value (*TV*) is negative and statistically significant, implying that deals with higher transaction value gain lower acquirers' announcement period return. This is in line with the explanation provided in the control variable section. Other deal-level variables are insignificant; this is in line with Guo *et al.* (2020), who also find insignificant results. The size of the acquirers (*ASize*) is significant and negatively related to the acquirers' announcement period return. This outcome aligns with Moeller *et al.* (2004), who provide that larger acquirers make acquisitions that generate negative dollar synergies on average. Other firm-level controls are insignificant; for example, *AMTBV*, *ALeverage* and *AROA* are all insignificant and in contrary to expectations. For example, Moeller *et al.* (2004) find that larger acquirers pay higher premiums and make acquisitions that generate negative dollar synergies. Hu and Yang (2016) find that highly leveraged acquirers pay a lower premium and earn positive abnormal returns at the announcement. Morck, Shleifer and Vishny (1990) provide that acquirers with poor performance tend to use acquisitions to cover up their bad performance; as a result, they gain less during the

⁹⁴ As target firm level data is only available for public listed targets in Datastream, thus it is for only a smaller sample.

announcement period. However, the insignificance shows that larger acquirers may have a higher capacity of acquiring better acquisition and hence sets off the effect. Likewise, leverage and profitability may have been in contrary for some acquirers and hence insignificant results. Guo *et al.* (2020) report similar insignificant results, hence results are, therefore, in line with the existing literature. Country-pair characteristics are again insignificant. The same explanation as that explained in the above investigations may hold here. In Panel B of the table, the investigation additionally controls for political factors: *Country-pair Political Relations* between the merging firms domicile and *Country-specific Political Constraints* of the target domicile. Results stay robust to these inclusion.

5.4.2.5 Pre-bid Host-country Experience and Targets' Announcement Period Gains

Hypothesis 5 (H5), because of two conflicting views, suggests no statistically significant relationship between the targets' announcement period gains and acquirers' pre-bid host-country experience. I empirically test this argument by first using the univariate analysis.

The univariate analysis in Table 5.4 reports that those targets acquired by firms with no prior experience in the market earn 32.08% on average. While those targets acquired by acquirers with pre-bid host-country experience earn less comparatively, they earn on average 22.22%, which is 9.86 percentage points lower and significant (at 1% significance level). These results are contrary to hypothesis 5 (H5); however, the results indicate that targets' markets react negatively to acquirers' pre-bid host-country experience. The results may be because acquirers with pre-bid

host-country experience are highly likely to pay the targets the actual value of the investment (as found in the investigation above). These results align with Barbopoulos et al. (2019), who find that target shareholders gain less during announcements when they receive a more reflective/accurate value of their firm.

Next, to ensure that the results are due to the acquirers' pre-bid host-country experience rather than other factors, I further investigate hypothesis 5 (H5) using a multivariate regression based on equation (5.5) below.

$$TCAR_{it} = \alpha_1 + \alpha_2 \text{ *Yes Experience* } + aD_d + bF_{f,t-1} + CX_{tgt,acq} + \vartheta_{acq} + \vartheta_{tgt} + \gamma_{acq} + \gamma_{tgt} + \tau_t + \epsilon_{acq-tgt,t} \quad (5.5)$$

Where $TCAR_{it}$ is the abnormal return of the target firm (i) (which is for 5 days, i.e., +2, -2 days) and is measured as per equations (2.7) and (2.8) explained in Chapter 2, Section 2.2.3. F_f is a vector of firm-level control variables of the acquirer's and target firm lagged by one year (*ASize*, *TSize*, *AROA*, *TROA*, *Aleverage*, *TLeverage*, *AMTBV* and *TMTBV*). All other specifications are the same as the above equations. The analysis employs the OLS regression method.

Table 5.8 reports the outcomes of different variants of equation (5.5). The differences across the columns represent different combinations of explanatory variables. The results are similar to the univariate analysis. In all the columns, the results reveal a negative and statistically significant relationship between acquirers' experience and targets' returns. Specifically, the coefficient of *Yes Experience* in Table 5.8 column (1) is -10.72% (at 10% significance level), and in column (4) it is -8.76% (again at 10% significance level). The results corroborate with the univariate analysis.

Taking the results of acquisition premium, ACAR and TCAR, we can see that wealth transfers from the targets to the bidders during the announcement period when acquirers have pre-bid host-country experience.

With regard to the control variable, Transaction Value (*TV*) is positive and statistically significant. This is predicted in the control variables section, implying that deals with higher transaction value gain higher targets' announcement period return. *Cash* is positive and statistically significant. This is in line with the prediction that as cash transactions impose immediate tax liability to target shareholders (Datta *et al.*, 1992), they may bargain for a higher premium, thus, a positive relationship. In fact, Datta *et al.* (1992) suggest that both bidders and targets are likely to be better off in cash-financed transactions than in stock-financed transactions. *Same Industry* is positive and statistically significant; a potential explanation is that acquisition in the same industry can make integration of the combined firm easier (Barbopoulos *et al.*, 2018), and thus better outcomes, the targets' market may appreciate this. Other control variables are insignificant, and literature such as Guo *et al.* (2020) also reports insignificant results for similar variables. As such, the results are in line with the literature. Country-pair characteristics are also insignificant. The same explanation can be applied here: firms may benefit from other aspects, such as learning from prior experience. Additionally, in Panel B of the table, the investigation controls for political factors - *Country-pair Political Relations* between the merging firms domicile and *country-specific Political Constraints* of the target domicile. Results corroborate the above findings.

5.4.3 Additional Tests and Robustness Check

5.4.3.1 Subsample Analysis

I do a series of robustness checks. To begin with, for all the investigations performed in this chapter, I compare the results between US acquirers in one sample against Non-US acquirers. The reason is the following: first, a maximum number of overall FDI are conducted by firms domiciled in the US⁹⁵; US firms, therefore, may have higher chances of obtaining relevant information from their domestic counterparts already operating in foreign nations. Literature on legitimacy spillover provides that firms from the same country of origin help each other obtain relevant information and reduce cultural differences (Kostova and Zaheer, 1999).

Legitimacy literature also provides that previous investments from a certain country pave the way for acceptance of future investments from that country (Kostova and Zaheer, 1999). With various US firms already operating in many markets, acquirers from the US may benefit from legitimacy spillovers and need less pre-bid host-country experience in that market. Second, US firms have dispersed ownership and higher takeover culture than other countries in our sample⁹⁶. Most have concentrated ownership and are more conservative about takeover - as such experience may be important to conservative firms. Third, American culture is widespread, salient, and arguably popular in the rest of the world (Lim, Makhija and Shenkar, 2016). Firms from the US may need less of their embeddedness in the foreign market

⁹⁵ According to the World bank data the US in 2020 reported the highest outbound FDI worth of US \$ 311 trillion. In terms of the percentage of the world total FDI, US takes the highest percentage amongst the other countries in the sample – specifically, Australia stands as 1.598%, Austria at 5.005%, Canada at 4.387, Germany at 5.038, UK at 5.237 and US at 20.712%.

⁹⁶ UK firms also have dispersed ownership and therefore I also conduct analysis between the sample of US and UK in one group and other countries in this chapter in a separate group (I do not report this, but results are same, experience is more important for Non-US UK sample more).

before a takeover. This means the importance of pre-bid host-country experience may be less relevant for US firms than those domiciled in other nations and thus warrants an insight.

Results from the sub-sample analysis provides the following (as seen in Table 5.9, Panel A and B). For deal completion, the coefficient of *Yes Experience* is positive and significant for both samples; however, for the Non-US sample, the coefficient is higher than the US sample. With regard to deal completion duration, *Yes Experience* is negative and statistically significant for both samples; however, again, the Non-US sample has a higher negative impact than the US sample.

With regard to acquisition premium, *Yes Experience* is negative and statistically significant for both samples but higher for the non-US sample. For the announcement period gains, the coefficient of *Yes Experience* of ACAR (TCAR) is positive (negative) and significant for both samples but higher for US sample. In overall, it is only a marginal difference on the importance of acquirer's pre-bid host-country experience on subsequent acquisitions for both sample and one can therefore conclude that such experience is important for both samples with regard to all areas investigated.

5.4.3.2 Political Sensitive Targets

The effect of experience and familiarity may be impacted by those industries prone to higher chances of uncertainties in the sample. Julio and Yook (2012) provide that firms operating in politically sensitive industries are likely to be more sensitive to uncertainties. Pre-bid host-country experience, therefore, might be more important for them than for other firms, and they could confound the results. I, therefore, additionally

control the political sensitivity of the industries. Classifying an industry as politically sensitive is difficult. However, I follow the guidance provided by Julio and Yook (2012), I classified firms in tobacco products, pharmaceutical, health care service, defence, petroleum and natural gas, telecommunication and transportation industries as politically sensitive. These firms are politically sensitive as government intervene to avoid losing their control. From the literature of economic nationalism (Dinc and Erel, 2013; Zeng and Li, 2019) we see that host nations mostly worry about negative consequences that arise from the control of their domestic firms by foreign investors. For example, according to Herron *et al.* (1999) firms dealing with tobacco products are highly sensitive to political interventions due to the tax they generate; acquisitions of such firms is likely to receive greater interventions by the host country and could confound the results.

Following the classification, I carry out all the tests of this chapter for two groups. The first includes targets in politically sensitive industries, and the second includes targets in other industries. The results are presented in Table 5.9, Panel C, and D. Results indicate that irrespective of the political sensitivity of the industry, the acquirer's experience in the host-country would be useful for future CBAs.

5.4.3.3 Additional Tests on Premium

Finally, I conducted two robustness tests for premium. One, following Golubov *et al.* (2012) and Officer (2003), the bid premium is winsorised if the value is outside the range of 0 and 2. Two, I drop the negative premiums following Maung *et al.* (2019). Maung *et al.* (2019) explain that to induce the target to sell, the bid price should be greater than the firm's value as a going concern, so the premium should be

positive. However, a negative premium can occur if the market anticipates and overvalues the potential synergies or if the market price declines within the 4-week window for unrelated reasons. Maung *et al.* (2019) state that because they are not economically meaningful, one should drop observations with non-positive premiums.

Table 5.9 (Panel E and F) reports the multivariate regression of the winsorised premium and positive premium. Qualitatively the same result corroborates with the main analysis (negative and significant).

5.5 Conclusion

The objective of this chapter has been to quantify the link between acquirers' pre-bid presence in the target's domicile on subsequent CBAs. This is fundamental as many challenges of CBAs are country-specific (Johanson and Vahlne, 2009; Chen and Chen, 1998). Despite this, there has not been clear guidance if acquirers benefit under such conditions, specifically concerning the success/failure of CBAs deal completion and duration after the announcement of the bid, including acquisition premium and target and acquiring firm's market value creation/destruction. This chapter, therefore, fills this void by investigating a sample of CBAs between 2005 and 2018 by firms domiciled in 6 countries.

The findings of this chapter document that acquirers with pre-bid experiences are more likely to complete the CBA deal and face a lower duration of the deal completion. The results, therefore, complement the literature on the benefits of host-specific learning that is the theory of internationalisation (Johanson and Vahlne, 1977; Johanson and Vahlne, 2009), network linkage theory (Chen and Chen, 1998), learning transfer theory (Finkelstein and Halebian, 2002), among others. Furthermore, the

investigations find that when acquirers have pre-bid host-country experience, wealth gets transferred from target firms to the acquiring firms during the announcement period. Specifically, acquirers with pre-bid host-country experience pay lower acquisition premium and achieve better announcement period gains than other acquirers. The target firms, on the other hand, lose during the announcement period when acquirers have pre-bid host-country experience in their nation.

Strategically, the results suggest that managers interested in successful foreign acquisitions may explore CBA opportunities in those countries where they are present, as results indicate that such acquisitions can be successful and create value for acquirers. Finally, the chapter underscores that target firms may explore bidding offers from bidders unversed with them or their environment, as they lose during the announcement period when bidders are familiar with them or their domicile.

Table 5.1: Distribution of Data**Panel A – Distribution of the Bids by Acquiring and Target Nation**

Acquirer Nation	Number of outbound CBA
Australia	1,059
Canada	2,582
France	507
Germany	325
United Kingdom	1,904
United States	2,591
Total	8,968

Target Nation	Number of Inbound CBA
Argentina	90
Australia	455
Austria	45
Belgium	103
Brazil	196
Canada	722
Chile	94
China	273
Colombia	87
Czech Republic	36
Denmark	75
Egypt	20
Finland	61
France	246
Germany	468
Greece	10
Hungary	14
India	115
Indonesia	62
Ireland-Rep	153
Israel	131
Italy	158
Japan	40
Luxembourg	31
Malaysia	32
Mexico	248
Netherlands	242
New Zealand	186
Norway	100
Peru	98
Philippines	22
Poland	58
Portugal	23
Russian Fed	62
Singapore	99
Spain	177
Sweden	137
Thailand	9
Turkey	46
United Kingdom	878
United States	2,859
Venezuela	7
Total	8,968

Panel B: Yearly Distribution of all the Bids

Year	No. of Bids	Percent (%)	Status (Completed)	Status (Other)	Yes Experience	No Experience
2005	720	8.03	618	102	230	490
2006	720	8.03	549	171	240	480
2007	749	8.35	516	233	279	470
2008	735	8.20	541	194	275	460
2009	719	8.02	587	132	279	440
2010	662	7.38	546	116	277	385
2011	618	6.89	473	145	288	330
2012	613	6.84	497	116	299	314
2013	615	6.86	534	81	300	315
2014	590	6.58	498	92	284	306
2015	608	6.78	495	113	308	300
2016	528	5.89	407	121	272	256
2017	571	6.37	441	130	303	268
2018	520	5.80	366	154	287	233
Total	8,968	100	7,068	1,900	3,921	5,047

Panel C: Distribution of all the Bids by Acquirer Nation (Full Sample)

Acquirer Nation	Yes Experience		No Experience		Total
	Number	Percentage	Number	Percentage	
Australia	326	30.78	733	69.22	1,059
Canada	1,062	40.97	1,520	58.87	2,582
France	277	54.64	230	45.36	507
Germany	175	53.85	150	46.15	325
United Kingdom	969	50.89	935	49.11	1,904
United States	1,112	43.08	1,479	57.08	2,591
Total	3,921	43.72	5,047	56.28	8,968

Panel D: Distribution of all the Deals by Acquirer Nation (Completed deals)

Acquirer Nation	Yes Experience		No Experience		Total
	Number	Percentage	Number	Percentage	
Australia	266	34.50	505	65.50	771
Canada	820	46.70	936	53.30	1,756
France	237	55.37	191	44.63	428
Germany	147	53.85	126	46.15	273
United Kingdom	873	53.53	758	46.47	1,631
United States	961	43.50	1,248	56.50	2,209
Total	3,304	46.75	3,764	53.25	7,068

Table 5.2: Summary Statistics

This table presents summary statistics for the full sample of CBA bids, portioned by the bids with pre-bid host-country experience (Yes Experience) and without pre-bid host-country experience (No Experience). Panel A and B show summary statistics for the acquirer and target firm and deal characteristics, respectively. All variables are defined in Appendix 5.1. T-test is used to test the difference in means. Statistical significance at the 1%, 5% and 10% levels is denoted as ***, ** and * respectively.

	Full Sample			Yes Experience			No Experience			Yes Experience - No Experience	
	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean Diff	Mean P-Value
<i>Panel A: Firm-level characteristics of acquirers and targets</i>											
<i>Acquirer's firm-level characteristic</i>											
ASize (\$Million)	19,300	4,400	8968	21,100	8,030	3921	17,900	2,700	5047	3,220	0.1979
AMTBV	2.9928	1.9200	8968	2.9413	1.999	3921	3.0329	1.8700	5047	-0.0916	0.4308
ALeverage (%)	0.0310	0.0695	8968	0.0503	0.1424	3921	0.0192	0.0266	5047	0.0310	0.0537*
AROA (%)	0.0347	0.0726	8968	0.0366	0.0738	3921	0.0332	0.0726	5047	0.0034	0.1357
<i>Target's firm-level characteristic</i>											
TSize(\$Million)	3,351	332	726	3,819	363	428	2,679	294	298	1,140	0.0727*
TMTBV	2.4272	1.7200	726	2.6826	1.7800	428	2.0600	1.6500	298	0.6222	0.0260**
TLeverage (%)	0.0405	0.0207	726	0.0442	0.0224	428	0.0352	0.0200	298	0.0090	0.2875
TROA (%)	0.0300	0.0377	726	0.0356	0.0408	428	0.0219	0.0311	298	0.0138	0.0952*
<i>Panel B: Bid/Deal-level characteristics</i>											
TV (\$Million)	416	27	8968	681	47	3917	211	18	5051	-	-
All Cash (%)	0.4561	-	8968	0.5423	-	3917	0.3892	-	5051	-	-
All Stock (%)	0.0871	-	8968	0.0475	-	3917	0.1178	-	5051	-	-
Mixed (%)	0.1378	-	8968	0.0957	-	3917	0.1705	-	5051	-	-
Same Industry (%)	0.0127	-	8968	0.0158	-	3917	0.0103	-	5051	-	-

Table 5.3: Correlation Matrix

Panel A: Correlation Matrix for Likelihood of Deal Completion Analysis

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
1	Completed	1.00																	
2	Yes Experience	0.12	1.00																
3	TV	0.19	0.20	1.00															
4	Cash	0.11	0.15	0.15	1.00														
5	Same Industry	0.04	0.01	0.04	0.01	1.00													
6	Competing Bid	-0.11	0.02	0.17	0.04	0.03	1.00												
7	Toehold	0.12	0.02	0.19	0.04	0.02	0.31	1.00											
8	ASize	0.07	0.18	0.43	0.16	0.00	0.02	0.02	1.00										
9	AMTBV	-0.01	-0.01	0.00	0.01	0.05	-0.01	0.01	-0.04	1.00									
10	ALeverage	0.06	0.02	0.11	0.09	0.01	0.02	0.03	0.16	0.00	1.00								
11	AROA	0.17	0.06	0.25	0.17	0.01	0.03	0.02	0.25	0.04	0.23	1.00							
12	Common Language	0.04	0.09	-0.04	0.03	-0.01	0.03	0.02	-0.08	0.01	-0.07	-0.17	1.00						
13	Common Border	-0.04	0.04	-0.04	-0.06	-0.04	0.03	0.01	-0.08	-0.02	-0.06	-0.24	0.39	1.00					
14	Common Religion	0.08	0.06	0.04	0.05	0.02	0.03	0.03	0.00	0.00	0.01	-0.04	0.14	0.19	1.00				
15	Colonial Tie	0.13	0.14	0.10	0.15	0.02	0.01	0.01	0.09	0.01	0.08	0.27	0.32	-0.31	0.14	1.00			
16	Country-pair Political Relations	0.00	0.03	0.03	0.03	0.00	0.01	0.00	0.01	0.01	0.02	0.05	0.05	0.07	0.07	0.01	1.00		
17	Country-specific Political Constraints	0.15	0.10	0.12	0.11	-0.02	0.04	0.03	0.05	0.00	0.03	0.03	0.32	0.25	0.58	0.14	0.01	1.00	

Panel B: Correlation Matrix for Deal Duration Analysis

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
1	Duration	1.00																	
2	Yes Experience	-0.06	1.00																
3	TV	0.33	0.17	1.00															
4	Cash	-0.11	0.13	0.13	1.00														
5	Same Industry	0.06	0.00	0.03	-0.01	1.00													
6	Competing Bid	0.07	0.02	0.09	0.03	0.01	1.00												
7	Toehold	-0.08	0.01	0.11	0.02	0.02	0.21	1.00											
8	ASize	-0.01	0.21	0.51	0.18	0.00	0.03	0.04	1.00										
9	AMTBV	0.00	-0.01	0.00	0.01	0.06	-0.01	0.00	-0.03	1.00									
10	ALeverage	-0.02	0.03	0.11	0.08	0.01	0.02	0.03	0.18	0.01	1.00								
11	AROA	-0.11	0.03	0.20	0.15	-0.01	0.00	0.02	0.28	0.04	0.24	1.00							
12	Common Language	-0.05	0.10	-0.06	0.03	-0.01	0.05	0.01	-0.09	0.01	-0.08	-0.21	1.00						
13	Common Border	0.07	0.05	-0.03	-0.06	-0.03	0.02	0.00	-0.09	-0.03	-0.07	-0.26	0.37	1.00					
14	Common Religion	-0.06	0.05	0.04	0.03	0.01	0.01	0.01	0.00	0.01	0.01	-0.07	0.13	0.17	1.00				
15	Colonial Tie	-0.14	0.14	0.06	0.14	0.02	0.02	0.00	0.09	0.02	0.08	0.25	0.33	-0.33	0.14	1.00			
16	Country-pair Political Relations	-0.03	0.03	0.02	0.03	0.00	0.00	-0.01	0.01	0.02	0.02	0.05	0.06	0.08	0.06	0.01	1.00		
17	Country-specific Political Constraints	-0.07	0.08	0.09	0.09	-0.02	0.02	0.01	0.06	0.00	0.03	-0.01	0.29	0.23	0.60	0.13	0.01	1.00	

Panel C: Correlation Matrix for Premium and Announcement Period Gains of Acquirers and Targets

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1	Premium	1.00																		
2	ACAR	0.00	1.00																	
3	TCAR	0.37	0.01	1.00																
4	Yes Experience	-0.10	0.05	-0.08	1.00															
5	TV	-0.06	-0.06	-0.11	0.20	1.00														
6	Cash	0.11	0.07	0.12	0.12	0.10	1.00													
7	Same Industry	0.03	-0.03	0.07	0.00	0.03	-0.12	1.00												
8	Competing Bid	0.14	0.05	0.02	-0.06	0.15	0.04	-0.01	1.00											
9	Toehold	-0.07	0.02	-0.01	-0.05	0.23	0.06	-0.06	0.23	1.00										
10	ASize	-0.06	-0.13	-0.02	0.16	0.40	0.16	-0.04	-0.06	-0.06	1.00									
11	AMTBV	0.04	0.07	0.04	0.03	-0.03	0.01	-0.01	-0.07	0.00	-0.08	1.00								
12	ALeverage	0.10	0.01	0.06	-0.04	0.05	0.10	-0.09	0.03	0.05	0.04	-0.11	1.00							
13	AROA	0.02	-0.01	-0.03	0.02	0.14	0.09	-0.10	0.02	0.00	0.11	0.01	0.24	1.00						
14	Common Language	0.10	0.02	0.05	-0.10	-0.26	-0.07	0.01	-0.02	-0.03	-0.19	0.07	-0.10	-0.33	1.00					
15	Common Border	0.06	0.02	0.02	0.04	-0.12	-0.09	0.02	0.00	-0.06	-0.08	0.06	-0.07	-0.24	0.37	1.00				
16	Common Religion	-0.01	0.02	0.00	0.05	-0.01	0.02	0.07	0.04	0.06	-0.10	-0.03	0.05	-0.07	0.06	0.15	1.00			
17	Colonial Tie	0.03	0.03	0.05	0.09	0.04	0.12	-0.01	-0.01	0.02	0.06	-0.02	0.00	0.19	0.10	-0.48	0.11	1.00		
18	Country-pair Political Relations	0.01	0.07	-0.03	0.02	0.02	0.09	-0.01	0.05	-0.02	0.04	0.02	-0.02	0.07	0.04	0.14	0.05	-0.07	1.00	
19	Country-specific Political Constraints	0.02	0.02	-0.02	0.03	-0.03	0.05	0.04	0.01	-0.05	-0.08	0.00	0.04	-0.05	0.23	0.22	0.51	0.02	0.00	1.00

Table 5.4: Univariate Analysis

The table presents the univariate mean differences of the duration of CBA deal completion, premium paid, acquirers' announcement period gains and targets announcement period gains between two groups, those with pre-bid host-country experience (*Yes Experience*) and those without pre-bid host-country experience (*No Experience*). Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

		Full Sample	Yes Experience	No Experience	Yes Experience - No Experience
Deal Duration (Number of Days)	Mean	62	57	66	-9***
	P-Value	0.0000	0.0000	0.0000	0.001
	N	7,068	3,293	3,775	
Premium (%)	Mean	0.3657	0.3317	0.4194	-0.0877***
	P-Value	0.0000	0.0000	0.0000	0.0069
	N	690	422	268	
ACAR (-2, 2) (%)	Mean	0.0319	0.0377	0.0273	0.0104***
	P-value	0.0015	0.0000	0.0000	0.0001
	N	8,968	3,921	5,047	
TCAR (-2, 2) (%)	Mean	0.2631	0.2222	0.3208	-0.0986***
	P-value	0.0000	0.0000	0.0000	0.0020
	N	779	455	324	

Table 5.5: Pre-bid Host Country Experience and Likelihood and Duration of CBA Deal Completion

This table reports the regression estimates of logit models examining the likelihood of CBA deal completion in Panel A and estimates of OLS models examining the duration of CBA deal completion in Panel B. The dependent variable in Panel A is a dummy variable “Completed” which is equal to one if the CBA deal is ‘completed’ and zero if ‘otherwise’. The dependent variable in Panel B is the natural log of deal completion duration (ln(1+ number of days)), which measures the number of days from the deal announcement to deal completion. The key explanatory variable is *Yes Experience*, which accounts if a firm prior to the current bid has host-country experience or not -i.e., pre-bid host-country experience (*Yes Experience* Vs *No Experience*). Specifically, it is defined as a dummy variable which is equal to one if prior to acquisition the firm has foreign direct investment in the target’s domicile “*Yes Experience*” or else zero “*No Experience*”. The rest of the control variables are defined in Chapter 2 and Appendix 5.1. Panel C further controls political factors, i.e., country-pair political relations and country-specific political constraints at the targets domicile as defined in the above two empirical chapters – also defined in Appendix 5.1. The fixed effects (FE) in the analysis are indicated at the end of the table. Same Industries are classified as the 48 industries defined by Fama-French 48 industry classification. Robust clustered standard errors control for heteroscedasticity and are clustered at acquirer and target country-level presented in brackets. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent Variable	Panel A				Panel B			
	Acquisition Completion				Acquisition Duration			
	Without Control	Bid/Deal-Level Control	Bid/Deal and Firm-Level Control	Bid/Deal, Firm-Level and Country-Pair Control	Without Control	Bid/Deal-Level Control	Bid/Deal and Firm-Level Control	Bid/Deal, Firm-Level and Country-Pair Control
	1	2	3	4	5	6	7	8
Key explanatory variable								
Yes Experience	0.4064*** (0.0749)	0.3169*** (0.0682)	0.3426*** (0.0735)	0.3415*** (0.0734)	-0.1671** (0.0846)	-0.1978*** (0.0742)	-0.1415*** (0.0773)	-0.1424*** (0.0771)
Bid/Deal-level characteristics								
TV		-0.2048*** (0.0215)	-0.2327*** (0.0283)	-0.2291*** (0.0290)		0.4579*** (0.0413)	0.5060*** (0.0415)	0.5057*** (0.0420)
Cash		0.1872** (0.0787)	0.2171*** (0.0741)	0.2114*** (0.0740)		-0.3462*** (0.0582)	-0.3026*** (0.0594)	-0.3030*** (0.0602)
Same Industry		0.2613*** (0.0810)	0.2664*** (0.0837)	0.2662*** (0.0837)		-0.0388 (0.0774)	-0.0241 (0.0758)	-0.0242 (0.0755)
Competing Bid		-2.2025** (0.2941)	-2.2679** (0.3121)	-2.2583** (0.3121)		0.5433 (0.1258)	0.5380 (0.1091)	0.5504 (0.1074)
Toehold		2.7718*** (0.3139)	2.8747*** (0.3183)	2.8623*** (0.3271)		-0.9623*** (0.2100)	-0.9565*** (0.2206)	-0.9319*** (0.2259)
Firm-level characteristics								

ASize			0.0674**	0.0674**				-0.0884***	-0.0878***
			(0.0266)	(0.0266)				(0.0118)	(0.0118)
AMTBV			-0.0069	-0.0070				0.0014	0.0015
			(0.0050)	(0.005)				(0.0034)	(0.0034)
ALeverage			0.0443	0.0444				-0.0127	-0.013
			(0.0460)	(0.0456)				(0.0377)	(0.0376)
AROA			-0.4363	-0.4681				-0.5986	-0.5767
			(0.3231)	(0.3249)				(0.2330)	(0.2363)
Country-pair-level Characteristics									
Common Language	tgt, acq			0.0149					-0.2043
				(0.1805)					(0.1334)
Common Border	tgt, acq			0.1980*					0.0594
				(0.0945)					(0.0953)
Common Religion	tgt, acq			0.2921					0.1931
				(0.2196)					(0.5499)
Colonial Tie	tgt, acq			0.1869					-0.0145
				(0.1531)					(0.0809)
<hr/>									
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquiror Nation FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Nation FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Acquiror Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Target Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R ²	0.136	0.1737	0.1782	0.1792					
Adjusted R ²						0.1559	0.2942	0.3031	0.3032
Observation	8,968	8,968	8,968	8,968		7,064	7,064	7,064	7,064
<hr/>									

Panel C: Control of Political Factors - Country-pair Political Relations and Country-specific Political Constraints

Dependent Variable	Acquisition Completion	Acquisition Duration
	Bid/Deal, Firm-Level and Country-Pair and Political Factors	Bid/Deal, Firm-Level and Country-Pair and Political Factors
	1	2
Key explanatory variable		
Yes Experience	0.3559*** (0.0815)	-0.3178*** (0.0746)
Political Factors		
Country-pair Political Relations _{tgt, acq}	0.0544* (0.0213)	-0.0022* (0.0157)
Country-specific Political Constraints _{tgt}	0.1053* (0.0583)	-0.0828* (0.0456)
Bid/Deal-level characteristics	Yes	Yes
Firm-level characteristics	Yes	Yes
Country-pair-level Characteristics	Yes	Yes
Year FE	Yes	Yes
Acquiror Nation FE	Yes	Yes
Target Nation FE	Yes	Yes
Acquiror Industry FE	Yes	Yes
Target Industry FE	Yes	Yes
Pseudo R ²	0.1878	
Adjusted R ²		0.3094
Observation	8,416	6,708

Table 5.6: Pre-bid Host Country Experience and Acquisition Premium

This table, Panel A and B present the results of our OLS regression in which the dependent variable is the premium four weeks prior to transaction announcement (Premium4w). The key explanatory variable is *Yes Experience*, which accounts if a firm prior to the current bid has host-country experience or not -i.e., pre-bid host-country experience (*Yes Experience Vs No Experience*). Specifically, It is defined as a dummy variable which is equal to one if prior to acquisition the firm has foreign direct investment in the target’s domicile “*Yes Experience*” or else zero “*No Experience*”. The rest of the control variables are defined in Chapter 2 and Appendix 5.1. Panel B further controls political factors, i.e., country-pair political relations and country-specific political constraints at the targets domicile as defined in the above two empirical chapters – also defined in Appendix 5.1. The fixed effects (FE) in the analysis are indicated at the end of the table. Same Industries are classified as the 48 industries defined by Fama-French 48 industry classification. Robust clustered standard errors control for heteroscedasticity and are clustered at acquirer and target country-level presented in brackets. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	Panel A: Bid Premium			
	Without Control	Bid/Deal-Level Control	Bid/Deal and Firm-Level Control	Bid/Deal, Firm-Level and Country-Pair Control
	1	2	3	4
Key explanatory variable				
Yes Experience	-0.1332*** (0.0432)	-0.1183*** (0.0455)	-0.1128*** (0.0358)	-0.1114*** (0.0356)
Bid/Deal-level characteristics				
TV		0.0245 (0.0116)	0.0196 (0.0167)	0.0192 (0.0166)
Cash		0.0550 (0.0405)	0.0564 (0.0472)	0.0556 (0.0483)
Same Industry		0.0351 (0.0298)	0.0239 (0.0321)	0.0214 (0.0335)
Competing Bid		0.1596*** (0.0426)	0.1642*** (0.0468)	0.1643*** (0.0464)
Toehold		-0.0423 (0.0332)	-0.0735 (0.0391)	-0.0741 (0.0388)
Firm-level characteristics				
ASize			-0.0009 (0.0062)	-0.0011 (0.0062)
TSize			-0.0088 (0.0123)	-0.0090 (0.0120)
AMTBV			0.0029	0.0029

			(0.0027)	(0.0027)
TMTBV			-0.0066	-0.0066
			(0.0045)	(0.0045)
ALeverage			0.0283	0.0283
			(0.0252)	(0.0248)
TLeverage			0.2740*	0.2776*
			(0.1252)	(0.1223)
AROA			-0.0916	-0.1022
			(0.2302)	(0.2338)
TROA			-0.0767	-0.0739
			(0.1222)	(0.1223)
Country-pair-level Characteristics				
Common Language _{tgt, acq}				0.0502
				(0.0842)
Common Border _{tgt, acq}				-0.0203
				(0.0898)
Common Religion _{tgt, acq}				-0.6473***
				(0.1999)
Colonial Tie _{tgt, acq}				0.0009
				(0.0672)
<hr/>				
Year FE	Yes	Yes	Yes	Yes
Acquiror Nation FE	Yes	Yes	Yes	Yes
Target Nation FE	Yes	Yes	Yes	Yes
Acquiror Industry FE	Yes	Yes	Yes	Yes
Target Industry FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.0139	0.0363	0.0315	0.0260
Observation	690	690	637	637
<hr/>				

Panel B: Control of Political Factors - Country-pair Political Relations and Country-specific Political Constraints

Dependent Variable	Bid Premium
	Bid/Deal, Firm-Level and Country-Pair and Political Factors Control
Key explanatory variable	
Yes Experience	-0.1063** (0.0389)
Political Factors	
Country-pair Political Relation _{tgt, acq}	-0.0190 (0.0237)
Country-specific Political Constraints _{tgt}	0.0097* (0.0192)
Bid/Deal-level characteristics	Yes
Firm-level characteristics	Yes
Country-pair-level Characteristics	Yes
Year FE	Yes
Acquiror Nation FE	Yes
Target Nation FE	Yes
Acquiror Industry FE	Yes
Target Industry FE	Yes
Adjusted R ²	0.0217
Observation	595

Table 5.7: Pre-bid Host Country Experience and Acquirers' Announcement Period Return

This table, Panel A and B present the results of our OLS regression in which the dependent variable is acquirers' announcement period returns (ACAR (-2,+2)). The key explanatory variable is *Yes Experience*, which accounts if a firm prior to the current bid has host-country experience or not -i.e., pre-bid host-country experience (*Yes Experience* Vs *No Experience*). Specifically, It is defined as a dummy variable which is equal to one if prior to acquisition the firm has foreign direct investment in the target's domicile "*Yes Experience*" or else zero "*No Experience*". The rest of the control variables are defined in Chapter 2 and Appendix 5.1. Panel B further controls political factors, i.e., country-pair political relations and country-specific political constraints at the targets domicile as defined in the above two empirical chapters – also defined in Appendix 5.1. The fixed effects (FE) in the analysis are indicated at the end of the table. Same Industries are classified as the 48 industries defined by Fama-French 48 industry classification. Robust clustered standard errors control for heteroscedasticity and are clustered at acquirer and target country-level presented in brackets. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	ACAR (-2, +2)			
	Without Control	Bid/Deal-Level Control	Bid/Deal and Firm-Level Control	Bid/Deal, Firm-Level and Country-Pair Control
	1	2	3	4
Key explanatory variable				
Yes Experience	0.0156*** (0.0031)	0.0170*** (0.0032)	0.0211*** (0.0034)	0.0211*** (0.0034)
Bid/Deal-level characteristics				
TV		-0.0017* (0.0008)	-0.0022** (0.0009)	-0.0022** (0.0009)
Cash		-0.0039 (0.0027)	0.0001 (0.0027)	0.0002 (0.0027)
Same Industry		-0.0018 (0.0027)	-0.0012 (0.0027)	-0.0012 (0.0027)
Competing Bid		-0.0023 (0.0107)	-0.0085 (0.0105)	-0.0081 (0.0105)
Toehold		0.0100 (0.0117)	0.0001 (0.0106)	-0.0006 (0.0105)
Firm-level characteristics				
ASize			-0.0087*** (0.0007)	-0.0087*** (0.0007)
AMTBV			-0.0004 (0.0003)	-0.0004 (0.0003)
ALeverage			-0.0029	-0.0028

			(0.0018)	(0.0018)
ARO A			0.0079	0.0094
			(0.0143)	(0.0145)
Country-pair-level Characteristics				
Common Language _{tgt, acq}				-0.0137*
				(0.0065)
Common Border _{tgt, acq}				0.0067
				(0.0051)
Common Religion _{tgt, acq}				0.0008
				(0.0115)
Colonial Tie _{tgt, acq}				-0.0022
				(0.0037)
<hr/>				
Year FE	Yes	Yes	Yes	Yes
Acquiror Nation FE	Yes	Yes	Yes	Yes
Target Nation FE	Yes	Yes	Yes	Yes
Acquiror Industry FE	Yes	Yes	Yes	Yes
Target Industry FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.0161	0.0164	0.0493	0.0496
Observation	8,968	8,968	8,968	8,968
<hr/>				

Panel B: Control of Political Factors - Country-pair Political Relations and Country-specific Political Constraints

Dependent Variable	ACAR (-2, +2)
	Bid/Deal, Firm-Level and Country-Pair and Political Factors
Key explanatory variable	
Yes Experience	0.0190*** (0.0032)
Political Factors	
Country-pair Political Relations _{tgt, acq}	0.0040* (0.0008)
Country-specific Political Constraints _{tgt}	0.0150 (0.0021)
Bid/Deal-level characteristics	Yes
Firm-level characteristics	Yes
Country-pair-level Characteristics	Yes
<hr/>	
Year FE	Yes
Acquiror Nation FE	Yes
Target Nation FE	Yes
Acquiror Industry FE	Yes
Target Industry FE	Yes
Pseudo R ²	0.0488
Adjusted R ²	
Observation	8,458

Table 5.8: Pre-bid Host Country Experience and Targets Announcement Period Return

This table, Panel A and B present the results of our OLS regression in which the dependent variable is the targets’ announcement period returns (TCAR (-2,+2)). The key explanatory variable is *Yes Experience*, which accounts if a firm prior to the current bid has host-country experience or not -i.e., pre-bid host-country experience (*Yes Experience* Vs *No Experience*). Specifically, It is defined as a dummy variable which is equal to one if prior to acquisition the firm has foreign direct investment in the target’s domicile “*Yes Experience*” or else zero “*No Experience*”. The rest of the control variables are defined in Chapter 2 and Appendix 5.1. Panel B further controls political factors, i.e., country-pair political relations and country-specific political constraints at the targets domicile as defined in the above two empirical chapters – also defined in Appendix 5.1. The fixed effects (FE) in the analysis are indicated at the end of the table. Same Industries are classified as the 48 industries defined by Fama-French 48 industry classification. Robust clustered standard errors control for heteroscedasticity and are clustered at acquirer and target country-level presented in brackets. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	TCAR (-2, +2)			
	Without Control	Bid/Deal-Level Control	Bid/Deal and Firm-Level Control	Bid/Deal, Firm-Level and Country-Pair Control
	1	2	3	4
Key explanatory variable				
Yes Experience	-0.1072** (0.0407)	-0.0868* (0.0438)	-0.0847* (0.0415)	-0.0876* (0.0416)
Bid/Deal-level characteristics				
TV		0.0306** (0.0133)	0.0438*** (0.0151)	0.0434** (0.0151)
Cash		0.1189*** (0.0380)	0.1267*** (0.0404)	0.1342*** (0.0422)
Same Industry		0.0731** (0.0277)	0.0808** (0.0323)	0.0780** (0.0313)
Competing Bid		-0.0168 (0.0374)	-0.021 (0.0455)	-0.0258 (0.0455)
Toehold		-0.0419 (0.0483)	-0.0381 (0.0463)	-0.0404 (0.0474)
Firm-level characteristics				
ASize			0.0013 (0.0045)	0.0017 (0.0045)
TSize			0.0121 (0.0108)	0.0131 (0.0107)
AMTBV			0.0028	0.0028

			(0.0022)	(0.0022)
TMTBV			0.0012	0.0012
			(0.0024)	(0.0025)
ALeverage			0.0382	0.0382
			(0.0193)	(0.0194)
TLeverage			-0.1489	-0.1407
			(0.1176)	(0.1148)
AROA			0.1467	0.1473
			(0.1896)	(0.1940)
TROA			0.1874	0.1728
			(0.1498)	(0.1531)
Country-pair-level Characteristics				
Common Language	tgt, acq			0.0329
				(0.0938)
Common Border	tgt, acq			0.0739
				(0.0731)
Common Religion	tgt, acq			-0.0853
				(0.1275)
Colonial Tie	tgt, acq			-0.0326
				(0.0553)
Year FE	Yes	Yes	Yes	Yes
Acquiror Nation FE	Yes	Yes	Yes	Yes
Target Nation FE	Yes	Yes	Yes	Yes
Acquiror Industry FE	Yes	Yes	Yes	Yes
Target Industry FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.0865	0.1176	0.101	0.0994
Observation	779	779	726	726

Panel B: Control of Political Factors - Country-pair Political Relations and Country-specific Political Constraints

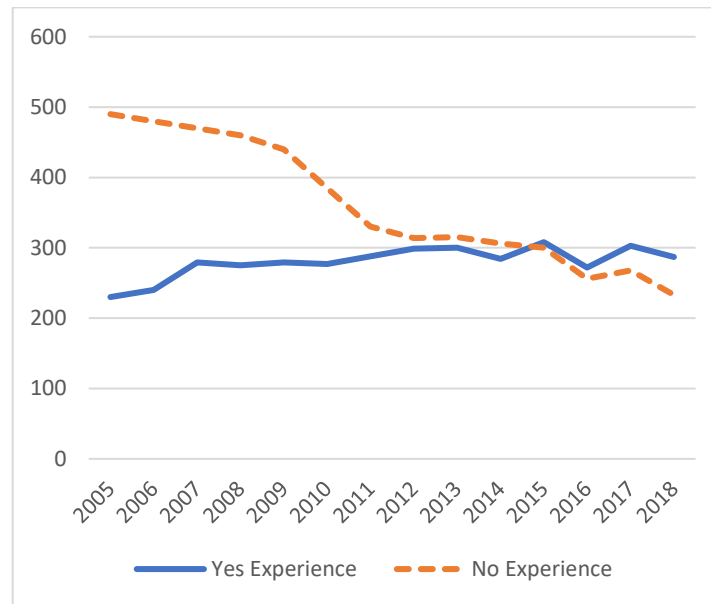
Dependent Variable	TCAR (-2, +2)
	Bid/Deal, Firm-Level and Country-Pair and other Control
Key explanatory variable	
Yes Experience	-0.1002* (0.0391)
Political Factors	
Country-pair Political Relation _{tgt, acq}	-0.0257 (0.0133)
Country-specific Political Constraints _{tgt}	0.0969 (0.0609)
Bid/Deal-level characteristics	Yes
Firm-level characteristics	Yes
Country-pair-level Characteristics	Yes
Year FE	Yes
Acquiror Nation FE	Yes
Target Nation FE	Yes
Acquiror Industry FE	Yes
Target Industry FE	Yes
Pseudo R ²	0.0883
Adjusted R ²	
Observation	679

Table 5.9: Additional Tests, Subsample Analysis and Robustness

This table presents additional results. Panel A and B conduct subsample analysis with and without US acquirers. Panel C and D conduct subsample analysis with and without politically sensitive target firms. Panel E and F conduct tests for different premium definitions. The key explanatory variable is *Yes Experience*, which accounts if a firm prior to the current bid has host-country experience or not -i.e., pre-bid host-country experience (*Yes Experience* Vs *No Experience*). It is defined as a dummy variable which is equal to one if prior to acquisition the firm has foreign direct investment in the target's domicile "*Yes Experience*" or else zero "*No Experience*". All the tests control for firm and bid/deal level characteristics per the main analysis, and all variables are defined in Chapter 2 and Appendix 5.1. The fixed effects (FE) in the analysis are indicated at the end of the table. Same Industries are classified as the 48 industries defined by Fama-French 48 industry classification. Robust clustered standard errors control for heteroscedasticity and are clustered at acquirer and target country-level presented in brackets. Note that *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively. The findings reported in this table can be compared to the results reported in Table 5.5 for acquisition completion and duration, Table 5.6 for premium, Table 5.7 for ACAR and Table 5.8 for TCAR.

Dependent Variable	Acquisition	Acquisition	Premium	ACAR	TCAR
	Completion	Duration		(-2. +2)	(-2. +2)
	1	2	3	4	5
Panel A: Sample without US	0.2339*** (0.0737)	-0.1367*** (0.0898)	-0.0951* (0.0589)	0.0126*** (0.0042)	-0.0111* (0.0605)
Panel B: Sample with only US	0.0929* (0.1767)	-0.1166* (0.0825)	-0.1207** (0.0517)	0.0192*** (0.0037)	-0.1262** (0.0526)
Panel C: Sample with politically sensitive target industry	0.2719** (0.1161)	-0.1359*** (0.1026)	-0.1050* (0.0504)	0.0212*** (0.0063)	-0.0033 (0.0648)
Panel D: Sample without politically sensitive target industry	0.2554*** (0.1163)	-0.2979** (0.1022)	-0.1019* (0.0476)	0.0213*** (0.0036)	-0.1360** (0.0598)
Panel E: Premium (Winsorised below 0 and above 2)			-0.0761* (0.0369)		
Panel F: Premium (positive value only)			-0.0820** (0.0348)		
Firm-level Characteristics	Yes	Yes	Yes	Yes	Yes
Bid/Deal-level Characteristics	Yes	Yes	Yes	Yes	Yes
Country-pair-level Characteristics	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Acquiror and Target Nation FE	Yes	Yes	Yes	Yes	Yes
Acquiror and Target Industry FE	Yes	Yes	Yes	Yes	Yes

Figure 5.1: Annual Distribution of Bids According to Yes and No Experience.
(Generated from Table 5.1 – Panel B)



Note: This graph presents the annual distribution of bids according to those with and without experience.

Appendix 5.1: Variables, Definitions and Data Sources

Variable	Definition	Source
Dependent variable		
Completed/ Withdrawn (<i>Acquisition Completion</i>)	Dummy variable equals one if the deal is completed and zero if the deal is withdrawn.	SDC
Deal completion duration	The number of calendar days between the deal announcement date and the completion date.	SDC
Bid Premium	The difference between the offer price and the target stock price 4 weeks before the announcement divided by the latter. It is defined in equation (2.9) in Chapter 2, Section 2.2.4.	SDC
CAR (-2, +2) <i>ACAR</i> and <i>TCAR</i>	The market-adjusted cumulative abnormal returns around the announcement over 5-days (-2,+2) surrounding the day of the announcement. It is defined in equations (2.7) and (2.8) in Chapter 2, Section 2.2.5.	SDC
Key explanatory variable		
Pre-bid host-country experience <i>Yes Experience</i> and <i>No Experience</i>	Dummy variable equals one if acquirers have FDI in the target host nation before the focal CBA and zero otherwise.	SDC and Annual Report
Firm-level control variables		
Firm Size (<i>Size</i>) <i>ASize</i> <i>TSize</i>	The natural logarithm of total assets at the fiscal year-end before the announcement.	Datastream
MTBV <i>AMTBV</i> and <i>TMTBV</i>	Market value of equity divided by the book value of equity at the fiscal year-end before the announcement.	Datastream
Leverage <i>ALeverage</i> and <i>TLeverage</i>	Total debt divided by common equity value at the fiscal year-end before the announcement.	Datastream
ROA <i>AROA</i> and <i>TROA</i>	EBITDA divided by the book value of total assets at the fiscal year-end before the announcement.	Datastream
Bid/Deal-level control variables		
Transaction Value (TV) (millions of USD)	Natural logarithm of bid/deal transaction value, in millions of USD.	SDC
Cash	Dummy variable equals one if the bid/deal is 50% paid in cash and 0 otherwise.	SDC
Same Industry	Dummy variable equals one if the bidder and the target have the same Fama and French 48 industry classification and zero otherwise.	SDC
Competing Bids	Dummy variable equals one if the bid/deal is identified as having more than one bidder in SDC and zero otherwise.	SDC

Toehold	Dummy variable equals one if the bidder is identified to have a pre-ownership stake in the target firm as reported in SDC and zero otherwise.	SDC
Country-pair-level control variables		
Common Language $_{tgt, acq}$	Dummy variable equal to one if the targets and acquirers have the same primary language (English, Spanish, or Others).	CIA World Factbook
Common Border $_{tgt, acq}$	Dummy variable equal to one if targets and acquirers share the same border or zero otherwise.	CEPII
Common Religion $_{tgt, acq}$	Dummy variable equal to one if targets and acquirers share the same religion or zero otherwise.	CIA World Factbook
Colonial Tie $_{tgt, acq}$	Dummy variable equal to one if the target and acquirers have a colonial tie.	CIA World Factbook
Political factors control variables		
Country-pair Political Relations $_{tgt, acq}$	<p>Calculated as</p> $CPR_{acq, tgt, t} = \frac{\sum f_{Cooperative\ Events} W_{Cooperative\ Events} + 0 + \sum f_{Conflict\ Events} W_{Conflict\ Events}}{\sum f_{Cooperative\ Events} + \sum f_{Conflict\ Events} + \sum f_{Neutral\ Events}}$ <p>Where CPR stands for country-pair political relations, subscripts acq, tgt, and t represent acquirer's domicile, target's domicile and year, respectively. The year is the lag, which is for the previous year. f is the frequency of events; W is the weight based on the annual average Goldstein scale for each event. The subscript neutral represents neutral events, and the weight of neutral events is zero in the index; as such, the numerator has a zero.</p>	Data sourced from the news-based index - Global Data on Events, Location and Tone (GDELT) (Leetaru and Schrodtt, 2021)
Political Constraints $_{tgt}$	Political constraints index of the target's domicile for the year prior to the deal, i.e., it is lag one year. The index ranges from 0-1, with lower scores representing higher levels of political risk.	Political constraint dataset - Henisz (2017 data release)

Appendix 5.2: Additional Test on Likelihood of CBA Deal Completion

This table presents regression estimates of logit models examining the likelihood of CBA deal completion by removing the pending deals. The rest is the same as in the main Table 5.5.

Dependent Variable	Panel A: Acquisition Completion			
	Without Control	Bid/Deal-Level Control	Bid/Deal and Firm-Level Control	Bid/Deal, Firm-Level and Country-Pair Control
	1	2	3	4
Key explanatory variable				
Yes Experience	0.3029** (0.1258)	0.4856*** (0.1504)	0.5544*** (0.1734)	0.5534*** (0.1717)
Bid/Deal-level Characteristics				
TV		-0.0101 (0.0419)	0.0381 (0.0627)	0.0339 (0.0635)
Cash		0.4152** (0.1556)	0.4649*** (0.1649)	0.4556** (0.1668)
Same Industry		0.1976 (0.1363)	0.2158 (0.1409)	0.2206 (0.1412)
Competing Bid		-3.2581** (0.4333)	-3.4009** (0.4824)	-3.4139** (0.4880)
Toehold		3.8380*** (0.3938)	4.0258*** (0.4406)	4.0281*** (0.4494)
Firm-level Characteristics				
	No	No	Yes	Yes
Country-pair-level Characteristics				
	No	No	No	Yes
Year FE	Yes	Yes	Yes	Yes
Acquiror Nation FE	Yes	Yes	Yes	Yes
Target Nation FE	Yes	Yes	Yes	Yes
Acquiror Industry FE	Yes	Yes	Yes	Yes
Target Industry FE	Yes	Yes	Yes	Yes
Pseudo R ²	0.1774	0.2976	0.3066	0.3081
Observation	7,116	7,116	7,116	7,116

Appendix 5.3: Additional Test on Likelihood and Duration of CBA Deal Completion

This table reports the regression estimates of logit models examining the likelihood of CBA deal completion in Panel A and estimates of OLS models examining the duration of CBA deal completion in Panel B. This table has everything as the main Table 5.5. It just additionally incorporates the targets' firm size (*TSize*) in the analysis.

Dependent Variable	Panel A: Acquisition Completion	Panel B: Acquisition Duration
	Bid/Deal, Firm-Level and Country- Pair Control	Bid/Deal, Firm-Level and Country-Pair Control
	1	2
Key explanatory variable		
Yes Experience	0.4889** (0.2132)	-0.1416 (0.0731)
Firm-level characteristics		
ASize	0.1140 (0.0740)	-0.0350** (0.0153)
TSize	-0.0870 (0.0625)	0.0431* (0.0209)
AMTBV	-0.0235* (0.0114)	0.0018 (0.0103)
ALeverage	0.2066 (0.1811)	0.0062 (0.0588)
AROA	0.1932 (2.7527)	0.6804 (0.4271)
Bid/Deal-level Characteristics	Yes	Yes
Country-pair-level Characteristics	Yes	Yes
Year FE	Yes	Yes
Acquiror Nation FE		Yes
Target Nation FE	Yes	Yes
Acquiror Industry FE	Yes	Yes
Target Industry FE	Yes	Yes
Pseudo R ²	0.3578	
Adjusted R ²		0.2851
Observation	639	555

Appendix 5.4: Additional Test on Acquirers' Announcement Period Return

This table presents the results of our OLS regression in which the dependent variable is acquirers' announcement period returns (ACAR (-2,+2)). This table has everything as the main analysis in Table 5.7. It just additionally incorporates target firm characteristics (i.e., *TSize*, *TMTBV*, *TLeverage*, *TROA*) in the analysis

Dependent Variable	ACAR
	Bid/Deal, Firm-Level and Country-Pair Control
Key explanatory variable	
Yes Experience	0.0251** (0.0105)
Firm-level Characteristics	
ASize	-0.0061*** (0.0019)
TSize	0.0035 (0.0031)
AMTBV	0.0016*** (0.0004)
TMTBV	-0.0009 (0.0009)
ALeverage	0.0012 (0.0070)
TLeverage	0.0076 (0.0248)
AROA	0.0049 (0.0575)
TROA	-0.0531 (0.0488)
Bid/Deal-level Characteristics	Yes
Country-pair-level Characteristics	Yes
Year FE	Yes
Acquiror Nation FE	Yes
Target Nation FE	Yes
Acquiror Industry FE	Yes
Target Industry FE	Yes
Adjusted R ²	0.0203
Observation	726

6. Conclusions

Theoretically, managers are expected to invest in projects that would be successful and generate positive NPV. This assertion should also apply to CBA's decisions. However, a significant number of CBA either frequently fail to get initiated or fail to get completed after their initial announcement (Lawrence, Raithatha and Rodriguez, 2021; Dikova, Sahib and Van, 2010), or they frequently get delayed (Lawrence *et al.*, 2021). Further to this, CBAs, at times, also fail to generate value (Aw and Chatterjee, 2004). These entail a cost to various stakeholders, including the firms, their investors, managers, employees, lenders, policymakers, and the broader economy. Therefore, this phenomenon is explained by several determinants with a multi-directional influence. This thesis examined whether the three factors that have received relatively low to no attention in CBAs literature can help us better understand the source and cause of observed direction of CBAs, success/failure in its completion and duration, including its market value creation/destruction during the announcement period. The three factors examined include (1) Country-pair political relations, (2) Country-specific political constraints on policy-making and (3) Acquirers' experience and embeddedness in the target's domicile.

6.1 Summary of Empirical Chapters

6.1.1 *Country-pair Political Relations and Cross-border Mergers and Acquisitions*

The aim of the first empirical chapter (i.e., Chapter 3 - *Country-pair political relations and CBAs*) has been to examine how country-pair political relations (CPR) formed by political activities between country-dyads influence CBAs. This chapter is motivated by the economic argument in the international trade literature that various

spectrums of CPR influence the economic landscape between dyads, which literature on CBAs has not yet accounted for. This chapter thus provides a rigorous and robust empirical examination on the influence of CPR in its comprehensiveness on CBAs and makes important and novel revelations.

The chapter reveals that managers withhold carrying out acquisitions in hostile nations and are encouraged when relations are co-operative. This is rightly so, as despite firms having different motives to engage in CBA activity, factors that hinder and promote the activity influence their decisions (Shimizu, Hitt, Vaidyanath and Pisano, 2004). The chapter also indicates that managers possibly delay completing the deals after announcing the bid during adversarial relations and are more confident during co-operative relations. Besides managers' decisions, the negative influence on deal completion can also be the outcome of the information environment and firm's legitimacy, which is impaired when CPR are low and enhanced when CPR are high. The results, therefore, align with the arguments put forward by Thompson and Kim (2020) and Li *et al.* (2017) that information asymmetry and legitimacy impact further negotiation after the announcement of the bid.

Further investigations indicate positive relationship between CPR and the announcement period market returns of the target's and acquirer's firms. These can be the result of the market appreciating co-operative relations between country dyads and the opportunities it can offer, it also demonstrates that the market reacts inversely to adversarial relationships, which can be related to the costs and the disadvantages attached to adversarial relationship. The chapter further underscores that conflict and co-operation have an asymmetrical influence on CBAs. These results can be explained by the prospect theory and loss aversion theory (Kahneman and Tversky, 1979; Wang,

Rieger and Hens, 2017), that one can react differently to fear of loss than to gains of equal magnitude. Finally, the chapter shows that managers and investors react strongly to military conflict events and aligns with the prediction that the influence of conflicts on economic activities becomes stronger with a higher level of hostility (Kim, 2015).

6.1.2 *Political Constraints and Cross-border Mergers and Acquisitions*

The aim of the second empirical chapter (Chapter 4 - *Political constraints and CBAs*) has been to investigate how constraints in policy making (PCs) at targets' and acquirers' domiciles influence CBAs' activities and their related outcomes. PCs in this chapter denote the freedom political actors have on policy-making and other such matters. We do not have answers on how firms consider PCs of both acquirer's and target's domicile with regard to the direction of CBAs bids, including their influence on acquisition completion and duration is unexplored. Moreover, their value implications regarding the announcement period are yet to be examined. This investigation is necessary, especially since the literature posits an unsettled view concerning PCs and the investment environment, as explained in the chapter.

In summary, higher levels of PCs at the target's domicile, on the one hand, because of their advantages (Boubakri *et al.*, 2013), can attract inbound CBAs. Higher levels of PCs on the other hand, also postulate rigidity in changing policies (Aguilera *et al.*, 2021), which can deter inbound acquisitions. Reconciling the contradictory view, the chapter's finding robust to alternative specifications reveals that managers are attracted to invest in nations with higher levels of PCs. Moreover, levels of PCs at the acquirer's domicile also postulate an unsettled view concerning outbound acquisitions. For example, lower PCs at a domicile may encourage its domiciled firms

to acquirer outbound to hedge against the voids. The voids however may also fail to flourish its domiciled firms to make acquisitions. Reconciling this view, the bilateral country-pair investigation provide that lower levels of PCs encourage outbound CBA; this supports the view that firms can hedge to alter the costs at their domicile (Denis, Denis and Yost, 2002; Luo and Tung, 2007).

The chapter further underscores that higher levels of PCs at the targets' domiciles, because of their policy stability and information transparency, help acquirers comprehend with the deal completion requirements. These results lend support to the literature which provide the importance of information (Thompson and Kim, 2020) and stability in the investment environment (Kim and Song, 2017) for the success of the likelihood of CBAs deal completion. The results also supplement the findings of Nguyen *et al.* (2020), who, for domestic M&As, find that firms domiciled in disadvantaged areas find it hard to complete a deal. The chapter further advocates that during the announcement period, acquiring firms' shareholders create wealth by purchasing target firms domiciled in nations with higher levels of PCs. The target firms, on the other hand, benefit from higher returns when PCs at their domiciles are high. The chapter also underlines that higher levels of other institutional quality and common law at the target's domicile compensate for lower levels of PCs. Finally, the chapter insinuates that firms from emerging markets benefit the most with regard to outbound acquisitions in the face of lower levels of PC at their domicile and in attracting inbound CBAs upon improving PCs.

6.1.3 *Acquirers' Pre-bid Host Country Experience and Cross-border Mergers and Acquisitions*

The objective of the third empirical chapter (i.e., Chapter 5 – *Acquirers' Pre-bid Host Country Experience and CBAs*) has been to examine acquirers' experience and embeddedness at the target's domicile on the outcomes of their subsequent acquisitions in that domicile. The investigation being fundamental as risks and uncertainties are one of the protruding concerns attached to CBAs. It is for this reason firms prefer investing in familiar markets. Despite this, we do not know if such a strategy can benefit acquirers, especially since economic argument provides an unsettled view. One strand (internationalisation and network linkage theory) indicates that firms' presence in a country can lead to profitable and successful subsequent investment in that host country. The other strand posits that familiarity and embeddedness can lead to managerial issues of overconfidence (hubris hypothesis of takeover), among other factors, which can lead to less successful acquisitions.

Reconciling the contradictory view, the chapter's findings, robust to alternative specifications, document that acquirers with pre-bid host-specific experience are more likely to complete the CBA deal and face lower duration than acquirers without such an experience. Furthermore, investigation finds that acquirers with pre-bid host-country experience pay lower acquisition premiums and achieve significantly better announcement period gains than those without such experience. The results, therefore, support the view on the benefits of learning in a host country rather than the hubris hypothesis of takeover. Finally, the chapter underscores that targets' market lose when acquired by firms familiar to them and their market. To sum

up, the chapter insinuates that during the announcement period, acquirers' pre-bid host-country experience leads to the transfer of wealth from the target to the bidder.

6.2 Practical of Implications of Findings

The results of this thesis have several policy implications. The first empirical chapter (i.e., Chapter 3) strategically indicates that economies and policymakers must work towards lowering any adversarial relations and promoting co-operative relations with nations they wish to have efficient and smoothly flowing CBAs. The chapter also indicates that acquiring firms' managers and investors need to be aware of CPR and make CBAs decisions accordingly. The reason is that CBAs can prove costly during adversarial relationships; as reflected in the findings, adversarial relationships lower the likelihood of deal completion, increase the deal completion duration and are negatively related to acquirers' announcement period returns. From the perspective of the target firms, they may strengthen their bargaining power against firms from hostile nations to gain more during the announcement period. Furthermore, managers during their decision-making must also note that conflictual and co-operative political events have an asymmetrical impact on CBAs. Finally, policymakers and managers must factor in military conflict slightly more in their decision-making due to their higher effect on CBAs.

The second empirical chapter (i.e., Chapter 4) strategically indicates that economies and policymakers aiming to attract inbound acquisitions and retain domestic firms from escaping the markets must strive to improve PCs. It further indicates that corporate managers should consider the levels of PCs at their domicile and the domicile of their counterparts and make CBAs decisions accordingly, as both

can influence CBAs, as indicated in the findings. From the perspective of the target firms, they may strengthen their position in the face of lower levels of PCs as they can lose during the announcement period under such circumstances. Finally, alongside the levels of PCs, policymakers, managers and investors should consider other institutional quality at the target's domicile, the legal origin of the target's domicile, including the levels of economic development at acquirers' and targets' domicile as findings provide that these factors moderate the influence of PC on CBAs.

The third empirical chapter (i.e., Chapter 5) indicates that managers given the possibility can explore CBA opportunities in those countries where they are present. This is because findings show that such acquisitions are beneficial for the acquirers. From the perspective of the target firms, in order to benefit during the announcement period, they may look at bidders less versed with them and their domicile

6.3 Limitations and Recommendations for Future Research

As with any research endeavour, there are some limitations to consider and some recommendations for future research. For the first empirical chapter (i.e., Chapter 3), political events data is from text mining events recorded in news media. The data is all about what is recorded by the media and its accuracy and unbiasedness across multiple languages. Despite this, data from the media has also been used as a country-level measure of global geopolitical risk (Caldara and Iacoviello, 2022) and economic policy uncertainty (Baker, Bloom and Davis, 2016). Studies such as Zelner, Henisz and Holburn (2009) provide that news-based indexes can provide temporal and cross-sectional comparable measures better suited to theoretical constructs.

Furthermore, the first empirical chapter (*Country-pair political relations and CBAs*) may also benefit from the following extensions to get further insights; one for example is from sub-sample analysis between oil-producing and non-oil producing nations. This is warranted as such dependency of nations on other nations may moderate the relationship between country-dyads. Furthermore, sub-sample analysis for nations with significant political tensions may also provide further insights (for example between US and China, US and Russia). Moreover, the first two empirical chapters, although account for a comprehensive list of countries, which is a good representation of CBAs worldwide, however, future researchers may wish to account for further additional countries not accounted for.

Moreover, the investigation of firm performance for all the empirical chapters is based on the market performance during the announcement period. One may extend the analysis of the three empirical chapters in two ways. First, it can be extended by using accounting performance, which is beyond the scope of the current study. Second, concerning the market performance, although the short-term market announcement return is acknowledged to be the cleanest method to measure the effect of M&A, all the empirical chapters could be extended using alternative measures to gauge the post-CBAs performance, e.g., buy and hold abnormal return (BHAR). The BHAR measure can provide new evidence to the literature whether the factors identified in this thesis that influence during the time of announcement can persist overall.

The third empirical chapter (*Acquirers' Pre-bid Host Country Experience and CBAs*) accounts for only a small sub-samples of countries as data collection required carefully studying the annual reports to confirm any traces of FDI. Accounting for other countries was faced with limitations such as quality of reporting and the accuracy

of the information in the annual reports. This gives room for future research that can be carried out for a comprehensive group of countries and firms by using other sources to account for FDI, for example, by using FDi Markets database⁹⁷ for greenfield investments.

Finally, the financing decision of M&A significantly impacts its outcomes (Huang, Officer, Powell, 2016; Faccio and Masulis, 2005). The use of stock as the method of payment in cross-border bids, for example, can mitigate country-level risk at the target's domicile for the acquirers (Huang et al., 2016). Extending the research in all three empirical chapters by considering the method used to finance the CBAs could add a comprehensive explanation to the three strands of literature investigated in this thesis.

⁹⁷ Hosted at <https://www.fdimarkets.com/>

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