Political Uncertainty and Cross-Border Acquisitions*

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Abstract

We study cross-border mergers and acquisitions (M&As) around national elections in 47 countries between 2001 and 2010. Our results show that the year before a national election is associated with greater volume of outbound cross-border M&As. An acquisition deal is more likely to be cross-border and increase acquirer's announcement returns in the year before a national election. Across countries, this relation is stronger in countries with lower checks and balances, presidential systems and lower level of shareholder protection, which are more likely to experience higher political uncertainty associated with forthcoming national election. Within countries, this relation is weaker when elections with high likelihood to reappoint incumbent leader and stronger when a new leader is more likely to win. These results are consistent with the hypothesis that firms strategically time cross-border acquisitions and diversify political uncertainty abroad before national elections.

Keywords: cross-border acquisitions; national election; political uncertainty
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1. Introduction

The impact of politics on investment has received a great deal of attention. Political uncertainty associated with possible changes in national leadership is an important way through which politics can influence investment. At the macro level, political instability and violent events can lead to reductions in aggregate investment (Barro, 1991; Pindyck and Solimano, 1993; and Alesina and Perotti, 1996). At the micro level, Julio and Yook (2012) find that firms reduce their capital expenditures in the presence of electoral uncertainty.

In this paper, we study how political uncertainty affects cross-border acquisitions. The case of cross-border acquisitions presents an intriguing setting to get at questions yet to be answered by the prior studies. First, recent works by Pástor and Veronesi (2012, 2013), and Boutchkova et al. (2012) identify large costs associated with political uncertainty and hence highlight the importance of role of coping with such risks. Being one of the most salient investment decisions, acquisitions, especially cross-border acquisitions must take into account political environment and uncertainty, both at home and abroad. Second, outbound cross-border acquisition involves a target abroad, which is arguably less subject to domestic political uncertainty and can even shield the firm from domestic political uncertainty by "voting with your feet". Third, while most studies of the determinants of cross-border acquisitions focus on economic and cultural factors (see, e.g., Rossi and Volpin, 2004; Ferreira et al., 2010; Erel et al., 2012; Ahern et al. 2013), it is important to understand the role political factors play in affecting the incidence and outcome of cross-border acquisitions.

We put forward two hypotheses regarding how political uncertainty can affect cross-border acquisitions. The first hypothesis (*waiting* hypothesis) posits that firms reduce acquisitions of foreign targets in the period before the resolve of political uncertainty. Bernanke (1983) shows that events whose long-run implications are uncertain can increase the returns to waiting for new information, particularly when the source of uncertainty periodically renews itself over time. As shown in Julio and Yook (2012), uncertainties associated with possible policy change increase the value of waiting to invest as the outcome will have implications for how firms allocate

investment expenditures.

An alternative hypothesis (*uncertainty diversifying* hypothesis) makes an opposite empirical prediction, i.e., acquisitions of foreign targets would increase for firms facing high political uncertainty. The intuition is an application of the theory of portfolio selection under uncertainty: outbound cross-border M&A helps firm diversify its sources of income, which reduces the total risk of firm's operation (Severn, 1974; Rugman, 1976; Brewer, 1981; Fatemi, 1984; Michel and Shaked, 1986). If a firm engages in both domestic and foreign operations, the risk arising from political uncertainty could be diversified as long as the economic fluctuations of the home country and host country are not perfectly correlated. Previous research provides evidence that firms deliberately avoid political uncertainty and instability of home country through outward investment (See, e.g., Tallman, 1988; Le and Zak, 2006).

A cross-border acquisition is itself a risky investment and takes long to complete. If the acquirer intends to diversify the political uncertainty through acquisition, we expect such an acquisition to take place well before such uncertainty is resolved. Therefore, we focus on the year before the resolve of political uncertainty when we carry out the empirical analysis.

To test the above two hypotheses, we focus on the political uncertainty surrounding national elections and study cross-border M&A deals of 47 countries around their national elections between 2001 and 2010. As indicated in Rodrik (1991), it is difficult to attribute outcomes of corporate behavior to political uncertainty as the two are endogenously determined. For example, an economic downturn could generate a great deal of political uncertainty. In this paper, we study political uncertainty associated with national elections (see Bialkowski et al., 2008; Boutchkova et al., 2012; Julio and Yook, 2012). National elections, which are generally pre-determined in terms of timing by a country's laws but often random in terms of election outcomes and ensuing policy changes, provide us with an exogenous setting to examine political influence on cross-border M&A deals. Another reason that national elections make a good setting is that different countries have different

election times, which provides us with abundant variation in political uncertainty across countries and over time.

Our findings show that the number of cross-border M&A deals increases in the year before a national election. This result is robust to including factors that previous studies have shown to influence cross-border M&A (such as economic development, legal origin, quality of institutions and trade openness), sub-sample analysis which excludes deals originating from the US and UK, different model specifications and different measures of the volume of cross-border M&As. This effect is economically significant; relative to years without a forthcoming national election, the number of cross-border M&A deals is 14% higher in the year prior to a national election. In addition, there is no such effect in the year two years before a national election, the election year, or the year after a national election when the political uncertainty is much lower compared to the year before a national election. These results support the uncertainty-diversifying hypothesis that more firms choose to acquire foreign target when domestic political uncertainty is high.

We also examine whether our results could be explained by alternative explanations. Political uncertainty is not the only mechanism through which real outcomes can be affected around the timing of elections. One alternative explanation for our result is that the increase in cross-border M&A volume is a result of underlying economic forces. If this is true, we expect the volume of domestic M&A deals to increase in the year before a national election, as the better macroeconomic fundamental directly affect firms' domestic investment. However, our results show that there is no increase in the number of domestic M&A deals and the value of domestic deals is significantly lower during the year before a national election. Therefore, in the year prior to a national election, firms favor acquiring targets overseas rather than at home. This evidence further supports our uncertainty diversifying hypothesis.

We next investigate whether the effect of political uncertainty before national election varies across countries. We conjecture that the increases in the volume of cross-border M&As will be more pronounced in countries with a higher probability of

policy changes or a wider range of possible policy outcomes after the national election. We first compare elections in countries with a presidential system with those with a parliamentary system. As documented in Julio and Yook (2012), compared to parliamentary systems, presidential systems are associated with higher degree of checks and balances, which constrains national leader's decisions. Hence, larger policy swings are less likely to occur following a change in political power in presidential systems. We therefore expect that parliamentary systems will have a higher propensity for large policy swings, generating more outbound cross-border M&As relative to presidential systems. We also apply a direct measure of checks and balances obtained from the World Bank. This measure contains some time-series variation within countries, even though electoral rules and legal institutions are largely fixed over time. Thus, we expect that the increases of cross-border M&As to be more pronounced in countries with lower checks and balances. In addition, we expect that in countries with less protection of minority shareholder, firms are more likely to acquire foreign targets in the year before a national election. This is because that the level of shareholder protection is unlikely to change greatly after the transfer of political power, and higher level of shareholder protection limits the range of possible policy outcomes. Our results provide support to these hypotheses, i.e., the increase in the volume of cross-border M&As is greater in countries with fewer checks and balances, and shorter tenure of current system, parliamentary systems, civil law origin and lower level of minority shareholder protection.

Within countries, we hypothesis that the increase in outbound cross-border M&A deals will be larger when economic policies are more likely to change after national election. If incumbent leader is more likely to win than other competitors, old economic policies are expected to continue and hence less political uncertainty associated with economic policies in the next few years. On the other hand, if national leader is very likely to be replaced by a new one, new economic policy would be applied and its economic outcome is uncertainty. Therefore, we expect the year before elections with a high likelihood of reappointment of incumbent leader will be associated with less outbound cross-border M&As, and the year before elections with

a high likelihood of national leader change will be associated with more outbound cross-border M&As. While the degree of uncertainty prior to the election outcome is unobservable, we can observe the actual vote counts from the elections and use the results to classify elections as either reappointment of incumbent leader or appointment of a new leader. Accordingly, we set a "Reappointment" dummy to one if the winner is incumbent leader and the vote difference is greater than the first quartile value of the sample distribution and a "New leader" dummy to one if the winner is a new leader and the vote difference is greater than the first quartile value of the sample distribution, where vote difference is defined as the difference between the proportion of the votes garnered by the winner and that received by the runner-up. Our results support these expectations, providing further support for uncertainty diversifying hypothesis.

We also use bilateral data on M&As to test our hypothesis by forming pairs of acquirer country and target country. The results show that greater political uncertainty before national election in acquirer country is associated with greater number of bilateral M&A deals. This result continue to hold after controlling for difference in economic development, legal origination, quality of institutions and trade openness between acquirer nation and target nation as well as other determinants of bilateral country capital flow. Consistent with the country-level results, such an outcome only occurs in the year before a national election.

We next focus on acquirer's choice of target nation in the year before acquirer nation's national election. We expect that acquirers from countries with forthcoming elections will choose targets from countries with no elections in the year following the deal announcement; otherwise they would be exposed to both domestic and foreign political uncertainties at the same time. We test this hypothesis by separating our sample into two subsamples according to whether the target country has a national election in the year following the deal announcement year. Consistent with our expectation, the year just prior to the acquirer nation's national election only impose positive effect on cross-border M&As in the subsample whose targets are from countries with no national election in the following year.

The uncertainty diversifying hypothesis is also supported by deal level evidence. We find that the in the year before acquirer nation's national election, acquisitions are more likely to be cross-border. This result provides us an additional robustness test of the effect of political uncertainty before national election on cross-border M&As.

We last investigate the announcement returns of cross-border M&As. We test whether acquiring foreign targets one year before a national election creates more value for acquiring firms' shareholders in cross-border deals. We find that cross-border acquisitions generate greater announcement returns to the acquiring firms before the resolve of political uncertainty. On average, the three-day announcement returns for a cross-border acquisition in our sample is 56% higher in the year prior acquirer nation's election. And there is no such effect among domestic M&A deals. Our results imply that the market reacts favorably to cross-border investments for diversification of political uncertainty.

Our study makes two contributions to the literature. First, it presents evidence of an important link between political process and cross-border M&As by documenting new patterns of M&A around the world, namely, an increased tendency of cross-border M&As in the year before national election. This paper relates to a burgeoning literature on the determinants of cross-border mergers (see, e.g., Rossi and Volpin, 2004; Bris and Cabolis, 2008; Erel, Liao, and Weisbach, 2012; Ahern, Daminelli, and Fracassi, 2012). While most of these studies present cross-sectional determinants, we complement these papers by presenting time-series factors affecting firms' acquisition decisions. Second, this paper adds to the literature on the impact of political uncertainty on economic outcomes. Previous researches have studied the impact of politics on firms' investment expenditure (Julio and Yook, 2012, 2014; Liu, 2010), investment's sensitivity to stock price (Durnev, 2012), capital structure (Desai et al., 2004, 2008), stock price volatility (Pástor and Veronesi, 2012, 2013) and bond issuance (Gao and Qi, 2013). Our results shed light on the relation between politics and real economy by providing evidence that managers diversify political uncertainty in home country through outbound cross-border acquisitions.

The remainder of this paper proceeds as follows. Section 2 describes the election data set and the sample of M&A deals. In Section 3, we conduct country-level analysis of the cross-border M&A activity surrounding national election. In Section 4, we perform country-pair analysis using bilateral data on M&A transactions. Section 5 presents deal-level results. Section 6 concludes.

2. Data sample and descriptive statistics

2.1. Election data

We obtain the election information data from the World Bank Database of Political Institutions (DPI). Our country sample covers 47 out of the 49 countries in La Porta et al. (1998), except for Hong Kong and Jordan.[1] The sample includes 104 national elections held between 2001 and 2010 in these 47 countries. These national elections determined the national leaders of these countries, directly or indirectly. We identify the chief executive of each country using the same rule as in Julio and Yook (2012). As the supreme executive power is normally vested in the presidential office for a country with a presidential system, in our analysis we consider presidential elections for countries with presidential systems. For countries with parliamentary systems, we consider legislative elections, since the outcome of the legislative elections has the foremost influence over the appointment of the prime minister. For countries using a hybrid system, we select the election that determines the leader who exerts the greatest power over executive decisions, by examining how executive power is divided between the two leaders. Our sample thus ends up with 26 countries with legislative elections, 20 countries with presidential elections, and one country (Israel) with prime ministerial elections. Table 1 presents the classification of political systems and the number of elections for each of the 47 countries in our sample. Most of our sample countries held three elections between 2001 and 2010 and national elections are usually held once every four years.

[1] They are dropped as there are no national elections in Hong Kong and Jordan's political parties do not play a significant role as supporters of the king dominate both chambers.

2.2. M&A data

We first obtain information on all M&A deals announced between January 1, 2001 and December 31, 2010 from the Security Data Company's (SDC) Mergers and Corporate Transactions database. We focus on M&A deals of majority interest, i.e., where the acquirer owns less than 50% of the target's stock before the deal and more than 50% after the deal, and exclude LBOs, spin-offs, recapitalizations, self-tender offers, exchange offers, repurchases and privatizations from the sample. Following Rossi and Volpin (2004), we also excluded deals represent 1% in value. We end up with a sample of 62,113 deals with a total deal value of $6.3 trillion, 13,028 of which are cross-border deals with a total deal value of $1.7 trillion. 93.4% of these deals were completed within 180 days of the announcement.

Table 1 reports the number and value of all M&A deals as well as cross-border M&A deals by country of the acquirer firm from 2001 to 2010. The US and UK are two countries with the largest volume of total as well as cross-border M&A deals: 18,911 acquisition deals are done by US firms, and 2,606 of them are cross-border deals. 9,915 acquisition deals are done by UK firms, and 2,413 of them are cross-border deals. Still, other countries like Canada and Australia are also very active in cross-border acquisitions, and account for a significant portion of the total sample Table 2 presents the number of completed deals for each pair of acquirer country (columns) and target country (rows).

We collect a number of data items from SDC, including the acquirer's and target's names, the country of domicile and two-digit Standard Industrial Classification (SIC) code, deal value, as well as some other deal characteristics. We obtain stock return index (RI) from DataStream for acquirer firms and acquirer nation's market index to calculate acquirers' cumulative abnormal returns around deal announcement.

2.3. Country-level data

We obtain gross domestic product (GDP) per capita in US dollars and the annual GDP growth rate from World Development Indicator (WDI). Several indexes are from La Porta et al. (1998) measuring the degree of protection of minority shareholders: a common law origin dummy and antidirector rights index (shareholder protection). Following Bekaert et al. (2005), Bekaert et al. (2007) and Erel et al. (2012), we construct an index of a country's institutional quality based on the sum of subcomponents of the ICRG: corruption, law and order, and bureaucratic quality. To control for cultural similarity between the acquirer nation and the target nation, we obtain information about a country's region, language (English, Spanish, or Others), religion (Catholic, Muslim, Protestant, Buddhist, or Others) from Stulz and Williamson (2003).

[Insert Table 1 around here]

[Insert Table 2 around here]

3. Country-Level Analysis

As we are interested in the impact of political uncertainty before national elections, we focus on the year just prior to acquirer nation's national election. We first present the main results on whether the volume of cross-border M&As in the year before acquirer country's national election is different from other periods. We next investigate whether the relation varies by country characteristics.

3.1 Main results

Figure 1 presents some preliminary evidence that firms acquire more foreign targets in the year before national elections than in other periods. However, this unconditional analysis doesn't control for other factors that may affect cross-border acquisitions, such as economic development, trade openness and legal institutions. We formally test whether the volume of cross-border acquisitions differs in the year before national election in a parsimonious model as follows:

$$\text{Ln(Number of cross-border M\&A)}_{i,t} = \beta_0 + \beta_1 \text{One year before election}_{i,t} + \beta_2 X_{i,t} + \varepsilon_{i,t} \quad (1)$$

where the dependent variable is the natural logarithm of one plus the number of cross-border M&A deals with acquirers from country *i* in year *t.*[2] In the robustness test, we reestimate our main test using the logarithm of the value of cross-border deals as an alternative measure of the volume of cross-border M&As. Previous researches on cross-border M&As using the logarithm of deal number or value as the measure of volume includes Ahern et al. (2013), Huizinga and Voget (2009) and di Giovanni (2005). In our main tests, we use pooled OLS regression including only country-year observations with at least one cross-border deal. We estimate a Tobit censored regression model in the robustness checks to account for the truncation of observed merger activity at zero.

The year before national election is denoted by a dummy variable, *One year before election*, which equals one if year *t* is the year just prior to the year of the acquirer country *i*'s national election. We adjust the t-statistics for within-country correlation by clustering the standard errors at acquirer country level.

X denotes the control variables, including one-year lagged value of the dependent variable, the level of minority shareholder protection indicated by a common law dummy, ICRG measures of investment profile and institution quality, economic development proxied by the logarithm of GDP per capita and the GDP annual growth rate, and the trade-to-GDP ratio. The regression results are reported in Table 3.

[Insert Table 3 around here]

Column (1) of Table 3 shows that there is a significant increase in the volume of cross-border acquisitions in the year just prior to national elections in the acquirer nation. The magnitude of this effect is economically significant; compared to years without a forthcoming national election, the number of cross-border M&A deals is 14% higher in the year before a national election. This result supports the hypothesis that firms do more outbound cross-border acquisitions to diversify internationally before

[2] One may argue that it is more appropriate to use the ratio of cross-border M&A deals as the dependent variable, however, in the year before national election, domestic M&A may decrease as Julio and Yook (2012) have documented that firms reduce their investment before election, the ratio of cross-border deals could be high even if the acquisition of foreign targets doesn't increase. Our results continue to hold if we use the ratio.

the resolve of political uncertainty. In Column (2), we include dummies indicating other years surrounding national elections. The result shows that only one year before national election is associated with greater volume of outbound cross-border acquisitions whereas other years are not statistically significant.

In Columns (3) to (6), we reestimate our main specification by conducting different estimation methods. Column (3) reports the estimation result of a Tobit model taking into account that the dependent variable is above zero. The sample size increases to 470 country-year observations as the Tobit model also includes country-years with zero cross-border deal. Column (4) replaces the dependent variable with the logarithm of one plus the value of cross-border M&As. Consistent with the result reported in Column (1), result of Tobit model also shows an increase in the number volume of outbound cross-border M&As before election, and the value volume of outbound cross-border deals also increases in the year before national election. [3] In addition, we also test annual changes of the volume of cross-border M&As, using annual changes of both number and value volumes as dependent variables, as reported in Columns (5) and (6). The results show that the annual changes of the volume of cross-border deals also increases significantly before acquirer nation's election, proving further support for our main results.

[Insert Table 4 around here]

We also examine whether our results could be explained by alternative explanations. One alternative explanation is electoral business cycle. Incumbents, in order to maximize their probability of re-election, may manipulate fiscal and monetary policy instruments to influence the economic fundamental prior to an election. Thus, our results may be driven by the better macroeconomic fundamentals rather than political uncertainty. If this is true, we expect that the volume of domestic M&A deals to increase in the year before a national election, as the better macroeconomic fundamental directly affect firms' domestic investment. In Table 4,

[3] One might worry that our findings may be driven by firms from US and UK, as acquirers from these two countries constitutes a large portion of our sample. In unreported tables, we address this concern by excluding acquisitions where the acquirer firm is from either the US or UK, and the main result still hold.

we estimate the volume of domestic deals around the year before national election with four different measures of the volume of domestic deals. In Columns (1) and (2), we use the logarithm of one plus the number of domestic deals as the dependent variable. The result shows that there is no significant change in the number volume of domestic M&A deals before election. When we replace the volume measure of domestic deals as the logarithm of one plus the value of domestic deals, we find that the value volume is significantly lower in the year before national election. This is consistent with the phenomenon of investment reduction documented in Julio and Yook (2012). Columns (3) and (4) apply domestic ratio in terms of number and value respectively as alternative measures of domestic deals' volume, which is defined as the ratio of number or value of domestic deals to total number of domestic deals. The result shows that contrary to the prediction of electoral business cycle hypothesis, domestic ratio is lower in the year before national election. In Column (4), we replace the dependent variable as the domestic ratio calculated in terms of value, and find similar results. Therefore, these results deny the alternative explanation of electoral business cycle.

3.2 Country characteristics

According to the "uncertainty-diversifying" hypothesis, the increase in the volume of cross-border M&As would be more pronounced when the degree of political uncertainty regarding elections is higher. We test this prediction in this session. As discussed in the introduction, countries with parliamentary systems, lower degree of checks and balances, weaker protection of minority shareholder rights are expected to experience higher political uncertainty before elections. Therefore, the increase of outbound cross-border M&As before election is expected to be greater in these countries.

[Insert Table 5 around here]

To investigate these predictions, we first set a dummy variable taking a value of one if the political system is presidential system, and include the interaction of presidential system dummy with one year before election dummy. The results are

reported in Panel A of Table 5. The coefficient of the interaction term is not significant, while the coefficient of one year before election dummy is significantly positive. Consistent with our prediction, this result indicates that the parliamentary systems are associated greater volume of outbound cross-border deals before election.

We obtain measures of checks and balances from World Bank and interact it with one year before election dummy. The coefficient of this interaction is significantly negative, indicating the impact of the year before election on cross-border M&As is greater in countries with lower checks and balances.

To measure the protection level of minority shareholder's rights, we obtain common law dummy, antidirector rights and legal dummy from La Porta et al.(1998), and interact these three variables with one year before election dummy. As shown in Panel A of Table 5, the coefficients of the three interaction terms are all significantly negative. In other words, countries with lower level protection of minority shareholders' rights are associated with greater outbound cross-border M&As before election.

In sum, results in Panel A of Table 5 supports the prediction of "uncertainty diversifying" hypothesis that countries experiencing higher degree of political uncertainty before national election will have greater volume of outbound cross-border M&A transactions.

Within countries, the "uncertainty diversifying" hypothesis predicts that elections associated with higher degree of political uncertainty would induce more firms to acquire foreign targets. To test this prediction, we first set a "Reappointment" dummy to one if the winner is incumbent leader and the vote difference is greater than the first quartile value of the sample distribution and a "New leader" dummy to one if the winner is a new leader and the vote difference is greater than the first quartile value of the sample distribution, where vote difference is defined as the difference between the proportion of the votes garnered by the winner and that received by the runner-up. Then, we include the interaction between these two dummies with one year before election dummy in the regression. Panel B of Table 5 reports the results. Consistent with the prediction, elections that have a high likelihood of reappointing

incumbent leader is associated less outbound cross-border M&As before election, and election that are very likely to have a new leader is associated with more outbound cross-border M&As. These results provides further support for uncertainty diversifying hypothesis.

4. Country-Pairs Analysis

4.1 Country-pair level main results

Our data set allows us to test our hypotheses using bilateral M&A activity. We focus exclusively on cross-border M&As in the tests. The country-pair regression specification is

$$\text{Ln(Numbe of cross-border M\&A) pair}_{i,j,t} = \beta_0 + \beta_1 \text{One year before election}_{i,t} + \beta_2 X_{i,j,t} + \varepsilon_{i,j,t} \quad (2)$$

where the dependent variable is the logarithm of one plus the total number of cross-border deals in year *t* in which the acquirer is from country *i* and the target is from country *j* (where $i \neq j$). *One year before election* equals one if the deal announcement year is the year just prior to acquirer nation's election. The "uncertainty-diversification" hypothesis posits that the effect of *One year before election* (the $\beta 1$ coefficient) will be positive. Only country-pair-year observations with at least one cross-border deal are included. The other regressors (X) includes the difference in economic development, trade openness, legal origin and investor protection between country acquirer *i* and target country *j*, and dummy variables indicating same language, region and religion to control for proximity and familiarity motives in cross-border deals (Rossi and Volpin 2004; Ferreira et al., 2009; Erel, et al., 2012).

[Insert Table 6 around here]

Table 6 presents the results. As shown in Column (1), the coefficient of *one year before election* is significantly positive. The volume of cross-border deals between a country-pair is 2.1% higher in the year prior to acquirer nation's election relative to other periods. This evidence supports the "uncertainty-diversifying" hypothesis that

firms acquire more foreign targets to diversify the forthcoming political uncertainty. Specification in Colum (2) of Table 6 controls for other years around acquirer nation's election. There is some evidence of more M&A transactions between countries speaking the same language, and when target country has weaker investor protection than the acquirer country suggesting a convergence in governance standards, which is consistent with the findings in Rossi and Volpin (2004), Starks and Wei (2004) and Bris and Cabolis (2008).

In Columns (3) to (6), we do robustness checks by conducting different estimation methods. Column (3) reports the estimation result of a Tobit model taking into account that the dependent variable is above zero. Column (4) replaces the dependent variable with the logarithm of one plus the value of cross-border M&As between country pairs. Columns (5) and (6) test annual changes of the volume of cross-border M&As before acquirer nation's election. All the results of these robustness checks are consistent with main result reported in Column (1).

4.2 Target country choice

We next focus on acquirer's choice of target nation in the year before acquirer nation's national election. We expect that acquirers from countries with forthcoming elections will choose targets from countries with no elections in the year following the deal announcement. As shown in Column (1) of Table 1, most of the countries in our sample held three elections between 2001 and 2010 and the national election cycle is usually four-year and pre-determined by constitutional law. As such, multinational firms operating in two countries with overlapping national election cycle would encounter both domestic and foreign political uncertainties. It is important to examine whether the uncertainty diversifying hypothesis is applicable to the target country.

To test this prediction, we estimate specification (2) in two subsamples separated according to whether the target country has a national election in the year following the deal announcement. Columns (1) and (2) of Table 7 present the results. Consistent with our expectation, the year just prior to the acquirer nation's national election only has positive effect on cross-border M&As in the subsample whose targets are from

countries with no national election in the following year. In Column (3), we estimate the volume of cross-border M&As before target nation's election in the full sample. The result show that the country-pair volume of cross-border M&As is lower when target nation has a election following the deal announcement year. This indicates that acquirers avoid choosing targets from countries that will hold election in the following year where political uncertainty is high. In Column (4), we include an interaction between the dummy variable indicating the year before acquirer nation's election and that indicating the year before target nation's election (*One year before election* One year before target nation's election*). The result is in the spirit with Columns (1) and (2). When the target country is not in the year before its national election, the volume of incoming cross-border M&As from countries in the year before its national election is 3.4% significantly higher. While the volume of cross-border M&As is 6.9% lower when both the acquirer country and target country are followed by national elections. These results provide further support for the "uncertainty-diversifying" hypothesis.

[Insert Table 7 around here]

5. Deal-level analysis

In this section, we use deal-level data to investigate whether the year before national election affect outbound cross-border M&As.

5.1 Probability of cross-border M&As

We use a Logit regression to examine whether the high political uncertainty before national election makes it more likely that an M&A deal will be cross-border:

$$Logit(\text{Prob}(\text{Cross-borderdeal}_{i,t})) = \beta_0 + \beta_1 \text{One year before election}_{i,t} + \beta_2 X_{i,t} + \varepsilon_{i,t}, \quad (3)$$

where the dependent variable is a dummy variable that equals one if the M&A deal is cross-border and zero otherwise. The independent variable we are interested in is the dummy variable indicating the acquirer is from a country followed by a national election in the next year (*one year before election*). *X* denotes both country-pair level

and deal level control variables. The country-pair level control variables are the same as in the country-pair tests. Deal level control variables include a related deal dummy and the logarithm of deal value. Country, industry and year dummies are all controlled for.

Table 8 presents the results of the Logit regression. As shown in Column (1), the year before acquirer country's election positively and significantly affects the probability that a cross-border bid is made. In Column (2), we include other years around the acquirer country's election. The result is consistent with both country-level and country-pair level tests.

[Insert Table 8 around here]

5.2 Does uncertainty-diversifying firm create value?

In this section, we examine the announcement returns for outbound cross-border M&As before national elections. Our hypothesis suggests that investors favor cross-border acquisitions more in the year before domestic national election relative to other periods, if a cross-border M&A transaction helps the acquirer diversify political uncertainty associated with forthcoming election. Therefore, we examine whether acquirers of cross-border acquisitions earn higher abnormal returns on average in the year before election compared to other periods; and higher abnormal returns compared to acquirers of domestic M&As in the year before election.

[Insert Table 9 around here]

Table 9 presents the average acquirer announcement cumulative abnormal stock returns (CAR) in our sample of domestic and cross-border M&As in the year before election and other periods. We use acquirer CARs over a three-day event window (-1, +1) and an seven-day event window (-3, +3) around the deal announcement. The abnormal returns are estimated using market return as the benchmark. As shown in Table 9, the average three-day (seven-day) acquirer CARs of cross-border M&As is 6.1% (7.3%) in the year before national election, higher than that in other period which is 2.5% (3.2%). In the year before national election, both the three-day and

seven-day acquirer CARs of cross-border deals are higher than that of domestic deals which are 3% and 4.2% respectively.

We then examine our expectation by regressing the acquirer CARs of cross-border deals on the one year before election dummy. The estimation results are reported in Columns (1) and (2) of Table 10. We use the same list of control variables as used in Table 8. Consistent with the prediction, both CAR(-1,+1) and CAR(-3,+3) of cross-border deals are significant higher in the year before acquirer nation's election. One average, firms acquiring foreign targets in the year before acquirer nation's election earn 3.4% higher three-day or seven-day CARs compared to those in other periods.

[Insert Table 10 around here]

In Columns (3) and (4) of Table 10, we run full sample regression and include the interaction term between cross-border dummy and one year before acquirer nation's election dummy. The estimation results show that in the year before acquirer nation's election, acquirer firm of cross-border deals is associated with 5.0% higher three-day or seven-day CARs around deal announcement. Besides, the coefficient of one year before election dummy is negative and insignificant. This indicates that in the year before national election, doing domestic acquisitions doesn't get higher abnormal returns. These results imply that the stock market rewards firms acquiring foreign targets to diversify political uncertainty before domestic national elections.

6. Conclusions

Our study examines cross-border M&As around national elections. Firms are more likely to acquire foreign targets in the year before domestic national election. This tendency is stronger when the country is more likely to experience higher political uncertainty associated with forthcoming election. We also find that, prior to national elections, acquirers in cross-border M&A deals earn significantly higher announcement returns compared with other periods, while acquirers in domestic M&A deals do not. We conclude that firms diversify political uncertainty internationally before national election through cross-border M&As. This study

contributes to the research on cross-border M&As by showing that firms strategically time their cross-border acquisitions to diversify political uncertainty.

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Table 1 Summary statistics about the number of M&A deals and elections for each country

This table reports political system, election type, the number of elections, number and value of all deals, and number and value of cross-border deals by acquirer country from 2001 to 2010. A country is classified as presidential (parliamentary) if the president (prime minister) is chief of state and head of government.

	Basis of		Number of	All deals		Cross-border deals	
Country	Executive Legitimacy	Election type	Elections	Number	Value ($millions)	Number	Value ($millions)
Argentina(AR)	Presidential	Presidential	3	137	5,732	12	1,403
Australia(AU)	Parliamentary	Legislative	3	4,880	324,457	823	97,280
Austria(AS)	Parliamentary	Legislative	3	151	22,943	85	14,180
Belgium(BL)	Parliamentary	Legislative	3	311	42,246	168	25,887
Brazil(BR)	Presidential	Presidential	3	695	109,416	59	12,604
Canada(CA)	Parliamentary	Legislative	4	4,549	298,497	1,353	114,468
Chile(CE)	Presidential	Presidential	3	176	18,386	38	4,294
Colombia(CO)	Presidential	Presidential	3	85	17,626	18	1,569
Denmark(DN)	Parliamentary	Legislative	3	329	34,908	162	19,789
Ecuador(EC)	Presidential	Presidential	3	6	8	1	2
Egypt(EG)	Presidential	Presidential	1	27	2,759	6	586
Finland(FN)	Hybrid	Legislative	3	373	32,729	167	15,654
France(FR)	Hybrid	Presidential	2	1,547	290,090	528	126,442
Germany(DE)	Parliamentary	Legislative	3	1,094	199,341	491	87,778
Greece(GR)	Parliamentary	Legislative	3	162	12,028	33	4,048
India(IN)	Parliamentary	Legislative	2	969	58,608	306	22,414
Indonesia(ID)	Presidential	Presidential	2	282	17,655	19	1,904
Ireland-Rep(IR)	Parliamentary	Legislative	3	477	56,014	271	36,403
Israel(IS)	Parliamentary	Prime Ministerial	3	291	21,013	157	12,088
Italy(IT)	Parliamentary	Legislative	2	1,370	181,684	275	36,050
Japan(JP)	Parliamentary	Legislative	4	5,216	298,225	240	30,515
Kenya(KE)	Presidential	Presidential	2	7	276	2	11
Malaysia(MA)	Parliamentary	Legislative	2	1,458	60,536	181	16,791
Mexico(MX)	Presidential	Presidential	1	158	32,891	55	16,809
Netherlands(NT)	Parliamentary	Legislative	4	680	137,908	435	81,040
New Zealand(NZ)	Parliamentary	Legislative	4	429	22,025	99	9,780
Nigeria(NG)	Presidential	Presidential	3	23	2,469	1	6
Norway(NO)	Parliamentary	Legislative	2	586	61,872	230	28,875

Pakistan(PK)	Parliamentary	Legislative	2	9	1,292	2	16
Peru(PE)	Presidential	Presidential	2	56	3,501	12	718
Philippines(PH)	Presidential	Presidential	2	164	13,707	16	621
Portugal(PO)	Parliamentary	Legislative	4	223	20,605	59	6,039
Singapore(SG)	Parliamentary	Legislative	2	983	67,805	359	27,677
South Africa(SA)	Parliamentary	Legislative	2	380	37,006	82	8,384
South Korea(SK)	Hybrid	Presidential	2	1,326	99,296	92	13,110
Spain(SP)	Parliamentary	Legislative	3	1,240	181,394	343	60,732
Sri Lanka(SL)	Presidential	Presidential	2	34	223	0	0
Sweden(SW)	Parliamentary	Legislative	3	1,148	114,603	463	51,137
Switzerland(SZ)	Parliamentary	Legislative	3	401	93,975	270	73,913
Taiwan(TW)	Hybrid	Presidential	2	249	46,174	44	2,743
Thailand(TH)	Parliamentary	Legislative	3	374	22,502	36	5,134
Turkey(TK)	Parliamentary	Legislative	3	200	18,218	14	2,415
United Kingdom(UK)	Parliamentary	Legislative	2	9,915	836,889	2,413	293,147
United States(US)	Presidential	Presidential	2	18,911	2,387,231	2,606	415,977
Uruguay(UY)	Presidential	Presidential	2	2	5	0	0
Venezuela(VE)	Presidential	Presidential	1	24	6,386	0	0
Zimbabwe(ZW)	Presidential	Presidential	2	6	523	2	5
All Countries			121	62,113	6,313,678	13,028	1,780,438

Table 2 Number of M&A deals across country-pairs

This table reports the distribution of total number of M&A deals between acquirer country (columns) and target country (rows) from 2001-2010. Refer to Table 1 for full country names.

	Target nation																																														
Acquirer nation	AR	AU	AS	BL	BR	CA	CE	CO	DN	EC	EG	FN	FR	DE	GR	IN	ID	IR	IS	IT	JP	KE	MA	MX	NT	NZ	NG	NO	PK	PE	PH	PO	SG	SA	SK	SP	SL	SW	SZ	TW	TH	TK	UK	US	UY	VE	ZW	Total
Argentina	125				4	1	1	1												1					1											1								1	1			137
Australia	1	4057	1	9	9	53	13	2	3			4	8	26	1	10	8	2	3	8	6		9	2	5	163		3		3	2	2	24	25	4	13	1	5	2	4	2	2	127	258				4880
Austria	2	2	66	2	1	2			1			2	3	32		1		1		7				1	4								1	1		2		4	3			1	6	6				151
Belgium		3	1	143	1	2			1			1	46	16		4		1		13			1		17			1		1		4		1	1	6			6		1	3	19	16	1	1		311
Brazil	12				636	1	2	3		1			1	1						1	1			2	2			2		3		5										1	1	13	6	1		695
Canada	26	65		7	28	3196	18	14	2	2		5	18	19	2	4	1	2	3	2		1	4	72	11	8	1	2		36	2	3	2	10	2	6		13	5	2		4	75	870		5	1	4549
Chile	9				9	1	138	7	1	2														1						5						2									1			176
Colombia	1				2		2	67										1						3						3		1											1	4				85
Denmark		3		2	1	5			167			6	7	15	1	3		1		3	1			4	8			15		1		1	5		1	6		35	3				13	21		1		329
Ecuador										5																				1																		6
Egypt											21			1											1									1		2							1					27
Finland		3	3	1	2	3			10			206	7	19		3				6			1	1	8			19					1	1		1		40	2		1	1	14	19	1			373
France	6	11	1	24	22	11	4	1	6		4	5	1019	55	6	8	1	2	4	38	2	1	1	2	20	1		5				4	5	3	6	50		10	12	2	1	8	70	116				1547
Germany		15	17	11	8	8	2		11			8	59	603	1	10	2	4	2	16	10		4	3	22			12				4	5		3	27		30	27	3		4	76	87				1094
Greece	2			1		1					1		1	2	129					6	1				1		1	1						2		3						5	2	3				162
India	2	11	1	3	5	9	1	1	3		2	3	16	15		663	7	4	1	7	1	1	4	1	3	1		2				3	15	4	2	5	3	1	4		3	1	51	110				969
Indonesia		4															263						3										11											1				282
Ireland-Rep		4	2	3		4		1	3			3	7	12		1		206	1	1	1			2	12			1					1	1	1	3		6	2				135	64				477
Israel	1			2	2	6			1			2	11	15	2	1			134	5					1	1							1	1	1	3		1	4			1	14	81				291
Italy	3	7	6	7	6	2	2		2		1	1	37	27	2	6		4		1095	2			2	15			2				5	2	3		37		4	8			7	38	37				1370
Japan		16	2	5	8	5	1		3			1	7	11		8	13			1	4976		7			2		1			2		12	2	13	2		3	4	7	7	1	18	78				5216
Kenya											1											5																						1				7
Malaysia		16			1	2					1		1	5		11	35			3	4		1277		3						2		61	1	1		1		3	2	20	1	4	3				1458
Mexico	3				11		4	6		1						1								103				2		2														24	1			158
Netherlands		8	4	29	6	12		2	11		1	11	43	41	2	6	6	7		22	7		6	5	245	3	2	6	1		1	4	4	1	3	26		23	8			12	64	47		1		680
New Zealand		64		1		2	1						1	1						1			1	1	2	330	1												1		1		8	13				429
Nigeria																											22																	1				23
Norway		5		3	1	6	1		27			12	10	13		2		2		1	1				4			356		1		1	4		1	4		68	5			2	30	26				586
Pakistan																													7															2				9
Peru	1					3	2	2		1										1				1						44													1					56
Philippines		2			1																		5								148		2							1	1		1	3				164
Portugal		1			12								2	3	1			1		1				1				1				164				25						3	3	5				223
Singapore		39		5	3	5			2			1	5	6		15	56			1	11		70	1	5	10	1	2	1		15		624	2	5	1	1	2	4	11	32	1	21	25				983
South Africa	3	17	1	1	3	2			2				2										1		3	2				1			1	298	1					1		1	28	9			3	380
South Korea		8		1		4							1	3		4	7				9		2		1	1			2	1	1		2	2	1234					5	1	1	4	32				1326
Spain	23	4	2	5	26	2	11	6	2	1	1	6	37	17		3				27	1		1	22	6			2		5	1	34		3	2	897		4	4			2	33	45	3	2		1240
Sri Lanka																																					34											34
Sweden	2	10	2	5		9	2		57			52	23	38		2		5	1	7			2	3	16	1		68	1			1	3	5	3	13	1	685	9	2	2		61	56	1			1148
Switzerland	3	10	4	5	6	10		5	3	1		4	26	32		3	2	1		12	1		2		11	1		4	1	1		1	1	3	2	9		8	131			1	23	74				401
Taiwan						1			1			1	1	1			1		1		4			1	2								4		2					205	1		4	19				249
Thailand		4											1			2	3						4		1	2					4		8						1	1	338	1	2	2				374
Turkey		1	1										1	2			1		1						3																	186	1	3				200
United Kingdom	8	168	12	35	18	91	6	1	38		4	29	185	229	5	28	14	118	10	90	15	1	6	14	107	10		37	2	6	3	21	20	56	12	96	1	87	33	6	7	13	7502	765		1	5	9915
United States	35	143	13	32	58	518	22	8	27	1	4	22	165	216	3	49	5	34	57	66	63		8	68	75	28		24		10	16	4	24	4	34	68		56	40	25	5	10	560	16305	3	3		18911
Uruguay																																													2			2
Venezuela																																														24		24
Zimbabwe																																											1	1			4	6
Total	268	4701	139	342	890	3977	233	127	384	15	41	385	1751	1476	155	848	425	396	218	1442	5117	9	1419	316	615	564	28	568	15	124	197	262	843	430	1334	1308	42	1085	321	277	423	273	9012	19246	20	39	13	62113

Table 3 Effect of elections on outbound cross-border M&As: country-level analysis

This table presents estimates of the panel regressions of the volume of outbound cross-border of M&As by country and year. Columns (1) and (2) report the main results, where the dependent variable (Ln(Number of cross-border M&A)) is defined as the natural logarithm of one plus the number of outbound cross-border deals, and only country-year observations with at least one outbound cross-border M&A deal are included in the sample. Columns (3) to (6) report results of alternative estimation methods. Column (3) reports estimation result of Tobit regression model with logarithm of one plus the number of outbound cross-border deals as dependent variable. Column (4) uses the logarithm of one plus the value of outbound cross-border deals as dependent variable. Columns (5) (Column (6)) uses the annual change of logarithm of one plus number (value) of outbound cross-border deals as dependent variable. One year before election is a dummy variable, taking value of one if the observation year is the year just before acquirer nation's election year and otherwise zero. Refer to Appendix for variable definitions. The sample period is from 2001 to 2010. Year fixed effects are included in all regressions. Standard errors are corrected for the clustering of observations at the country level and year level, and associated t-statistics are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	Main results		Alternative estimation methods			
	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	Ln(Number of cross-border M&A)	Ln(Number of cross-border M&A)	Tobit	Ln(Value of cross-border M&A)	Annual change of Ln(Number of cross-border M&A)	Annual change of Ln(Value of cross-border M&A)
One year before election	0.137***	0.151***	0.198***	0.226*	0.179***	0.487**
	(2.97)	(2.77)	(2.68)	(1.78)	(2.93)	(2.30)
Two years before election		0.003				
		(0.06)				
Election year		-0.016				
		(-0.20)				
One year after election		0.077				
		(1.31)				
Lagged Dep.Variable	0.779***	0.782***	0.897***	0.439***		
	(19.51)	(19.46)	(19.96)	(6.78)		
Common law	0.219**	0.215**	0.082	0.565**	-0.052	-0.128
	(2.33)	(2.25)	(1.08)	(2.01)	(-1.19)	(-0.70)
GDP growth	0.121	0.102	0.114	-0.112	0.212	-0.413
	(0.86)	(0.67)	(0.47)	(-0.16)	(1.25)	(-0.52)
Ln(GDP per capita)	0.052	0.048	0.043	0.443**	-0.051	-0.097
	(1.18)	(1.06)	(0.56)	(2.27)	(-1.22)	(-0.82)
Investment profile	0.010	0.010	0.056**	0.128*	-0.026	-0.149*
	(0.51)	(0.52)	(2.46)	(1.92)	(-1.21)	(-1.79)
Quality of institutions	0.009	0.008	0.011	-0.016	-0.009	-0.023
	(0.49)	(0.47)	(0.57)	(-0.30)	(-0.62)	(-0.82)
Trade-to-GDP	-0.001	-0.000	0.000	-0.002**	0.000	0.000
	(-1.10)	(-1.01)	(0.14)	(-2.01)	(0.66)	(0.10)
Constant	0.103	0.113	-0.756	-2.061*	0.514*	2.073**
	(0.37)	(0.41)	(-1.56)	(-1.72)	(1.90)	(2.22)
Year	Yes	Yes	Yes	Yes	Yes	Yes
Observations	369	369	470	369	369	369
R-squared	0.895	0.896		0.662	0.266	0.174

Table 4 Country-level analysis of the effect of elections on domestic M&As: tests of alternative explanation

This table presents estimates of panel regressions of volume of domestic M&As by country and year. Dependent variables in Columns (1) and (2) are the natural logarithm of one plus number of domestic deals and natural logarithm of one plus value of domestic deals respectively. Dependent variable in Column (3) is Domestic ratio, which is defined as the ratio of number of domestic deals to total number of domestic deals and outbound cross-border deals, and Column (4) uses the domestic ratio calculated in term of value as dependent variable. One year before election is a dummy variable, taking value of one if the observation year is the year just before acquirer nation's election year and otherwise zero. Refer to Appendix for variable definitions. The sample period is from 2001 to 2010. Year fixed effects are included in all regressions. Standard errors are corrected for the clustering of observations at the country level and year level, and associated t-statistics are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)
VARIABLES	Ln(Number of domestic M&A)	Ln(Value of domestic M&A)	Domestic ratio	Domestic ratio in value
One year before election	-0.010	-0.187**	-0.050***	-0.050**
	(-0.21)	(-2.43)	(-3.23)	(-2.58)
Lagged Dep.Variable	0.904***	0.640***	0.306***	0.199***
	(42.68)	(8.80)	(3.50)	(2.66)
Common law	0.098	0.451**	0.036	0.012
	(1.45)	(2.11)	(1.12)	(0.33)
GDP growth	-0.346	-0.270	0.088	0.139
	(-1.09)	(-0.58)	(0.54)	(0.86)
Ln(GDP per capita)	0.048	0.307***	0.005	-0.006
	(0.85)	(2.64)	(0.27)	(-0.30)
Investment profile	-0.014	0.067***	-0.003	0.001
	(-0.60)	(2.68)	(-0.30)	(0.07)
Quality of institutions	-0.014	-0.072	-0.022**	-0.026**
	(-0.74)	(-1.40)	(-2.18)	(-2.05)
Trade-to-GDP	-0.000	-0.002*	-0.000	-0.000
	(-1.07)	(-1.86)	(-1.63)	(-1.30)
Constant	0.065	0.045	0.786***	0.837***
	(0.23)	(0.06)	(6.06)	(5.52)
Year	Yes	Yes	Yes	Yes
Observations	430	430	436	436
R-squared	0.920	0.700	0.395	0.304

Table 5 Country-level analysis of the effect of elections on outbound cross-border M&As: variance across countries and elections

This table presents estimation results of specifications with interaction between the dummy of One year before election and country or election characteristics. The dependent variable is the natural logarithm of one plus the number of outbound cross-border deals. Only country-year observations with at least one outbound cross-border M&A deal are included in the sample. One year before election is a dummy variable, taking value of one if the observation year is the year just before acquirer nation's election year and otherwise zero. Presidential system is a dummy variable equal to one if the type of election is presidential, and zero otherwise. Checks and balances is the number of veto players in a political system taken from the World Bank Database of Political Institutions. Common law is a dummy variable equal to one if acquirer nation is a common law country, and zero otherwise. Antidirector rights is an index of shareholder protection obtained from La Porta et al.(1998). Legal is a product of the antidirector rights index and the rule of law index obtained from La Porta et al.(1998). Re-appointment is a dummy variable taking value of one if the winner is incumbent leader and the vote difference is greater than the first quartile value of the sample distribution, and zero otherwise; and New leader is a dummy variable taking value of one if the winner is a new leader and the vote difference is greater than the first quartile value of the sample distribution, and zero otherwise. Vote difference is defined as the difference between the proportion of the votes garnered by the winner and that received by the runner-up. Refer to Appendix for variable definitions. The sample period is from 2001 to 2010. Year fixed effects are included in all regressions. Standard errors are corrected for the clustering of observations at the country level and year level, and associated t-statistics are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	One year before election	Country/Election characteristics	One year before election ×Country/Election characteristics	Observations	R-squared
Panel A: Country characteristics					
Presidential system	0.098*	-0.059	0.181	369	0.892
	(1.73)	(-0.64)	(1.04)		
Checks	0.364***	0.019	-0.055***	369	0.892
	(4.64)	(1.41)	(-3.38)		
Common law	0.267***	0.322***	-0.380***	369	0.899
	(3.47)	(3.23)	(-3.17)		
Antidirector rights	0.392***	0.073***	-0.081***	369	0.894
	(4.05)	(2.59)	(-2.93)		
Legal	0.330***	0.010***	-0.008**	369	0.896
	(2.82)	(3.01)	(-2.11)		
Panel B: Election characteristics					
Re-appointment	0.224***		-0.170*	369	0.892
	(2.94)		(-1.77)		
New leader	0.049		0.366**	369	0.895
	(1.10)		(2.34)		

Table 6 Country-pair analysis of the effect of elections on outbound cross-border M&As: country-pair-level evidence

This table presents estimates of the panel regressions of the volume of cross-border M&As by country-pair and year. Columns (1) and (2) report the main results, where the dependent variable is natural logarithm of one plus the number of cross-border deals between acquirer country *i* and target country *j*, and only country-pair-year observations with at least one cross-border M&A deal are included in the sample. One year before election is a dummy variable, taking value of one if the observation year is the year just before acquirer nation's election year and otherwise zero. Columns (3) to (6) report results of alternative estimation methods. Column (3) reports estimation result of Tobit regression model with logarithm of one plus the number of cross-border deals between country pair as dependent variable. Column (4) uses the logarithm of one plus the value of cross-border deals between country pair as dependent variable. Columns (5) (Column (6)) uses the annual change of logarithm of one plus number (value) of cross-border deals between country pair as dependent variable. Refer to Appendix for variable definitions. The sample period is from 2001 to 2010. Year fixed effects are included in all regressions. Standard errors are corrected for the clustering of observations at the country-pair level and year level, and associated t-statistics are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	Main result		Alternative estimation methods			
	(1)	(2)	(3)	(4)	(5)	(6)
	Ln(Number of cross-border M&A) pair	Ln(Number of cross-border M&A) pair	Tobit	Ln(Value of cross-border M&A) pair	Annual change of Ln(Number of cross-border M&A) pair	Annual change of Ln(Value of cross-border M&A) pair
One year before election	0.021**	0.025**	0.046*	0.078**	0.050***	0.236***
	(1.98)	(2.16)	(1.76)	(2.201)	(2.884)	(5.404)
Two years before election		0.002				
		(0.09)				
Election year		0.006				
		(0.22)				
One year after election		0.004				
		(0.19)				
Lagged Dep. Variable	0.546***	0.546***	1.416***	0.302***		
	(18.20)	(18.18)	(54.53)	(10.768)		
Common law i-j	0.018	0.018	0.098***	0.077	-0.022	-0.054
	(1.02)	(1.01)	(3.51)	(1.425)	(-0.434)	(-0.254)
GDP growth i-j	0.048	0.047	-0.070	-0.161	0.088	0.023
	(0.53)	(0.52)	(-0.91)	(-0.435)	(0.587)	(0.041)
Ln(GDP per capita) i-j	-0.005	-0.005	0.026	-0.001	-0.010	-0.010
	(-0.54)	(-0.55)	(1.52)	(-0.032)	(-0.462)	(-0.124)
Investment profile i-j	-0.011**	-0.011**	0.006	-0.003	0.005	0.047
	(-2.18)	(-2.13)	(0.87)	(-0.104)	(0.583)	(1.114)
Quality of institutions i-j	0.008***	0.008***	0.011*	-0.028	0.008	-0.005
	(2.92)	(2.88)	(1.75)	(-1.636)	(1.286)	(-0.148)
Trade-to-GDP i-j	0.000	0.000	-0.000	0.000	-0.000	-0.000
	(0.89)	(0.91)	(-0.25)	(0.209)	(-0.061)	(-0.161)
Same region	0.014	0.014	0.486***	0.118	-0.101**	-0.516***
	(0.68)	(0.68)	(13.58)	(1.388)	(-2.467)	(-3.005)
Same language	0.158***	0.158***	-0.012	0.265*	-0.128***	-0.613***
	(3.47)	(3.47)	(-0.20)	(1.846)	(-2.699)	(-2.972)
Same religion	-0.024	-0.024	0.147***	-0.009	-0.063**	-0.227*
	(-1.11)	(-1.10)	(4.19)	(-0.113)	(-2.283)	(-1.708)
Constant	0.596***	0.592***	-1.398***	3.253***	0.160***	0.938***
	(17.78)	(15.69)	(-29.22)	(25.406)	(6.303)	(9.939)
Year	Yes	Yes	Yes			
Observations	3,474	3,474	21,620	3,474	3,474	3,474
R-squared	0.631	0.631		0.231	0.067	0.049

Table 7 Country-pair analysis of the effect of elections on outbound cross-border M&As: target country's election
This table presents estimates of the panel regressions of the volume of outbound cross-border M&As of countries followed with national election to countries with/without national election in the following year. The dependent variable is natural logarithm of the number of cross-border deals between country pair, and only country-pair-year observations with at least one cross-border M&A deal are included in the sample. One year before election is a dummy variable, taking value of one if the observation year is the year just before acquirer nation's election year and otherwise zero. One year before target nation's election year is a dummy variable, taking value of one if the observation year is the year just before target nation's election year and otherwise zero. Columns (1) and (2) present estimates of two subsamples classified according to whether the target nation has a national election in the year following deal announcement. Column (3) presents regression result of the volume of cross-border M&As around the year before target nation's election year. Column (4) presents the estimation result of the full sample including the interaction term between the two dummies indicating the year before acquirer and target nation's election. Refer to Appendix for variable definitions. The sample period is from 2001 to 2010. Year fixed effects are included in all regressions. Standard errors are corrected for the clustering of observations at the country-pair level and year level, and associated t-statistics are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1) Target nation has no election in the following year	(2) Target nation has an election in the following year	(3) Full sample	(4) Full sample
One year before election	0.034**	-0.022		0.034*
	(2.01)	(-0.62)		(1.95)
One year before target nation's election			-0.022*	-0.003
			(-1.84)	(-0.18)
One year before election ×One year before target nation's election				-0.069*
				(-1.85)
Lagged Dep.Variable	0.549***	0.528***	0.361***	0.361***
	(19.46)	(12.34)	(24.49)	(24.74)
Common law $_{i-j}$	0.013	0.059*	0.011	0.011
	(0.68)	(1.73)	(0.73)	(0.77)
GDP growth $_{i-j}$	0.062	0.041	0.037	0.039
	(1.06)	(0.27)	(0.58)	(0.62)
Ln(GDP per capita) $_{i-j}$	-0.004	-0.006	-0.004	-0.004
	(-0.45)	(-0.38)	(-0.44)	(-0.47)
Investment profile $_{i-j}$	-0.011**	-0.002	-0.006	-0.006
	(-2.36)	(-0.25)	(-1.40)	(-1.36)
Quality of institutions $_{i-j}$	0.007**	0.007	0.005**	0.005**
	(2.18)	(1.40)	(2.19)	(2.18)
Trade-to-GDP $_{i-j}$	0.000	-0.000	0.000*	0.000
	(0.96)	(-1.41)	(1.74)	(1.63)
Same region	0.024	0.011	0.035**	0.035**
	(1.22)	(0.39)	(2.22)	(2.30)
Same language	0.162***	0.151**	0.012	0.012
	(3.30)	(2.24)	(0.47)	(0.45)
Same religion	-0.020	-0.028	0.002	0.002
	(-0.77)	(-1.18)	(0.13)	(0.13)
Constant	0.687***	0.614***	0.726***	0.717***
	(23.70)	(22.50)	(45.72)	(41.70)
Year	Yes	Yes	yes	yes
Observations	2,531	943	3,474	3,474
R-squared	0.641	0.613	0.517	0.518

Table 8 Deal-level analysis of the probability of doing a outbound cross-border M&A
This table presents the estimates of a deal-level logistic model on the likelihood of a deal being cross-border, where the dependent variable is cross-border deal dummy taking value of one if the acquisition is a cross-border deal. One year before election is a dummy variable, taking value of one if the observation year is the year just before acquirer nation's election year and otherwise zero. Refer to Appendix for variable definitions. The sample period is from 2001 to 2010. Acquirer and target country, industry and year fixed effects are included in all regressions. Standard errors are corrected for the clustering of observations at the country-pair level and year level, and associated t-statistics are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1) Cross-border deal	(2) Cross-border deal
One year before election	0.0830***	0.117**
	(2.95)	(2.39)
Two year before election		0.0361
		(1.07)
Election year		0.0443
		(0.97)
One year after election		0.0226
		(0.57)
Common law $_{i-j}$	6.623**	6.639**
	(2.50)	(2.50)
GDP growth $_{i-j}$	-0.428	-0.421
	(-0.56)	(-0.55)
Ln(GDP per capita) $_{i-j}$	1.147***	1.154***
	(2.58)	(2.59)
Investment profile $_{i-j}$	0.0235	0.0231
	(0.22)	(0.21)
Quality of institutions $_{i-j}$	0.173**	0.172**
	(2.10)	(2.09)
Trade-to-GDP $_{i-j}$	0.00540	0.00548
	(0.79)	(0.80)
Related deals	-0.0931***	-0.0937***
	(-2.88)	(-2.90)
Ln(deal value)	0.190***	0.190***
	(13.87)	(13.86)
Constant	-2.841**	-2.878**
	(-2.18)	(-2.20)
Acquirer SIC/ Target SIC	Yes	Yes
Acquirer country/ Target country	Yes	Yes
Year	Yes	Yes
Observations	61909	61909
Pseudo R-squared	0.223	0.223

Table 9 Summary statistics of cumulative abnormal returns (CAR) around deal announcements

This table presents mean, median, standard deviation of cumulative abnormal returns (CAR) around cross-border M&A deal announcements using (−1, +1) and (−3, +3) event windows for two subsamples classified according to whether the deal is announced in the year just before acquirer nation's election year. Daily abnormal returns in US dollars are measured relative to the market return. Panel A presents summary statistics of cross-border M&A deals, and Panel B presents that of domestic M&A deals.

	Deals announced in the year before a national election			Deals announced in years not followed with a national election		
	mean	Median	std deviation	mean	median	std deviation
Panel A: Cross-border M&As						
CAR(-1,+1)	0.061	0.007	1.035	0.025	0.005	0.321
CAR(-3,+3)	0.073	0.010	1.052	0.032	0.009	0.342
Panel B: Domestic M&As						
CAR(-1,+1)	0.030	0.005	0.208	0.070	0.006	3.011
CAR(-3,+3)	0.042	0.009	0.242	0.098	0.009	3.247

Table 10 Deal-level analysis of the cumulative abnormal returns (CARs) around M&A announcements

This table presents estimation results of the impact of the year before election on acquirer's CAR around deal announcements. CAR(-1,+1) and CAR(-3,+3) are cumulative abnormal returns of (−1, +1) and (−3, +3) event windows around deal announcement. Daily abnormal returns in US dollars are measured relative to the market return. Column (1) and (2) only include cross-border deals, and Column (3) and (4) include all deals. Refer to Appendix for variable definitions. The sample period is from 2001 to 2010. Dummies for acquirer country, target country, acquirer two-digit SIC code, target two-digit SIC code and year are included in all regressions. Standard errors are corrected for the clustering of observations at the country-pair level and year level, and associated t-statistics are reported in parentheses. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	Cross-border deals		All deals	
	(1)	(2)	(3)	(4)
	CAR(-1,+1)	CAR(-3,+3)	CAR(-1,+1)	CAR(-3,+3)
One year before election	0.034**	0.034*	-0.018	-0.020
	(2.07)	(1.98)	(-1.53)	(-1.53)
One year before election ×Cross-border deal			0.050*	0.050**
			(2.02)	(2.03)
Cross-border deal			0.010	0.014
			(0.74)	(0.91)
Common law $_{i-j}$	-0.108	-0.127	0.534	0.403
	(-0.68)	(-0.58)	(1.30)	(1.14)
GDP growth $_{i-j}$	0.041	0.057	-0.009	0.005
	(0.52)	(0.64)	(-0.07)	(0.03)
Ln(GDP per capita) $_{i-j}$	-0.057	-0.062	-0.061	-0.067
	(-0.59)	(-0.55)	(-0.68)	(-0.62)
Investment profile $_{i-j}$	-0.007	-0.005	-0.011	-0.010
	(-0.97)	(-0.80)	(-1.66)	(-1.43)
Quality of institutions $_{i-j}$	-0.012	-0.013	-0.018	-0.018
	(-1.47)	(-1.54)	(-1.58)	(-1.44)
Trade-to-GDP $_{i-j}$	-0.000	-0.000	-0.001	-0.000
	(-0.79)	(-0.16)	(-1.05)	(-0.60)
Related deals	0.000	0.000	0.008*	0.016***
	(0.00)	(0.06)	(1.95)	(2.88)
Acquirer Size	-0.019**	-0.023**	-0.046**	-0.052**
	(-2.58)	(-2.62)	(-2.16)	(-2.26)
Target public firm	0.008	0.001	-0.024	-0.030*
	(0.73)	(0.15)	(-1.41)	(-1.83)
Ln(deal value)	0.003	0.006***	0.014*	0.015**
	(1.61)	(3.28)	(1.94)	(2.08)
Constant	0.227*	0.287**	0.478***	0.517***
	(1.83)	(2.25)	(2.92)	(2.88)
Acquirer SIC/ Target SIC	Yes	Yes	Yes	Yes
Acquirer country/ Target country	Yes	Yes	Yes	Yes
Year	Yes	Yes	Yes	Yes
N	6519	6519	26393	26384
R-squared	0.071	0.074	0.007	0.008

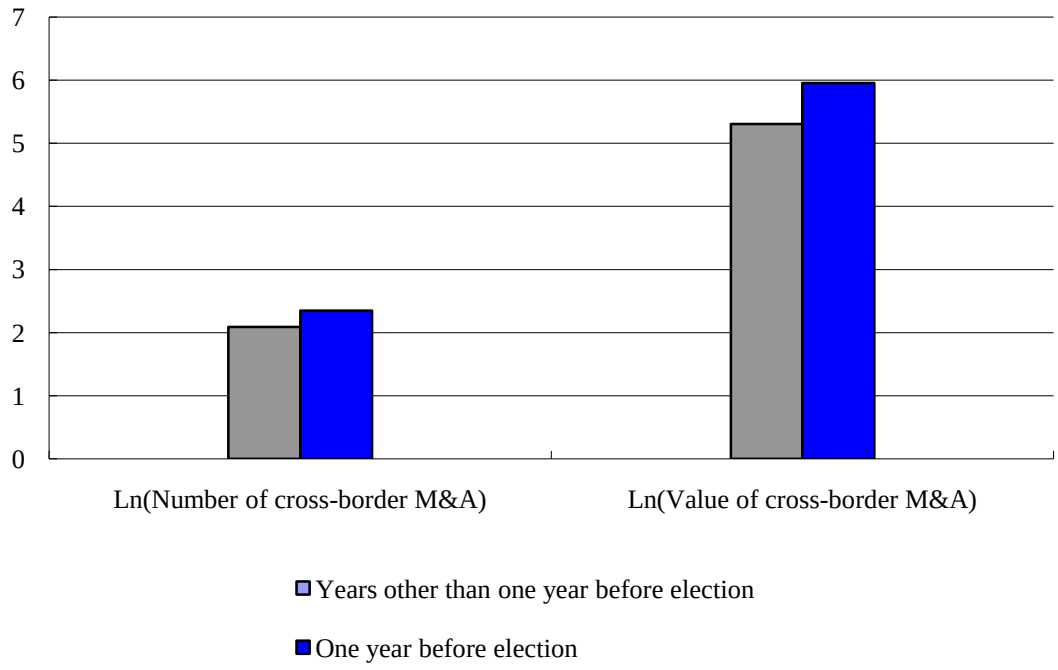

Figure 1
This figure presents the average logarithm of the number and value of cross-border M&A transactions for two groups classified according to whether the deal is announced in the year just before acquirer nation's election.

Appendix: Description of variables and data sources

Variable	Description and data sources
	Panel A: election variables
One year before election	Dummy variable taking a value of one when year t is the year just prior to an election year for the corresponding acquirer country (DPI).
Two years before election	Dummy variable taking a value of one when year t is the year two years before an election year for the corresponding acquirer country (DPI).
Election year	Dummy variable taking a value of one when year t is an election year for the corresponding acquirer country (DPI).
One year after election	Dummy variable taking a value of one when year t is one year after an election year for the corresponding acquirer country (DPI).
One year before target nation's election	Dummy variable taking a value of one when year t is the year just prior to an election year for the corresponding target country (DPI).
Presidential system	Dummy variable taking value of one if the type of election is presidential, and zero otherwise (DPI).
Re-appointment	Dummy variable taking value of one if the winner is incumbent leader and the vote difference is greater than the first quartile value of the sample distribution, and zero otherwise. Vote difference is defined as the difference between the proportion of the votes garnered by the winner and that received by the runner-up (DPI).
New leader	Dummy variable taking value of one if the winner is a new leader and the vote difference is greater than the first quartile value of the sample distribution, and zero otherwise. Vote difference is defined as the difference between the proportion of the votes garnered by the winner and that received by the runner-up (DPI).
	Panel B: Country-level variables
Ln(Number of domestic M&A)	Ln(1＋the total number of domestic deals in year *t* (*Xit*) in which the acquirer and target are both from country *i*) (SDC).
Ln(Value of domestic M&A)	Ln(1＋the total value of domestic deals in year *t* (*Xit)* in which the acquirer and target are both from country *i*) (SDC).
Ln(Number of cross-border M&A)	Natural logarithm of one plus the total number of cross-border deals in year *t (Xit)* in which the acquirer is from country *i* (SDC).
Ln(Value of cross-border M&A)	Natural logarithm of one plus the total value of cross-border deals in year *t (Xit)* in which the acquirer is from country *i* (SDC).
Domestic ratio	The ratio of number of domestic deals to total number of domestic deals and outbound cross-border deals

	(SDC).
Domestic ratio in value	The ratio of value of domestic deals to total value of domestic deals and outbound cross-border deals (SDC).
GDP growth	Growth rate of gross domestic product in US dollars (WDI).
Ln(GDP per capita)	Gross domestic product per capita in US dollars (WDI).
Common law	Equals one if the origin of the company law in the country is the English common law and zero otherwise (La Porta et al., 1998).
Investment profile	ICRG Political Risk (ICRGP) subcomponent. It is a measure of the government's attitude toward inward investment, and is determined by Political Risk Service's assessment of three subcomponents: (i) risk of expropriation or contract viability; (ii) payment delays; and (iii) repatriation of profits. Each subcomponent is scored on a scale from zero (very high risk) to four (very low risk).
Quality of institutions	The sum of the International Country Risk Guide (ICRG) Political Risk (ICRGP) subcomponents—corruption, law and order, and bureaucratic quality—between acquirer nation i and target nation j (Bekaert et al., 2005).
Trade-to-GDP	Sum of imports and exports as a percentage of GDP (WDI)
Checks and balances	The number of veto players in a political system (World Bank).
Tenure of current system	The tenure of current political system (DPI).
Antidirector rights	Index of shareholder protection (La Porta et al., 1998)
Legal	Product of the antidirector rights index and the rule of law index (La Porta et al., 1998).
	Panel C: Country-pair-level variables
Ln(Number of cross-border M&A) pair	Natural logarithm of one plus the total number of cross-border deals in year *t* (*Xijt*) in which the acquirer is from country *i* and the target is from country *j* (where $i \neq j$) (SDC).
Ln(Value of cross-border M&A) pair	Natural logarithm of one plus the total value of cross-border deals in year *t* (*Xjit*) in which the acquirer is from country *i* and the target is from country *j* (where $i \neq j$) (SDC).
GDP growth$_{i-j}$	Difference in GDP growth between acquirer nation *i* and target nation *j*. Refer to Panel B for the definition of GDP growth.
Ln(GDP per capita)$_{i-j}$	Difference in Ln(GDP per capita) between acquirer nation nation *i* and target nation *j*. Refer to Panel B for the definition of Ln(GDP per capita).
Common law$_{i-j}$	Difference in the common law dummy between acquirer nation *i* and target nation *j*. Refer to Panel B for the definition of common law.
Investment profile	Difference in Investment profile between acquirer nation i and target nation j. Refer to Panel B for the definition of Investment profile.
Quality of institutions$_{i-j}$	Difference in Quality of institutions between acquirer nation i and target nation j. Refer to Panel B for the definition of Quality of institutions.

Trade-to-GDP $_{i-j}$	Difference in Trade-to-GDP between acquirer nation i and target nation j. Refer to Panel B for the definition of Trade-to-GDP.
Same region	Dummy variable taking a value of one when the target and acquirer countries are from the same region, and zero otherwise (World Factbook).
Same language	Dummy variable taking a value of one when the target and acquirer countries share the same official language, and zero otherwise (World Factbook).
Same religion	Dummy variable taking a value of one when the target and acquirer countries' primary religion (Protestant, Catholic, Muslim, Buddhist, or Others) are the same (Stulz and Williamson, 2003).
	Panel D: Deal-level variables
Cross-border deal	Dummy variable taking a value of one when the acquisition is a cross-border deal, and zero otherwise (SDC).
CAR(-1,+1), CAR(-3,+3)	CAR(-1,+1) and CAR(-3,+3) are cumulative abnormal returns (CARs) of listed acquirers during the event windows (-1,+1) and (-5,+5) respectively, where event day 0 is the deal announcement date (SDC and Datastream).
Related deal	Dummy variable taking a value of one if the deal includes a related transaction, and zero otherwise. A deal is defined as "related" when 2 or more deals exist which cause or effect each other including, but not limited to, competing bids, divestitures or seeking buyers connected with a merger, defensive transactions, stakes before acquisitions and 2 or more deals having a combined total value (SDC).
Cash	Dummy variable taking a value of one when more than 50% of the deal value is paid in cash (stock), and zero otherwise (SDC).
Intraindustry	Dummy variable taking a value of one when the acquirer and target are from the same 2-digit SIC industries (SDC).
Ln(deal value)	Natural logarithm of the deal's total value (SDC).
Acquirer size	Natural logarithm of acquirer firm's asset size (SDC).
Target public firm	Dummy variable taking value of if target firm is a public firm, and zero otherwise (SDC).
	Other variables
Annual change of *VARIABLE*	Annual change of corresponding *VARIABLE*, i.e., the value of *VARIABLE*'s value in year t minus that in year t-1.
Lagged *Dep. Var*	One year lagged value of corresponding dependent variable in the regression.