The Wealth Effects of Government Investment in Publicly Traded Firms

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Abstract

Utilizing a sample spanning 68 different countries from 1988-2011, I study 1,809 government equity investments in publicly traded firms and analyze the shareholder wealth effects associated with different types of government investors given varying levels of political interference. Prior literature suggests that government political goals conflict with shareholder wealth maximization thus harming firm valuation. But government ownership could benefit firms by reducing default probability and offering a certification effect, as well as by providing easier access to financing and privileged access to contracts. I find that target stock prices react positively to announcements of foreign government investments and investments by government's economic and financial arms, they are negative for announcements of domestic government investments and investments by government political arms. Firms react more positively to purchases by governments with low risk of expropriation and by right-wing governments. These results indicate that government investment associated with a higher level of political interference has a negative influence of shareholder wealth, while the opposite is true for government investment that follows economic or financial objectives. Finally, I show that majority stake purchases by governments are associated with a positive target acquisition reaction.

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Since the early 1980s, governments around the world have received US$3.1 trillion from the sale of business assets through privatizations, but they have also simultaneously invested US$2.9 trillion, as they initiated or increased stakes in firms.[1] Numerous studies have recorded positive effects of privatizations on firm returns, efficiency, profitability, dividend payout, leverage, and better alignment of shareholder and manager goals.[2] Therefore, it is puzzling why government ownership persists and while governments are becoming an increasing important class of investors, little is known about different types of government investors. Since privatizations are mainly administered by central governments, prior literature is unable to explain how other government owners, such as local governments, government financial institutions and state owned enterprises (SOEs) influence firms under their control. In this paper, I examine government *investment* in publicly traded companies and assess the shareholder announcement reaction for acquisitions by various types of government investors.

Government investments can offer several important benefits, such as providing favorable financing and certification of a firm's vitality. Acharya and Kulkarni (2012) indicate that Indian public sector banks outperformed other, even less risky, private sector banks during and after the 2008 financial crisis due to their explicit and implicit government backing. Borisova, Fotak, Holland, and Megginson (2012) show that firms with government ownership enjoy a lower cost of debt during distress times, also due to an implicit government guarantee. Houston, Jiang, Lin, and Ma (2011) confirm that US firm's political connections reduce borrowing costs and increase firm value. Politically connected firms are in general more likely to receive funding and bailouts (Faccio, Masulis, and McConnel, 2006; Duchin and Sosyura, 2012). Kottler and Lel (2011) note a more direct channel through which government ownership increases the firm's survival chances, by being the lender of last resort. Overall, the certification effect and better financing terms provided by government investment are beneficial for target firms. Additionally, government investment is likely to be followed by additional contracts, as well as possibly preferential regulatory, tax and policy (i.e. environmental) treatment and subsidies to facilitate growth. Faccio (2006) shows that politically connected firms, those whose officers are political affiliates, enjoy these benefits and exhibit positive stock reactions around the announcement of their officers or large shareholders entering politics. These effects along with cheaper financing should be associated with an increase in shareholder wealth and a positive announcement reaction around government acquisitions.

[1] Appendix 2 shows overall government investment from the Thomson Reuters SDC Platinum M&A database.
[2] Early fundamental studies that point to the superiority of private ownership include: Eckel, Eckel, Singal (1997), D'Souza, Megginson (1999), Megginson, Nash, Randenborgh (1994), Shleifer (1994). More recent privatization literature is summarized in surveys by Megginson, Netter (2001), and Estrin, Hanousek ,Kocenda, Svejnar, (2009).

However, government ownership can also have deleterious effects, as governments typically carry not only economic, but also social and political goals (Shleifer, 1998), which often conflict with profit maximization goals in firms. Government ownership is associated with poor management, inferior efficiency and reduced profitability in the privatization literature, as firm performance improves after privatizations (Megginson and Netter, 2001). Governments may also influence laws and enforcement to reduce constraints and penalties associated with tunneling. Shleifer (1998) notes that, besides pursuing political and social goals, state entities often strive to increase government officials' personal incomes. Such negative effects of government ownership should lead to a negative reaction to announcements of government investment.

Between the pernicious effects of government ownership due to tunneling, political goal imposition, and poor management associated with lower efficiency and profitability recorded in the privatization literature, and the positive effects of government ownership due to the certification effect, cheaper financing, beneficial regulation, and additional contracts, the influence of government investors on shareholder wealth is a matter of empirical investigation. The benefit of examining this relationship in a setting involving government purchases of listed firms' stock, as opposed to divestments of state-owned shares, is two-fold.

First, government investments could provide a less contaminated ground for the investigation of government ownership effects, as privatizations are often concurrent with periods of sweeping regulatory, political and often firm-restructuring changes which could influence firm performance without privatization. For example, Dinc and Gupta (2011) show that profitable firms are more likely to be privatized early and Dewenter and Malatesta (2001) indicate that governments effectively restructure some of the firms before privatization and find little evidence of later profitability enhancements. [3] On the other hand, firm structure typically stays the same after government investment. This can be easily illustrated through several examples.[4] In the May 2012 acquisition of the U.K. cereal maker Weetabix, the Chinese government-owned acquirer, Bright Foods Group, announced its intendtion to keep the current and efficient management, retain the infrastructure and technology, including retail-distribution channels in the U.S., Canada and Italy, as well as strive by adding growth in Asia. In the July 2012 acquisition of

[3] It warrants to be noted that both government divestment and investment could suffer from selection biases. While governments privatize more profitable, 'healthier' and 'easier' firms (Megginson and Netter, 2011; Dinc and Gupta, 2011), governments might also be likely to purchase failing enterprises in nation's vital industries. These rescues could obscure the true relationship between government ownership and shareholder wealth. Accordingly I perform my tests controlling for the firm's prior performance, as well as differentiate between crises periods, when government rescues are more likely, and non-crises. I plan on introducing two-stage selection and instrumental variables models to ensure the robustness of my results.

[4] Burkitt, Laurie "Chinese Food Company Eats English Breakfast." *Wall Street Journal*, May 3, 2012
Iosebashvili, Ira "Renault-Nissan Buy Into Russia's Aged Auto Giant." *Wall Street Journal*, May 3, 2012.
"Canucks, meet CNOOC," *The Economist***,** July 28, 2012

the Canadian energy firm Nexen, China National Offshore Oil Corporation plans to keep the head office in Calgary, continue listing shares on the Toronto exchange and extend the unconventional drilling knowledge to tap China's untouched shale reserves. On the other hand, privatizations are often accompanied by extensive restructuring. The May 2012 privatization of Russian AutoVAZ, involving Renault and Nissan, was accompanied by extensive management, board and work force changes and over a $336 million technology update. These examples show that government investment, unlike privatizations, are not associated with large concurrent firm changes and also highlight the importance of understanding not only the influence of government divestment but also government investment, as both could have a positive influence on a firm.

Second, it provides the ability to compare different government investors and uncover the positive and negative effects related to their different levels of political interference and the associated conflict between the goals of maximizing profits and maximizing political gains, what I henceforth will call '*political-profit maximization goal conflict*.' Neither the differences between various government investors – Sovereign Wealth Funds (SWF), SOEs, central and local governments and government financial institutions – nor their overall effect on shareholder wealth, have been fully examined in extant literature.[5] The privatization literature is unable to disentangle the difference between government entities, as privatizations are mainly administered by central governments. Literature on government acquisitions is segmented and a handful of papers examine special types of government acquisitions – SWF acquisitions (Kotter and Lel, 2011; Dewenter, Han, and Malatesta, 2010), government cross-border purchases (Karolyi and Liao, 2010) and government bank purchases (Karolyi and Taboada, 2011). However, the ability to compare different types of government investors is important, as past research documents significant investment style and shareholder value differences among institutional investors (Chen, Hartford, and Li, 2007; Ferreira and Matos,2008). Government investors, just like other institutional investors, can differ in terms of their objectives and therefore, could influence their investment targets in fundamentally different ways.

Similar to Ferreira and Matos (2008), who examine the institutional acquirers and establish the 'colors' of institutional investment according to geographic origin and institution type in order to evaluate activism, I characterize 'colors' of government investment in order to evaluate levels of political interference and the associated conflict of interest with private shareholders. Pastor and Veronesi (2012) in their theoretical evaluation of equity reactions to government policy announcements note that governments are motivated by two objectives – economic objectives, such as maximizing investors'

[5] Borisova, Fotak, Holland, Megginson (2012) examine the influence of various government entities on the cost of debt of firms in which they own a stake. My study is different as it evaluates the impact of different government investors on shareholder wealth.

welfare, and noneconomic objectives, such as maximizing political benefits for the government. They theoretically predict a stock price increase as a response to a new beneficial government policy and a stock price decrease when policy changes carry a high level of uncertainty regarding the policy's impact on profitability. Since political and profit maximization are typically conflicting goals, I expect government investors with a higher level of this conflict to have a negative influence of shareholder wealth. However, I expect government investments where the benefits from additional (perhaps preferential) contracts, favorable regulation, certification and cheaper financing will outweigh any costs of pursuing political objectives to have a positive overall influence on shareholder wealth. In order to expose these positive and negative effects I specify different 'colors' of government investors.

First, for *geographic origin 'colors'* I differentiate between domestic and foreign government investment. Extant literature suggests that foreign investors are less likely to impose conflicting goals on a firm and more likely to increase shareholder wealth. Djankov and Murrell (2002), Ferreira and Matos (2008), an Estrin, Hanousek, Kocenda and Svejnar (2009) all show that foreign institutional investors enhance firm value due to their active stance, but do not document similar evidence for domestic investors. Bortolotti, Fotak, and Megginson (2012) demonstrate that foreign government shareholders are reluctant to interfere with firm management in order to avoid media and regulatory opposition. However, domestic government ownership could also be beneficial to shareholders. Domestic government investors are more likely than foreign state-owned investors to provide certification effect through their stock purchases, to favorably alter domestic regulation and taxation, and to allocate new government contracts to their investee firms.

Second, for *investor type 'colors'* I differentiate between various government entities – political, financial and economic. The comparison of effects of these different government investors on shareholder wealth has not been previously examined in the literature. I expect certain government entities, such as the political subgroup which includes national and local governments, to be more likely to pursue political objectives which conflict with profit maximization goals and therefore to be more deleterious to shareholder wealth. On the other hand, the political group could also benefit shareholders as it is also the most capable of offering explicit or implicit guarantees, which as Borisova, Fotak, Holland and Megginson (2012) show can lead to cheaper financing.

Additionally, I define *economic freedom 'colors'* by considering the investor government's likelihood of expropriation, as well as whether it is a left- or right-wing government. Governments with higher likelihood of expropriation are associated with higher levels of political interference and therefore I expect their purchases to have a more negative effect on shareholder wealth. I also expect these more negative effects for the targets of left-wing governments, as they have established a historic precedent for forcing political agendas on businesses (Borotolotti, Fantini, Siniscalco, 2003). On the other hand, left-

wing governments are probably more likely to provide bailouts which are especially valuable during times of economic distress.

Finally, I classify government *control 'colors'* by differentiating among minority and majority stake purchases, where the expectations regarding political interference are mixed. Extant research shows that large institutional investors improve shareholder wealth through activism. Similarly, large government investments could benefit equity holders, as governments could actively distribute a larger volume of contracts, provide cheaper financing and favorably affect regulation for firms in which they have high ownership. These positive effects of large government holdings could be reversed by higher levels of political interference, as government investors pursue political goals and majority ownership would allow them to influence the firm according to their chosen objectives.

I examine the impact of these different government investor 'colors' on the target's stock reaction around the investment announcement in order to evaluate changes in shareholder wealth and to see if political interference impacts valuation. I study government investments in 68 countries, involving 1,809 transactions in 1,477 unique target firms between 1988 and 2011. Using event-study methodology, I find that stock price reactions to government investments are positive around the acquisition announcement. But while stock price reactions are positive for foreign government investments and investments by those government's economic and financial arms, reactions are negative for domestic government investments and investments by domestic government's political arms. Further, I document that economic freedom factors matter, as firms react more positively to purchases by governments where the expropriation risk is low or by right-wing governments. These results imply that government investment associated with a higher level of political inference and political-profit maximization conflict has a negative influence of shareholder wealth, while the opposite is true for government investment that seem motivated by economic or financial objectives. Finally, I show that majority stake purchases by governments are associated with a more positive stock price reaction than are minority stake purchases**.**

This paper contributes to the broader economic debate on the role of governments in the spirit of Friedman, Stiglitz and Shleifer. It also adds to the stream of corporate government literature that deals with government ownership of business assets and control of economic activity. The overwhelming preponderance of evidence points to the superiority of private over government ownership.[6] But these effects have been examined in the context of government divestments, while my study examines government investments. My study unifies and puts into perspective the findings of the segmented government investment literature (SWFs are examined by Bortolotti, Fotak, and Megginson, 2010; Kotter

[6] Megginson, Nash and Randenborgh (1994), Megginson and Netter (2001), Gupta (2005), Estrin, Hanousek ,Kocenda, and Svejnar (2009), Brown, Earle, Telegdy (2010), Dinc and Gupta (2011), Boubakri, Cosset, Guedhami, and Saffar (2011), Julio and Yook (2012).

and Lel, 2011; Dewenter, Han, and Malatesta, 2010; government cross-border deals are studied in Karolyi and Liao, 2010; government banks' investments are examined by Karolyi and Taboata, 2010). This study also extends the literature studying the relationship between shareholder wealth and political connections (Fisman, 2001; Faccio, 2006; Houston, Jiang, Lin, and Ma, 2011). Moreover, the study adds to the literature on ownership and blockholding that highlights the importance of understanding the difference between various investor classes (Ferreira and Matos, 2008; Woitdke, 2002; Giannetti and Laeven, 2009; Klein and Zur, 2009; Chen, Harford and Li, 2007) by evaluating different 'colors' of government owners according to their perceived levels of political interference.

The rest of the paper is structured as follows. Section 1 provides a literature review and hypothesis development. Section 2 explains the data sources and variable definitions. Section 3 describes event study results and Section 4 provides regression results. Section 5 concludes.

1. Literature Review and Hypothesis Development

1.1 Government influence studies

The effects of government ownership have been examined in the vast privatization literature, which points to the deleterious effects of state involvement on shareholder wealth. Additionally, government influence on shareholder wealth has been recently highlighted in the literature on political connections. Politically connected firms are those whose officers or large shareholders hold political appointments as members of parliament or as ministers. Faccio, Masulis, and McConnel (2006) and Duchin and Sosyura (2012) show that politically connected firms exhibit worse performance than unconnected firms especially after receiving a bailout. On the other hand, Houston, Jiang, Lin, and Ma (2011) show that political connections increase the value of US firms by reducing bank monitoring costs and providing a lower cost of bank loans. Likewise, Faccio (2006) finds a significant increase in shareholder wealth when officers or large shareholders enter politics. Interestingly, she does not document the same reaction when a politician joins the firm as one of the officers or as a large shareholder. Moreover, Chansog, Christos, and Jung (2012) find that firms with higher levels of political alignment outperform others over a 40 year period.

Studies of political connections provide an indirect and possibly one-sided check of the relationship between shareholder wealth and government political interference. Politically involved firms' executives might not have a wide enough reach to influence regulation and taxation, and even if they do, they are more likely to tilt them in a direction positive for shareholders, as that would also positively influence their wealth. This strand of literature, unlike a more direct evaluation of government acquisitions, cannot examine the broader firm value effects from the non-shareholder politicians who might want to derive personal benefit or reach broader political goals in politically connected firms.

In one of the earlier papers on government acquisitions, Boardman, Freedman and Eckel (1986) examine a single nationalization event and show that the 1981 takeover of Domtar, a private Canadian corporation, into government ownership caused a 25% loss in value for the shareholders due to anticipated pursuit of non-profit objectives. In general, the finance literature dealing with government acquisitions is underdeveloped and considers only subsets of government investments – banks in Karolyi and Taboada (2011); SWF in Bortolotti, Fotak, and Megginson (2012), Kotter and Lel (2011), Dewenter, Han, and Malatesta (2010); and cross-border deals in Karolyi and Liao (2010). Karolyi and Liao (2010) examine general reactions to cross-border government acquisitions and show that targets react positively to the news of government acquisitions, as do targets of private sector share acquisitions. These findings differ from those of Boardman, Freedman and Eckel (1986). Additionally, Karolyi and Liao (2010) document that foreign SWF purchases earn significantly lower target reactions than do purchases by other types of foreign government acquirers, though studies of SWF investments (Bortolotti, Fotak, and Megginson, 2012; Kotter and Lel, 2011; Dewenter, Han, and Malatesta 2010) generally document significant positive short term target reactions.

Government purchases of banks are examined by Karolyi and Taboada (2011) who show that bank returns, post-acquisition profitability and operational efficiency are higher when acquirers are from countries with lower levels of government bank ownership.[7] But the most recent study, by Norden, Roosenboom, and Wang (2012), examines the effect for the 2007-2009 government interventions in the U.S. banking sector and documents a significant *positive* stock price impact for borrowers of banks that received government capital infusions in exchange for share ownership. All these conflicting results highlight a need to separately consider the effects of government investments involving different types of government investors and different levels of ownership, as well as, to pay special attention to the nature and legal context of acquiring governments – in particular whether they are domestic or foreign and whether these governments have high or low levels of involvement in the economy.

As discussed above, there are reasons to expect positive and negative reactions to announcements of government investments or acquisitions. An investee firm can earn positive abnormal stock returns if it gains a competitive advantage from state investment that cannot be replicated. For example, government investee firm could receive contracts and/or access to capital that is otherwise unavailable to the industry, or could receive preferential regulatory treatment. However, government investment targets should react negatively if government investment has negative long term effects on efficiency and profitability due to detrimental effects of conflicting political and profit maximization

[7]Karolyi, Taboada (2011) document that government banking sector involvement is the most important variable in explaining bank returns around bank M&A announcements.

goals. Since either positive or negative reactions to government stock purchase announcements are possible, I hypothesize:

Hypothesis 1: Announcements of government investments impact the target's equity price.

In order to test this hypothesis I examine targets' stock price reactions around government acquisition announcements. Next, I concentrate on target stock price announcement reaction differences given the different 'colors' of government investment based on their level of political interference

1.2 Foreign versus domestic investment

I examine *geographical 'colors'* of government investment by considering government domestic and foreign investments. Foreign governments' investments could differ from domestic as they tend to invest following the goals of profit maximization rather than pursuing a political agenda. Ferreira and Matos (2008), along with a large fraction of the corporate governance literature point to the superiority of foreign institutional investor ownership, as it is associated with higher firm valuation and productivity (Arnold and Javorcik, 2009; Aitken and Harrison, 1999). While no studies examine the difference between overall government foreign and domestic investments, several evaluate subsets of such investments. Karolyi and Liao (2010) examine only government cross-border acquisitions, but do not evaluate government domestic purchases. They show that targets react positively to the news of foreign government investment. Dewenter, Han, and Malatesta (2010) examine SWFs – government entities that tend to invest in cross-border deals – and find positive (negative) SWF acquisition (divestment) announcement returns. They also find that SWFs are active investors, therefore their findings point to a more positive association between firm valuation and cross-border government investment. On the other hand Bortolotti, Fotak, and Megginson (2010) show that foreign government acquirers act as passive investors and create a monitoring gap which contributes to the deterioration of targets' performance. Borisova, Fotak, Holland, and Megginson (2012) also show that acquisitions by foreign governments are associated with a higher cost of debt, while those by domestic governments are associated with a lower cost of debt. Given the differential effects between domestic and foreign government investors on the targets, I hypothesize the following:

Hypothesis 2: Targets react differently to news of increased foreign government ownership than to the news of increased domestic government ownership.

1.3 Political, financial and economic investors

Next, I consider *investor type 'colors'* for various government entities – financial, economic and political. Within the political group I have national (the Treasury, economic and finance ministries, the central bank, regulatory boards) and local governments (regional, city and municipal branches of

government), as well as some national pension funds. The economic group contains SOEs, which are further broken down into industry specializations – energy, materials, industrial, telecom and technology, media, and consumer. The financial category includes commercial and development banks, real estate, other financial institutions, SWFs and supranationals. A detailed classification explanation is provided in Section 2, which is the data description section.

These political, financial and economic types of government acquirers pursue different objectives and could influence the targets of their investment in different ways. Woidtke (2002) explains the importance of disaggregating investors into categories to enhance the evaluation of underlying relationships. She breaks pension funds into private and public and confirms the positive relationship between private pension fund ownership and firm value documented by prior literature, but also shows that the relationship between firm value and public or government pension funds is negative. Giannetti and Laeven (2009) confirm these results using a sample of Swedish public pension funds. Woidtke (2002) suggests for the future research to pay particular attention to the mix of investor groups instead of evaluating them as one monolithic entity. Current literature has only examined the reaction to SWF investments, while largely ignoring other types of government acquirers. While Karolyi and Liao (2012) separate their cross-border investments into two categories, those by SWF and those by other government acquirers, Borisova, Fotak, Holland, and Megginson (2012) is the first paper to differentiate between more than two different types of government entities. However, they examine the influence of government stock purchases on the firms' cost of debt, while I am interested in their influence on shareholder wealth. Borisova, Fotak, Holland, and Megginson (2012) document that different types of government acquirers influence the cost of debt of their sample firms in fundamentally different ways. They consider central governments, local/regional governments, fully government-owned SOEs and SOEs with mixed ownership, government banks, SWFs and pension funds. While my differentiation between government acquirer types is similar to Borisova, Fotak, Holland, Megginson (2012) it provides both, more generalized results based on the three wide categories – political, financial, and economic – and more specific results based on various industrial subcategories within the SOE group. My hypothesis is:

Hypothesis 3: The type of government acquirer influences the target's stock reaction.

1.4 Economic freedom

Target stock price reaction might depend not only on the type of government investor but also on the commitment to economic freedom and the political orientation of the government that is increasing its ownership in the firm. Accordingly, I consider government acquirer's *economic freedom 'colors,'* which have been shown to affect shareholder wealth. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (LLSV)

(1997) and LLSV (1998) link poor investor protection and civil law country origin to less developed capital markets, LLSV (2000) to lower dividend payments. Rajan and Zingales (2003) link lower trade openness to lower levels of financial development. Ben-Nasr, Boubakri, Cosset (2012) hypothesize that a higher cost of equity will be associated with the higher residual government ownership by left-wing governments, with holdings by more autocratic / less democratic governments, with holdings by less stable governments and for countries with a higher perceived risk of government expropriation. Therefore, the literature points to a positive relationship between high levels of economic freedom and shareholder wealth. But nations with lower levels of economic freedom, which accordingly have higher levels of government interference, could be more likely to provide favorable regulation, cheaper financing terms, and certification of firm viability, all of which would benefit target shareholders. Hence, I hypothesize:

Hypothesis 4: The targets' reaction to government acquisitions differs based on the economic freedom factors of the government increasing its ownership.

In order to evaluate whether economic freedom factors play a role in target stock price reaction around government investment announcements I examine the levels of expropriation expected of the acquiring government. The expropriation index is provided by the PRS Group's International Country Risk Guild (ICRG) and is based on contract expropriation, profits repatriation, and payment delays. In robustness checks I also examine economic freedom factors pertaining to the level of the acquiring government's autocracy / democracy, stability and size. Additionally, I examine the influence of the acquiring government's left-wing or right-wing political orientation from the World Bank database of Political Institutions, as it could also proxy for the level of economic freedom. Bortolotti, Fantini, Siniscalco (2003) show that left-wing governments are often associated with more state intervention.

1.5 Minority versus majority ownership

I finally consider the *ownership 'color'* by evaluating the impact of the level of government ownership – whether it is buying a majority or minority stake in a company – around the investment announcement. Borisova and Megginson (2011) show a non-monotonic influence of government ownership on the cost of debt, as during the privatization process the cost of funds for firms is higher than when they are either fully government or fully private owned. In the case of government acquisitions, targets can exhibit a more positive reaction when governments purchase a larger stake in the company if that provides access to new contracts and regulatory easement for the firm. Also, majority government investment could benefit investee firm shareholders as higher ownership levels could overcome collective action problems associated with widely dispersed small shareholdings. On the other hand, targets of government acquisitions might react more negatively to majority than to minority share acquisitions, as

majority acquisitions increase the likelihood of managerial changes in favor of government officials and of goal deviation from shareholder wealth to other government goals, which in turn would lead to higher inefficiency and lower profitability. Therefore, the target's reaction could differ given the level of government involvement and I hypothesize:

Hypothesis 5: The targets' reaction to government investment differs based on the proportion of increase in government ownership.

2. Data Description

I collect all announcements of government purchases from the Thomson Reuters Securities Data Company (SDC) Platinum database with buyside government involvement over the 1981-2011 period. This includes transactions where either the acquirer or the acquirer immediate or ultimate parent, are identified with a 'government' status. Governments own at least a 50% stake in acquirers flagged with a 'government' status and they are not publically traded firms. Governments also own at least a 50% stake in acquirer 'parents' who according to SDC definitions own at least 50% in the acquirer. In this case the actual acquirer can be either publically traded or have private ownership along with a government majority stake ownership. I do not include transactions where a government entity represents just one of the investors in an investor group. I restrict the sample to only completed or withdrawn deals and only publically traded targets which yields 2,088 transactions worth about US$893 billion.[8]

I use SDC to collect additional information about the deal, including the announcement date, the proportion of shares acquired and held by acquirer after the deal, whether it was eventually completed or withdrawn, whether it was a stock, cash or mixed payment. I also gather SDC information about the acquirer, acquirer parent and the target, including names, nations, Standard Industrial Classification (SIC) codes, macro and industry level SDC classifications and public statuses (government, publicly traded, privately held, subsidiary, joint venture) and SWF flag. Equity prices along with their related local market indexes are obtained from Datastream. I further restrict the sample to cover the 1988-2011 period due to a small number of government purchases and irregularities in Datastream prior to 1988. Additionally, I check for consistency of Datastream data and exclude observations with a large number of missing, zero or extreme returns around the time windows of interest. Observations where several investment events occur for the same target on the same day are removed. I further require all sample firms to be present in Worldscope, which is the source of accounting data for my sample. Economic freedom variables are collected from the WorldBank Database of Political Institutions, the Economic Freedom of the World publication, and the PRS Group's ICRG databases (Appendix 1 provides descriptions of variables and their sources). All data are winsorized at the top and bottom 1%. The final

[8] Appendix 2 shows that the majority of government investments are in privately held firms.

sample used for event study analysis consists of 1,809 transactions (133 of which are eventually withdrawn) in which a government acquirer purchases an equity stake in 1,474 unique target firms.

I classify government *geographic 'colors'* as foreign, if the acquirer's parent nation is different from the target nation and as domestic otherwise. The biggest challenge is to classify government *investor type 'colors.'* I follow a combination of SDC status and macro industry identifications to classify government investors into categories. ***Political government investors*** must be in the 'Government and Agencies' SDC macro industry description on both the acquirer and the acquirer parent level. Within the political group I identify *political national government* investors when both the acquirer and the acquirer parent fall into the 'National Agency' or 'National Government' SDC industry categories. All other entities, except for 'Supranational' under the 'Government and Agencies' macro industry are classified as *political local government* investors and include city agencies, city governments, public administration, regional agencies and regional governments. I complete the political group by including government *pension funds* and identify those by manually searching and evaluating the deal and acquirer descriptions for words like 'social security,' 'pension fund,' 'pensioenfonds,' 'public employees,' etc.

Financial government investors must be in 'Financials' SDC macro industry on both the acquirer and acquirer parent level. Additionally, I include all the acquirers categorized as *real estate investors, SWFs* and *supranationals* into my financial government investor group given the financial nature of their investments. I differentiate between *government banks* and *development banks*, while both are included in the government financial investor category. Development banks are identified by searching and evaluating the deal and acquirer descriptions for words such as 'development bank,' 'development fund,' 'commonwealth development,' 'de Development,' 'development finance,' etc. The remaining entities in the financial government investor category are classified as *other financial investors* and include alternative financial investment firms, asset managers, brokerages, credit institutions, diversified financials, insurance and some government sponsored enterprises.

The final large group includes ***economic government investors*** which are represented by SOEs in various fields and are predominantly industrial players who develop non-financial products and services. *SOE_Energy* government economic investor group contains acquirers or acquirer parents that are a part of the 'Energy and Power' SDC macro industry group and includes alternative energy sources, oil and gas, petrochemicals, pipelines, power, as well as water and waste management. *SOE_Industrial* group comprises of all acquirers classified by SDC as 'Industrials' and includes aerospace and defence, automobiles and components, building construction and engineering, machinery, transportation and infrastructure and other industrials. *SOE_Materials* group consists of all acquirers that fall into SDC 'Materials' macro industry classification and includes chemicals, construction materials, metals and mining, paper and forest products and other materials. *SOE_TelecomTech* group includes acquirer from

'Telecommunications' and 'High Technology' SDC macro level industries and contains space and satellites, telecommunication equipment and services, computers and peripherals, electronics, internet services, IT consulting, semiconductors and software. *SOE_Media* group consists of government acquirers that belong to the SDC 'Media and Entertainment' and 'Consumer Services' macro industry groups and includes broadcasting, cable, motion pictures, publishing, professional, travel and educational services. Finally, the *SOE_Consumer* group contains government acquirers from the following SDC macro industry groups: 'Consumer Staples,' 'Healthcare,' and 'Retail' and includes household and personal products, textiles and apparel, tobacco, livestock and agriculture products, healthcare services, pharmaceuticals, automotive and food/beverage retailing.

The remaining government investor 'color' classifications are according to levels of economic freedom and control. In order to evaluate the influence of *economic freedom 'color'* I classify government investors according to either the likelihood and level of government expropriation or their left- or right-wing nature. To uncover target shareholder reactions to different government investment *control 'colors'* I differentiate between majority purchases of over 50%, majority purchases between 50% and 10% and minority government investment of below 10%. This minority investor definition is adopted from Faccio (2006) and Bortolotti and Faccio (2009) who define large shareholders as anyone with a 10% or larger of control rights.

2.1 Descriptive Statistics

The description of the sample is provided in multiple panels of Table 1, which present the overall number and value of deals and various categorizations of the total. The number of deals is further broken down by foreign and domestic acquisitions, as well as by the economic, political, or financial type of government acquirer. Panel A breaks down government purchases by year. The sample of 1,809 government purchases has a total value of over US$ 501 billion (current dollars). About 569 transactions (30% of total count) cover the crisis years of 2008-2010, which allows for a comparison of government investments during and outside the 2008 financial crisis. Cross-border deals represent a third (659 deals, 36% of the sample) of the sample and on average account for about 40% of deals done in any given year, with the exception of the crisis years of 2008 and 2009 when the number of cross-border deals declines and the number of domestic deals dominates. Different types of government acquirers are well represented, with 698 observations (39%) by economic (SOEs), 347 observations (19%) by political and 764 (42%) by financial arms of government.

***** Insert Table 1 about here *****

Panel B breaks down government purchases by *ex post* ownership stake. Governments purchase minority stakes of above 0% and below 10% in 669 observations (37% of the sample). Their large

representation in this category hints to the changing nature of government investment, as they switch from ownership block purchases to smaller stakes. There are 240 observations (13%) worth about US$143 billion (28%) where governments purchase majority ownership of 51% or higher. Out of those 98 observations (5%) represent full acquisitions by government. The tendency to purchase non-controlling stakes is common for both foreign and domestic government acquirers; moreover, it is also common among all government acquirer types. Government economic (SOE) acquirers are most active in deal involving majority control (140 observations; 60% of majority purchases), followed by government financial acquirers (81 observation; 32% of majority purchases) and a very few (19 observations) majority purchases by government political acquirers.

Panel C describes government investment by target nation. US$ 403 billion (80%) is invested by governments into the top 15 target nations lead by the investments in the United States (274 observations, 15% of the sample by count, for US$83 billion, 17% by value). Overall, the sample contains 68 investee nations. Other countries attracting large government investments include the United Kingdom (15% by value), Germany (8%), Switzerland (5%), and Austria (5%).

Panel D lists government acquirers' domicile nations. US$ 412 (82%) is spent by the governments of the top 15 acquirer nations, out of 69 total. The acquirers are evaluated at the 'parent' level, so the nation of the ultimate parent of the acquirer is considered. The ultimate parent either acts as the acquirer or owns 51% or more of the acquirer. China is the largest government acquirer with 387 investments (21%) totaling over US$76 billion (15%). It is followed by France (11% by value), United Arab Emirates (9%), the United States (8%), and the United Kingdom (7%). It is interesting to note that a lot of small value deals happen in China, while a few very large deals dominate government purchases in the United Kingdom.

Panel E presents investee firms' industry classifications by 1-digit SIC code. The largest number of government acquisitions is in the financial sector (SIC 6) with 575 observations (32%) worth over US$197 billion (39%). This is followed by transportation and utilities (SIC 4), with 347 deals (19%) worth over US$122 billion (25%); mining (SIC 1), with 200 deals (11%) worth US$96 (19%); and manufacturing (SIC 2 and SIC 3) with 487 deals (27%) worth US$60 billion (12%).

Finally, Panel F describes the actual industries, based on the 4-digit SIC code, of the largest government investment. US$ 240 billion (48%) of government purchases occur in just three main industries – the financial sector (depository institutions), crude oil and natural gas, and electric and telephone services sectors. The financial sector is further represented by commercial bank (5%), investment advisory (4%), life insurance (2%) and personal credit segments (3%).

2.2 Variables

Table 2 provides descriptive statistics for continuous variables in Panel A, for pre-event investee firm performance in Panel B, binary variables in Panel C, and correlations between variables in Panel D. Full variable descriptions are provided in Appendix 1. Panel A describes government ownership and target firm characteristics, as well as target performance six and twelve months before the acquisition announcements. Panel A lists means, standard deviations, medians and 25^{th} and 75^{th} percentiles. Government investors purchase a 24% stake on average (12% median) and hold on average a 32% stake (18% median) in a firm after the acquisition. Economic freedom indicator variables are presented next and I expect government investors with low levels of economic freedom and, accordingly, higher levels of political interference propensity to have a more negative influence on shareholder wealth and thus expect a negative reaction for acquisition announcement involving such acquirers. *Expropriation* measures the likelihood of government expropriation, where 0 denotes low risk and 12 denotes high risk. Acquiring governments have, on average, a low level of expropriation with a 3.35 index average. The following alternation economic freedom indicators are evaluated for robustness: *Government Size* (with a mean of 5.47), which measure the degree to which a country relies on markets rather than government budgets and where higher values mean lower government involvement on a scale from 0 to 10; *Autocracy/Democracy* (with a mean of -3.75), which measures how autocratic or democratic a government is on a scale from -10 to 10, where -10 denotes highly democratic and 10 denotes highly autocratic governments; and *Government Stability* (with a mean of 5.18), measuring the number of years the current government has been in power.

***** Insert Table 2 about here *****

The following standard firm level controls are included in the main regression: *Size* (computed as a natural logarithm of $US current dollar total assets, with a mean of 13.5), *Leverage* (computed as a ratio of debt-to-assets, with a mean of 64%), *ROA* (with a mean of 1% and median of 3%); and *Tobin's Q* (computed as [(market value + total assets – book value of equity)/total assets] and with a mean of 1.44). Bates and Lemmon (2003) shows that target shareholders gain less when their firm is larger. According, I expect larger firms to have lower gains around the news of government investment. I also expect less leveraged and more profitable firms to evaluate any government interference as intruding and to react more negatively during government acquisition announcements.

Controls for firm performance six month and one year prior to the government's investment are presented in Panel B. It provides mean and median market adjusted buy-and-hold returns, as well as their significance levels. I expect weaker firms to have a more positive reaction around government acquisition announcement and therefore expect a negative relationship between announcement reactions and prior performance. Prior performance should control for firm-specific distress, as when governments likely step

in to provide bail-outs, but market adjusted buy-and-hold returns of firms in my sample are on average positive, with 8% over the six months before and 16% over the year before the date of government stock acquisitions. However, the median results suggest a few firms with extremely positive pre-investment performance are present, as the median buy-and-hold returns are 1% six month before government investment.

Panel C describes my binary variables and presents information regarding deal features, consideration offered, and payment made, as well as government acquirer information. While it is important to control for the firm's prior performance as a proxy for firm-specific distress, special attention also needs to be paid to periods of economic uncertainty, as government ownership could be associated with a more pronounced certification effect of firm's vitality during those times. *Bank_crises* (410 deals, 23%) and *crisis_08_09* (492 deals, 27%) are both binary variables that take value of 1 during periods of economy-wide distress. They correspond to the various banking crises defined by Laeven and Valencia (2010) and the 2008-2010 financial crisis, respectively. Controls for banking crises and the years associated with the financial crisis are present in all regressions. In robustness regressions I also control for capital inflows – where the state investor purchases newly-issued shares, resulting in a capital infusing for the issuing company – as these are more likely to be provided to firms in times of distress and in need for cash. I identify capital inflows by searching the deal synopsis for phrases like 'capital injection' and 'capital inflow' and also flag all deals where the firm issues new shares. I identify 156 deals (9%) that are capital inflows, which is a conservative measure, as the data is provided sporadically thus increasing both Type 1 and Type 2 errors.

To test my second hypothesis I compare 659 (36%) cross-border versus the remaining 1150 (64%) domestic deals. I acknowledge the transfers of control between different government branches with a *Government-to-Government* variable, where both the acquirer and the target are flagged with a 'government' status. While only one such deal exists, there are 282 deals (16%) where the government-to-government pairs follow a wider SDC definition and besides the target and acquirer also include their 'parent' firms, who according to SDC own at least a 51% of the direct acquirer or target. I also control for deals completed in the same industry, as those are more likely to be based on economic goals and not pursuant to political agenda. Accordingly, I expect same industry deals to have a more positive relationship with target stock price announcement reaction. 466 deals (22%) are done within the same 2-digit SIC group between acquirer and target, but it grows to 629 deals (35%) when I extend the definition to also include 'parent' firm industries. Further, about 47% of the sample consists of deals in the same industry, when considering an even wider industry group classification by evaluating deals in the same 1-digit SIC group and including the 'parent.'

Panel C shows that the most typical way that governments invest is by buying common stock (1587 deals, 88%), but they also attain stakes through warrants (186 deals, 10%) – which are mainly connected with the 2008 US Troubled Asset Repurchase Program (TARP) – and to a much lesser extent through convertible debt (31 deals, 2%). Further, I control for factors that have been shown in the literature to affect the acquisition premium and returns. Loughran and Vijh (1997) show that targets shareholders in stock-merger deals do not earn significantly positive returns, while those of cash-mergers do. Bates and Lemmon (2003) show that US target acquisition announcement returns are negatively associated with stock deals and withdrawn offers. Accordingly, I expect a negative association between target stock reaction to the announcement of government investment and withdrawn deals (133 deal, 7%), as well as stock deals (1190 deals, 66%). But I expect cash deals (588 deals, 33%) to be associated with higher target equity returns around government investment announcements.

Panel C also provides information about government investors. I break up government investors into three major groups based on their nature and objectives – political (347 deals, 19%), financial (764 deals, 42%) and economic (698 deals, 39%). The political group consists of national governments (264 deals, 15%), local governments (58 deals, 3%), and pension funds (25 deals, 1%). The financial group consists of banks with government ownership (108 deals, 6%), development banks (49 deals, 3%), government real estate investment arms (42 deals, 2%), supranationals (23 deals, 1%), such as the IMF, and SWFs (164 deals, 9%) and finally other financial institutions with government ownership (378 deals, 21%). I also control for the legal origin of the acquiring government as LLSV (1997, 2000) show that legal origin influences capital market development and dividend payout. 690 deals (38%) are completed by acquirers (parents) from common law countries, which offer higher investor protection, with the remaining 1,119 coming from civil law origin nations. In order to test Hypothesis 4, I evaluate the political orientation of the acquiring government, as this proxies for economic freedom and in about half the sample (892 deals, 49%) acquisitions are done by left-wind governments.

Correlations among variables are presented in Panel D of Table 2. It is interesting to note that most government investments that received warrants in the sample are from TARP deals, as they are 92% correlated and they were in a large part (63% correlation) issued by the political arms of the U.S. federal government. The correlation table also confirms that acquirer and acquirer parent nation are typically the same and hence are highly correlated on their common law status (84% correlation). These descriptive statistics allow us to better understand the sample, while the event studies presented in the next section, as well as the regression analysis in Section 4, test the predictions associated with these variables.

3. Event Study Results

I use a standard event-study methodology to calculate targets' cumulative abnormal returns (CARs) around the announcement of government acquisitions. Market adjusted returns are described below, while market model returns are only presented in the tables. To estimate returns I use the Datastream *country specific* U.S. dollar denominated total return index which is adjusted for dividends and stock splits, to estimate returns and compute market model returns using data from day (-230) to day (-30), where day (0) is the day of announcement of government acquisition in the closest competitor. Only firms with trading data for a minimum of 100 days are included. I evaluate several event windows – (0,+1), (-2,+2), (-5,+5), (-10, +10) – around the announcement, as well as pre-event (-10,-30) and post-even (+10,+30) windows to check for any information leakages prior to or after the announcement. Event study results allow a first look at target stock reaction to various government investments, and accordingly my main dependent variable in the regressions, (-2,+2) CAR.

Table 3 shows targets' stock price reactions to government investment and breaks it down by *geographical 'colors'* based on foreign and domestic government investment. In general, targets exhibit a significant positive reaction with a mean (median) of 2.48% (0.46%) for the (0,+1) window and 2.81% (0.91%) for the (-2,+2) window. The result is similar for both foreign and domestic government investment, but the scale is much larger for foreign investments with the significant returns of 5.05% (1.33%) for the (0,+1) window and 6.28% (2.25%) for the (-2,+2) window as compared to smaller but still significant stock reaction to domestic investments of 1.01% (0.22%) for the (0,+1) window and 0.82% (0.30%) for the (-2,+2) window. Target performance shortly after the event, for the (+10,+30) window, is significantly negative at -1.60% (-1.26%) for all deals and similar for both foreign and domestic acquisitions. Prior to government acquisition (-10, -30) the performance of domestic targets is negative at -1.31% (-0.76%), but it is positive for foreign, at 3.11% (1.13%). Overall, the results in Table 3 support the claim of the first hypothesis that targets exhibit a stock reaction to government investment. These results also support the second hypothesis as they show that target equity announcement reaction differs according to the geographic 'color' of government investor, in other words according to whether the government investor is foreign or domestic.

***** Insert Table 3 about here *****

Target equity reactions to *investor type 'colors'* are presented in Table 4 and provide a stark contrast between target responses to investment by different government entities. For the (-2,+2) and other short term windows the reaction is significantly negative for government investors from the political group at -2.92% (-0.64%) but significantly positive for those from the financial group at 2.23% (-0.48%), and overwhelmingly so for those from the economic group at 6.30% (2.36%). These preliminary results

show that the conflict generated by political and profit maximization goals hurts shareholder wealth, as investors respond negatively to investments that would increase such conflict – such as investments by the political arms of the government. On the other hand, shareholders welcome investment by economically oriented groups, in particular the economic group that is comprised of SOEs. The reaction to government financial investments is positive overall, but this group encompasses diverse government investors. Some of these, such as development banks, are more likely to follow economic goals, while others, such as other banks with government ownership or government real estate investors, might pursue a political agenda.

***** Insert Table 4 about here *****

Table 5 breaks down target equity reaction by acquirer's *economic freedom 'colors'* and investment by countries with high or low levels of expropriation, as well as those with left- or right-wing governments. When government investors are from countries with low levels of expropriation likelihood target announcement reaction is much larger, at 4.63% (1.74%) for the (-2,+2) window, as compared to that of high expropriation governments, at 1% (0.22%). Target performance shortly after the event, for the (+10,+30) window, is more negative for investments by acquirers from nations with high expropriation levels, at -2.26% (-1.73%), as compared to those with low expropriation levels at -0.85% (-0.87%). These results show that target shareholders welcome investment that carries low levels of political interference, but are more cautious when investment originates from a nation with high expropriation risk and therefore high political interference tendencies and low levels of commitment to economic freedom. Table 5 also examines if target equity reaction differs between investments from left- and right-wing governments. Target pre-event performance in (-10,-30) window differs, with 1.69% (0.65%) for left-wing and -1.05% (-0.75%) for right-wing government investments, but no other significant difference are found, as the short-term reaction is positive in both cases.

***** Insert Table 5 about here *****

Table 6 disaggregates target equity reaction according to the level of *control 'color'* by differentiating between majority and minority government investment. Table 6 disaggregates target equity reaction according to the level of control 'color' by differentiating between majority purchases and minority government purchases. Following Faccio (2006) and Bortolotti and Faccio (2009), I classify minority government ownership as that below 10%. However, for firms with large shareholdings, where several blockholders own over 10%, the majority owner is the one with ownership of 51% or larger. Accordingly, I differentiate between majority purchases of over 50% and those between 50% and 10%. The target equity reaction to majority (over 50%) government investments is significantly positive at 5.87% (2.84%) for the (-2,+2) window and keeps growing to 8.14% (5.5%) for the (-10,+10) window. Opposite results are documented for minority government purchases, as target equity reaction is negative

and keeps getting more negative till -2.94% (-1.65%) for (-10,+10) window. Differences also exist in target performance shortly before the event in window (-10,-30) as government majority investments exhibit a positive performance of 0.69% (0,68%), but those of government minority investments produce a negative return of 1.59% (1.59%). Also, while shortly after the performance in window (+10,+30), the performance of government minority investments remains negative, that of government majority investments is positive, though insignificant. Overall, Table 6 indicates that minority government investment destroys target shareholder wealth, perhaps by exacerbating the conflict between political and economic goals without the beneficial effects of government ownership – such as an implied debt guarantee, cheaper financing and favorable regulation – which reveal themselves only at higher levels of ownership.

***** Insert Table 6 about here *****

Finally, Table 7 provides target reactions to the news of increased government ownership during and outside of periods of economic uncertainty and signifies the importance of controlling for periods of economy-wide distress. The average target equity reaction to government investment during banking crises is significantly negative: starting at -2.92% (-0.64%) for the (-2,+2) window and declining to -6.43% (-3.57%) for the (-10,+10) window. On the other hand, the reaction to government investment outside of banking crises is positive, at 2.23% (0.48%) for the (-2,+2) window. In case of banking crises, target firm investors seem to worry that governments are likely to impose the same ideas that put the country into a banking crisis onto them and to reduce shareholder wealth through tunneling. On the other hand, the average target equity reactions to government investment during the 2008-2010 financial crisis is significantly positive at 6.30% (2.36%) for the (-2,+2) window. This is much higher than for periods outside of the 2008-2010 crisis, when the average target reaction is 3.48% (0.84%) for the (-2,+2) window. Therefore, the certification effect and other benefits provided by government ownership during the 2008 financial crisis must have outweighed other negative effects.

***** Insert Table 7 about here *****

Event study results suggest that in general stock price reactions of government investment targets are positive around the acquisition announcement. But while stock price reactions are positive for investments by foreign governments, by those government's economic and financial arms, and those for majority control, they are negative for investments by domestic governments, by government political arms and for minority stake purchases. Also, firms react more positively to purchases by governments where the expropriation risk is low. These results indicate that government investment associated with a higher level of political inference, that is likely to exacerbate the conflict between political and profit maximization goals, has a negative influence of shareholder wealth, while the opposite is true for government investment where this conflict is outweighed by benefits from government certification,

cheaper financing and privileged contracts. The panel regressions in the next section allow for a closer examination of government investor attributes or 'colors' on target stock reaction around acquisition announcement.

4. Regression Results

I further examine the relationship between government investment and it's different 'colors' and target stock price announcement reaction in multivariate year fixed effects OLS regression analysis where I control for target- and deal-specific characteristics. All regressions employ controls for industry and for the nations of the target and the acquirer parent. I employ Newey-West standard errors adjusted for heteroskedasticity and autocorrelation, as some firms are targets of government investment multiple times in the sample. In all the regressions my dependent variable is the market adjusted target stock reaction over a five-day window (-2,+2) around the government investment announcement. My variables of interest pertain to various government investor 'colors.'

Results for the effect of *geographic 'color'* and the influence of foreign or domestic government investor on target equity announcement returns are presented in Table 8. Model 1 includes all deals in the sample; Model 2 pertains only to foreign and Model 3 only to domestic deals. Model 1 shows that foreign government investments are associated with significant target shareholder gains. The effect is economically significant, as target shareholders gain 3.09% more when the government investor is foreign. Model 1 reveals other factors that influence target equity reactions to government investment, in particular, a strong positive relationship with overall government ownership both regarding the shares acquired and previously owned. Further, as expected, deals involving stock payments, primarily by publically listed SOEs reduce target shareholder wealth by -3.78% as compared to mixed stock-and-cash payment deals. Finally, larger and more valuable (in terms of Tobin's Q), firms react more negatively to the news of government investment.

***** Insert Table 8 about here *****

Since Model 1 implies that the geographic 'colors' of government investors matter, I further investigate the difference between foreign and domestic government acquirers. Models 2 and 3 in Table 8 show that target shareholder reaction is positively related to the size of the stake acquired for both foreign and domestic government investments. Several significant differences between foreign and domestic government investments also emerge. First, the average target equity announcement reaction is significantly negative for of stock-swap mergers (-9.36%), but only for foreign government investments. However, only in the case of domestic government investments target equity announcement returns are a significant negative function of target size (-0.67%) and value (-0.58%), meaning that larger, more

profitable firms suffer from the escalated political-profit maximization conflict the most. Larger firms are typically diversified and already carry a diversification discount due to the multitude of intra firm goals (Laeven and Levine, 2007). Large firm shareholders are likely to have a more adverse reaction to domestic government investment as they anticipate the imposition of additional political goals, which could create conflict with profit maximization objectives and possibly make the difference amount existing goals more apparent. A negative relationship (-4.48%) between target equity announcement returns and domestic eventually-withdrawn deals suggests that either domestic withdrawals are somewhat expected, possibly due the higher media coverage involving controversial government investments that require regulatory approval, or that governments are more likely to withdraw their domestic investments if the initial reaction is negative. Finally, only for domestic investments government-to-government deals command a higher premium (by 2.53%), perhaps because governments within the same country tend to overpay for their investments in other government entities or maybe the imposition of political agenda is not going to increase given that an investee firm is already influenced by government.

Overall, Table 8 results support the second hypothesis and indicate that government investor geographic 'colors' matter for target shareholder wealth. In particular, target shareholders in deals involving foreign government investors earn 3.09% more, which suggests that foreign government investors are more likely to be associated with the beneficial effects of government investment rather than the conflict amplified by political agenda. Also, foreign and domestic government investments differ in terms of other important factors that influence target announcement reactions.

Results for government *investor type 'color'* are presented in Table 9 where the binary variables for political and financial government investors are included in the main regressions and contrasted with the economic government investor groups. Model 1 includes all deals. Since significant differences between foreign and domestic deals are documented in Table 8, Models 2 and 3 in Table 9 include only foreign and only domestic deals respectively. Model 4 includes only investments by political arms of government; Model 5 by financial and Model 6 by economic arms of government. Political government investors are associated with significant negative target equity announcement returns of -3.02% overall. Moreover, this relationship is only significant for domestic political government investors, as they are linked with a -3.64% loss in target shareholder wealth. It is important to notice that political government investors are associated with target shareholder losses even after controlling for domestic government investors. These results highlight deleterious effect of government investment when a conflict between political and profit maximization goals is created. Political arms of government, as expected, are more likely than other government investors to impose a political agenda on target firms, which conflicts with profit maximization and destroys shareholder wealth.

***** Insert Table 9 about here *****

Models 4-6 develop the results of Models 1 and 3 as they allow target stock announcement reactionsto vary given a political, financial or economic government investor. Targets announcement reaction is negatively associated with the higher percentage of shares purchased by political arms of government (-0.14%), but it is positively linked to higher share purchases by financial (0.14%) and economic (0.10%) arms of government. Several similarities exist between different government investors, as for all of them stock deals are associated with a negative target reaction and also larger firms react more negatively to the news of investment by political and economic arms of government. Intriguingly, government-to-government deals earn a 8.79% higher target stock announcement reaction only for purchases by government political investors. This again could be due either to with-in system overpayment or a lower expectation to political goal imposition due to an already existing government involvement in the target firm. Another interesting relationship is a positive (negative) association between political (economic) government investors and eventually-withdrawn deals. Government economic arms might be more likely to withdraw deals with a negative announcement reaction. Alternatively, shareholders might have a better information on the likelihood of eventual withdrawal of controversial government investments with high media coverage and welcome the eventual withdrawal of government political investors who impose political agenda but lament the loss of beneficial effects of government investment from economic arms of government.

To further examine the influence of political, financial and economic government investors on target equity announcement reactions I evaluate subgroups that make up each government investor category in Table 10. Model 1(a) includes political and financial government investors and Model 1(b) political and economic government investors. Models 2(a, b) replicate Models 1 (a, b) respectively but considering only foreign government investors. Similarly, Models 3 (a, b) replicate Models 1 (a, b) respectively but considering only domestic government investors. Results for political government investors echo those of Table 9, as branches included in the political category are associated with a decline in shareholder wealth. More specifically, targets react most negatively to pension funds (-4.57%), followed by national government (-3.46%). A further breakdown into foreign and domestic deals shows that while foreign target shareholders are not significantly affected by *any* government investors, domestic shareholders tend to lose the most from an investment by national governments (-4.41%), followed by local governments (about -4.13%) and finally by pension funds (-3.58%). Results for groups that comprise the financial and economic government investors differ by group but are not significant.

***** Insert Table 10 about here *****

Results for *economic freedom 'color'* of the acquiring government are presented in Table 11 and Table 12. The variable of interest in Table 11 is *Gov. Exprop,* which is an index of government expropriation, and in Table 12 it is *Left,* which is a binary variable identifying the acquiring government

as left-wing. Model 1 includes all deals; Models 2 includes foreign deals; Model 3 shows domestic deals; Model 4 presents investments by political arms of government; Model 5 by financial and Model 6 by economic arms of government. Higher levels of government expropriation and left-wing governments are associated with increased levels of political interference, which intensifies the conflict with profit maximization.

Table 11 shows that investments from governments with higher levels of expropriation are met with negative target shareholder announcement reaction of -0.54%. This relationship is significant only for domestic deals as target shareholders are likely to expect lower levels of interference in their operations by foreign governments, regardless of the economic freedom policy of these investors. This highlights higher benefits associated with foreign government investors who strive to avoid the imposition of conflicting political goals to their foreign investors, while they still create this conflict in their domestic investments. Interestingly, target shareholders exhibit a 0.85% positive reaction to investment by governments with high levels of expropriation when the investment is completed by the political arms of government, but a -0.82% negative reaction to investments by economic arms of government that are more likely to expropriate assets.

***** Insert Table 11 about here *****

Likewise, Table 12 shows that investments by left-wing governments are met with negative target shareholder announcement reaction of 2.14%. While target reaction is negative to left-wing government investment in both foreign and domestic deals, the relationship is only significant is case of domestic deals (-2.5%). A further breakdown into government investor types shows that the significance of this relationship is primarily driven by political arms of government, as targets have a -6.31% negative reaction to the news of investment by the political arms of left-wing governments. Overall, both Tables 11 and 12 show that higher likelihood of the political-profit maximization goals conflict is met with a more negative target shareholder equity reaction. When this conflict is proxied by measures of economic freedom of the acquiring government, this negative reaction is again specific to domestic deals.

***** Insert Table 12 about here *****

I further examine how the political-profit maximization goal conflict influences foreign and domestic shareholder wealth given not only different types of government investors but also considering whether they purchased majority or minority stakes in the target firm. Target equity announcement reactions to different *control 'colors'* are presented in Table 13. Faccio (2006) and Bortolotti and Faccio (2009) treat government ownership in access of 10% as majority ownership. Accordingly, I differentiate between majority ownership above 50%, ownership between 50%-10% and minority ownership lower than 10%. Model 1 includes all deals and the main variables of interest in it are: *Majority Ownership (>50%)* and *Majority Ownership (50%-10%)*, while the left out group is *Minority Ownership (<10%).*

Models 2 only includes deals where government ownership represents a majority control holding of 50% or more, while Model 3 includes those with majority ownership between 50% and 10%, and Model 4 contains deals involving minority purchases lower than 10%. Overall, target equity announcement reaction is positively related to government investment above 50% (7.27%) and also between 10% and 50% (2.20%). While governments may try to impose political agenda and create conflict with profit maximization goals at all levels of ownership, at the higher levels of ownership benefits associated with government investment outweigh the negative effects of political agenda.

***** Insert Table 13 about here *****

Model 1 in Table 13 also points to the deleterious effects of political investors on shareholder wealth, as target equity announcement reaction associated with that type of investors is a negative -4.04%. But the classification of government investments according to the ex-post ownership in Models 2-4 reveals several important relationships. First, that political investors have a negative influence of -5.91% on shareholder wealth for acquisitions of 50% to 10% interest and only domestically, as foreign government investment is linked with a 5.05% positive shareholder reaction at that investment level. This supports prior results which linked foreign government ownership to a positive target shareholder reaction. Second, the disaggregated results reveal that target shareholders exhibit a -3.37% negative stock reaction to the news of minority (below 10%) foreign government investment. Interestingly, this negative reaction is mitigated by investments by foreign political and financial arms of government, as target shareholders respond with a 3.57% and 2.69% positive reaction respectively. Target shareholder wealth increases when foreign political and financial arms of government acquire minority stakes of below 10% by 6.94% and 6.06% respectively. Third, Model 2 indicates that target shareholders react positive to majority government investments regardless of the government investor-type or geographic 'colors,' as neither the foreign deal nor the political or financial investor indicators are significant.

5. Conclusions

Despite common misperceptions, governments are a large and growing class of investors. I evaluate government investment in publicly traded companies in order to evaluate target shareholders' reactions to different types of government investors. Government investment could benefit the target firm through additional contracts and preferential regulation, as well as through the certification of a firm's vitality and an implied guarantee, which is associated with cheaper financing costs. On the other hand, as the privatization literature points out, government ownership is likely to lead to lower profitability and efficiency due to the conflict between political and profit maximization goals. I show that not all government investors are alike. Government investors that are political, domestic, left-wing and more

likely to expropriate are associated with negative target announcement reactions, as they intensify the political-profit maximization goal conflict. But other government investors, in particular foreign, those from economic-SOE arms of the government, from right-wing governments and those less likely to expropriate, benefit their investee firms, as the positive effects of their ownership outweigh any additional conflict between the goals of politics and profit maximization. I also show that the benefits associated with government investment are more likely to reveal themselves at higher ownership levels, while the negative effects of political arms of government on shareholder wealth are stronger with minority stake investments.

Appendix 1. Variable Definitions

Deal level data, inlcuding ownership, was obtained from Thomson Reuters SDC Platinum M&A database. Firm variables, stock prices and local indexes are from the Worldscope/DataStream databases. Numbers in parentheses pertain to the actual Worldscope data item number.

Variable	Definition
Government Ownership Variables	
Gov.Prior Ownership (%)	Government percentage ownership, if any, before the investment
Gov. Shares Acquired (%)	Percentage government investment into a target firm
Gov. Ex Post Ownership (%)	Percentage government ownership after the investment into a target firm
Government Investor Colors	
Foreign Deal	Dummy=1 if the target and acquirer parent nations are not the same
Political Gov. Investor	Dummy=1 if the acquirer has political objectives and is a local or a national government, or a government pension fund
Financial Gov. Investor	Dummy=1 if the acquirer has financial objectives and is a SWF, government owned bank, development bank, government real estate investor, supranational or other financial government entity
Economic Gov. Investor	Dummy=1 if the acquirer has economic objectives and is an SOE, including energy, consumer, industrial, materials, media and telecom-technology SOEs
Gov. Exprop.	Index evaluating contract expropriation, profits repatriation, payment delays, ranges from 0 to 12 with the higher values meanings higher expropriation risk. Data is obtained from ICRG.
Left-wing Gov.	Dummy=1 if the acquirer government is left-winged. Data is obtained from the WorldBank database of Political Institutions (updated 2010)
Maj. Own. (>=51%)	Dummy=1 if the acquirer purchases 51% or more of a firm
Maj. Own.(50%-10%)	Dummy=1 if the acquirer purchases between 50%-10% of a firm
Min. Own. (<10%)	Dummy=1 if the acquirer purchases less than 10% of a firm
Deal Variables	
Gov-to-Gov Deal	Dummy=1 when a government flagged entity is involved on the acquirer and target side. The acquirer side includes acquirers and acquirer parents. The target side includes targets and target parents.
Same Industry Deal (2-digit SIC)	Dummy=1 if either target or target parent and acquirer or acquirer parent are within the same 2-digit SIC code
Withdrawn Deal	Dummy=1 for eventually withdrawn deals
Government Acquirer	Dummy=1 if the acquirer, as opposed to acquirer parent, if flagged with government status
Cash Deal	Dummy=1 if 98% of the payment was in cash
Stock Deal	Dummy=1 if 98% of the payment was in stock
Mixed Deal	Dummy=1 if the deal was paid for with a mix of cash and stock or the payment was unknown
Bank Crisis	Dummy=1 if the deal occurs during banking crises defined by Laeven and Valencia (2010)
Capital Inflow	Dummy=1 if either new shares were issued for the investment or SDC deal synopsis specified an investement as a 'capital injection.'
Common Law (acquirer)	Dummy=1 if the acquirer parent nation is common law from ……..
Firm Variables	
Size	The natural logarithm of total assets (# 02999)
Leverage	(Total Assets - Book Value of Equity) / Total Assets (# 02999 and # 03501)
ROA	Net Income / Last Year's Total Asets (# 08326)
Tobin's Q	(Market Value + Total Assets - Book Value of Equity) / Total Assets (# 08001, # 02999 and # 03501)
Other Variables	
Last Year Performance	target's buy-and-hold abnormal market adjusted return (-250, -26)

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Table 1. Descriptive Statistic of Government Purchases

The table summarizes 1809 governement purchases. The sample covers the 1988-2011 period. Government investment is broken down by year of transaction announcement in Panel A, by the percentage of government ownership in Panel B, by country of the target in Panel C, by country of acquiror in Panel D, by 1 digit target SIC in Panel E and by full target SIC in Panel F.

Panel A. Government Investment by Transaction Year (announced)

Year	Deal Count	Deal Value USD (mil)	Proportion of Total (Count)	Proportion of Total (Value)	Cross_Border	Domestic	SOE	Political	Financial
1988	4	991	0%	0%	3	1	3	1	0
1989	15	4,686	1%	1%	11	4	8	1	6
1990	22	1,751	1%	0%	16	6	12	3	7
1991	46	3,731	3%	1%	22	24	17	9	20
1992	39	1,633	2%	0%	15	24	12	3	24
1993	68	3,529	4%	1%	33	35	28	8	32
1994	52	6,589	3%	1%	22	30	13	6	33
1995	37	6,167	2%	1%	11	26	10	6	21
1996	35	7,571	2%	2%	16	19	16	3	16
1997	61	7,061	3%	1%	33	28	26	6	29
1998	45	23,246	2%	5%	20	25	21	5	19
1999	70	8,888	4%	2%	22	48	34	11	25
2000	99	16,235	5%	3%	43	56	53	12	34
2001	61	19,749	3%	4%	25	36	26	5	30
2002	70	7,915	4%	2%	26	44	37	1	32
2003	92	6,219	5%	1%	26	66	45	6	41
2004	88	11,713	5%	2%	28	60	40	2	46
2005	100	31,801	6%	6%	34	66	41	8	51
2006	93	12,276	5%	2%	37	56	37	9	47
2007	116	74,850	6%	15%	46	70	49	9	58
2008	231	113,695	13%	23%	50	181	66	113	52
2009	261	102,727	14%	20%	75	186	77	106	78
2010	77	20,416	4%	4%	32	45	17	10	50
2011	27	8,438	1%	2%	13	14	10	4	13
Total	**1809**	**501,876**	**100%**	**100%**	**659**	**1150**	**698**	**347**	**764**

Panel B. Government Investment by Percentage Ownership

Stake Acquired	Deal Count	Deal Value USD (mil)	Proportion of Total (Count)	Proportion of Total (Value)	Cross_Border	Domestic	SOE	Political	Financial
No data	209	89,589	12%	18%	85	124	92	39	78
0%-10%	669	84,010	37%	17%	235	434	158	195	316
10%-25%	431	91,282	24%	18%	172	259	170	56	205
25%-50%	260	94,221	14%	19%	74	186	138	38	84
50%-75%	106	56,639	6%	11%	29	77	59	8	39
75%-99%	36	17,325	2%	3%	12	24	20	7	9
100%	98	68,811	5%	14%	52	46	61	4	33
Total	**1809**	**501,876**	**100%**	**100%**	**659**	**1150**	**698**	**347**	**764**

Panel C. Government Investment by Target Nation (top 15 by value)

Rank	Target Nation	Deal Count	Deal Value USD (mil)	Proportion of Total (Count)	Proportion of Total (Value)	Cross_ Border	Domestic	SOE	Political	Financial
1	United States	274	83,169	15%	17%	68	206	43	208	23
2	United Kingdom	58	76,313	3%	15%	51	7	25	11	22
3	Germany	58	40,780	3%	8%	30	28	25	10	23
4	Switzerland	14	26,008	1%	5%	9	5	5	2	7
5	Australia	92	23,595	5%	5%	66	26	52	0	40
6	Spain	45	19,910	2%	4%	22	23	26	3	16
7	Italy	13	19,699	1%	4%	3	10	9	0	4
8	Russian Fed	78	17,773	4%	4%	2	76	52	8	18
9	Canada	89	16,999	5%	3%	34	55	31	3	55
10	Hong Kong	117	14,813	6%	3%	117	0	53	2	62
11	Malaysia	81	13,284	4%	3%	15	66	19	20	42
12	Belgium	23	12,776	1%	3%	9	14	12	2	9
13	Brazil	29	12,747	2%	3%	13	16	14	2	13
14	Singapore	24	12,610	1%	3%	10	14	6	0	18
15	Norway	24	12,118	1%	2%	10	14	11	2	11
Total		**1019**	**402,594**	56%	80%	**459**	**560**	**383**	**273**	**363**
Others		**790**	**99,282**	44%	20%	**200**	**590**	**315**	**74**	**401**
Overall		**1809**	**501,876**	**100%**	**100%**	**659**	**1150**	**698**	**347**	**764**

Panel D. Government Investment by Acquiror (parent) Nation (top 15 by value)

Rank	Target Nation	Deal Count	Deal Value USD (mil)	Proportion of Total (Count)	Proportion of Total (Value)	Cross_ Border	Domestic	SOE	Political	Financial
1	China	387	76,180	21%	15%	175	212	236	5	146
2	France	173	56,393	10%	11%	82	91	79	13	81
3	Utd Arab Em	48	46,472	3%	9%	46	2	7	0	41
4	United States	240	38,020	13%	8%	34	206	7	204	29
5	United Kingdom	13	37,617	1%	7%	6	7	2	5	6
6	Singapore	99	31,364	5%	6%	85	14	3	7	89
7	Germany	41	23,778	2%	5%	13	28	11	11	19
8	Russian Fed	89	19,981	5%	4%	13	76	59	9	21
9	Qatar	18	15,436	1%	3%	15	3	1	0	17
10	Switzerland	9	13,934	0%	3%	4	5	6	2	1
11	Malaysia	76	12,280	4%	2%	10	66	20	21	35
12	Belgium	20	11,383	1%	2%	6	14	12	2	6
13	South Korea	29	10,422	2%	2%	4	25	7	3	19
14	Italy	20	10,162	1%	2%	10	10	13	0	7
15	Sweden	36	8,768	2%	2%	20	16	23	0	13
Total		**1298**	**412,189**	72%	82%	**523**	**775**	**486**	**282**	**530**
Others		**511**	**89,687**	28%	18%	**136**	**375**	**212**	**65**	**234**
Overall		**1809**	**501,876**	**100%**	**100%**	**659**	**1150**	**698**	**347**	**764**

Panel E. Government Investment by 1-digit SIC

SIC 1-digit code	SIC Category	Deal Count	Deal Value USD (mil)	Proportion of Total (Count)	Proportion of Total (Value)	Cross_ Border	Domestic	SOE	Political	Financial
0	Agriculture, forestry, and fishing	17	3,949	1%	1%	6	11	4	2	11
1	Mining, construction	200	96,133	11%	19%	130	70	125	8	67
2	Manufacturing (food, fabric, wood, chemical)	203	20,804	11%	4%	63	140	101	12	90
3	Manufacturing (rubber, plastic, glass, metal; boat, rail, air equipment)	284	39,525	16%	8%	88	196	133	29	122
4	Transportation, communications, electric, gas, and sanitary service	347	122,980	19%	25%	141	206	224	35	88
5	Trade (wholesale, retail)	57	4,013	3%	1%	16	41	22	7	28
6	Finance, insurance, and real estate	575	197,526	32%	39%	163	412	46	241	288
7	Services (hotel, beauty, funeral, computer, car rental & repair, movie)	103	9,485	6%	2%	44	59	39	10	54
8	Services (doctor's offices, legal, schools [elementary, secondary, colleges], religious, accounting)	23	7,462	1%	1%	8	15	4	3	16
Overall		**1809**	**501,876**	**100%**	**100%**	**659**	**1150**	**698**	**347**	**764**

Panel F. Government Investment by SIC (top 10 by value)

Rank	SIC Category	Deal Count	Deal Value USD (mil)	Proportion of Total (Count)	Proportion of Total (Value)	Cross_ Border	Domestic	SOE	Political	Financial
1	depository institutions	153	79,924	8%	16%	58	95	5	28	120
2	crude petroleum and natural gas	69	67,543	4%	13%	42	27	51	2	16
3	electric services	119	55,345	7%	11%	35	84	99	3	17
4	telephone communications	51	36,750	3%	7%	27	24	30	10	11
5	national commercial banks	112	26,776	6%	5%	2	110	0	110	2
6	investment advice	20	18,270	1%	4%	8	12	0	4	16
7	personal credit institutions	9	14,955	0%	3%	2	7	0	3	6
8	life insurance	21	11,630	1%	2%	12	9	1	4	16
9	semiconductors and related devices	17	11,560	1%	2%	11	6	6	0	11
10	land subdividers and developers	61	10,163	3%	2%	22	39	12	6	43
Total		**632**	**332,916**	35%	66%	**219**	**413**	**204**	**170**	**258**
Others		**1177**	**168,960**	65%	34%	**440**	**737**	**494**	**177**	**506**
Overall		**1809**	**501,876**	**100%**	**100%**	**659**	**1150**	**698**	**347**	**764**

Table 2. Descriptive Statistics

This table present government ownership, rival and target accounting information and deal identification. Continuous variables are presented in Panel A and the table describes the number, mean, standard deviation, median, 25th and 75th percentile for each. Binary variables are presented in Panel B. The sample covers 1988-2010.

Panel A. Continuous variables

Continuous Variables	Count	Mean	Std. Dev.	Median	25th percentile	75th percentile
Government Variables						
Gov.Prior Ownership (%)	1,809	7%	18%	0%	0%	0%
Gov. Shares Acquired (%)	1,600	24%	27%	12%	6%	30%
Gov. Ex Post Ownership (%)	1,632	32%	31%	18%	8%	50%
Gov. Exprop.	1,806	8.65	1.98	8.15	7.42	10.67
Gov. Size	1,776	5.47	1.49	5.55	4.50	6.78
Gov. Autoc./Democ.	1,807	-3.75	7.43	-9.00	-10.00	7.00
Gov. Stability	1,389	5.18	5.13	3.00	2.00	8.00
Firm Variables						
Size [ln(Total Assets)]	1,541	13.5	2.32	13.38	11.99	14.91
Total Assets	1,541	21,172,870	125,855,521	646,217	161,058	2,982,103
Leverage (Debt-to-Assets)	1,524	64%	0.29	66%	46%	89%
ROA	1,410	1%	0.15	3%	0%	6%
Tobin's Q	1,453	1.44	1.38	1.04	0.92	1.48
Market Value	1,482	1,832,383	6,655,736	146,433	12,498	675,911
Book Value of Equity	1,525	1,511,096	5,467,537	158,719	47,945	737,107
MTBV	1,505	2.27	3.66	1.39	0.81	2.40
Debt	1,524	19,902,627	122,159,122	368,051	73,417	2,133,354
Cash Over Total Aseets	1,049	34%	0.27	27%	13%	50%
Long Term Debt-to-Equity	1,494	83%	2.04	29%	1%	93%
Debt-to-Equity	1,525	163%	4.25	66%	17%	165%
Dividend Yield	1,430	2%	0.03	1%	0%	4%
Quick Ratio	1,071	2.61	8.24	0.89	0.55	1.49

Panel B. Pre-Announcement Performance (6 and 12 monthes back)

Buy-and-Hold Returns (using country specific indices)	N	Positive : Negative	Mean Compound AR	Patell Z p-value	Median CAR	Signed Rank p-value
BHAR (-150,-26)	1,754	902:852	8%	<.0001	1%	0.013
BHAR (-250,-26)	1,694	814:880	16%	<.0001	-2%	0.781

Table 2. *continued*

Panel C. Binary Variables

	Count	Yes (1)	Yes(%)
Deal Variables	1809		
Bank_crisis		410	23%
Crisis _08-09		492	27%
Capital Inflow		156	9%
Foreign		659	36%
Gov-to-Gov Deal (direct)		1	0%
Gov-to-Gov Deal		282	16%
target_commonlaw		896	50%
Same 2-digit SIC: Acquirer/Target		466	26%
Same 2-digit SIC: Acquirer or Acquirer Parent/Target or Target Parent		629	35%
Same 1-digit SIC: Acquirer/Target		702	39%
Same 1-digit SIC: Acquirer or Acquirer Parent/Target or Target Parent		851	47%
Consideration Offered Variables	1809		
Warrants		186	10%
Convertible Debt		38	2%
Stock		1587	88%
Variables that influence acquistion premium	1809		
Withdrawn		133	7%
cash_deal		588	33%
stock_deal		31	2%
mixed_deal		1190	66%
Government Investor Variables	1809		
Political Gov. Investor		347	19%
gov_national		264	15%
gov_local		58	3%
pension_fund		25	1%
Financial Gov. Investor		764	42%
financial_bank		108	6%
development_bank		49	3%
financial_real estate		42	2%
supranational		23	1%
SWF		164	9%
financial_other		378	21%
Economic Gov. Investor		698	39%
SOE_Energy		269	15%
SOE_Industrial		119	7%
SOE_Materials		114	6%
SOE_TelecomTech		99	5%
SOE_Media		40	2%
SOE_Consumer		57	3%
Acquirer_Gov		881	49%
Acquiror_commonlaw		796	44%
Acquiror_parent_commonlaw		690	38%
Left-wing Gov.		892	49%

Table 2. *continued*

Panel D. Correlation Table

	Leverage	*Dividend Yield*	*Quick Ratio*	*ROA*	*Tobin's Q*	*Size*	*Foreign*	*Capital Inflow*	*Same Industry*	*Warrants*	*Convertible Debt*	*Stock*	*Gov-to-Gov*	*Gov. Acquirer*	*Bank Crisis*	*Crisis__08_09*	*TARP*	*Common Law (T)*	*Common Law (A)*	*Common Law (AP)*	*Acquired(%)*	*Ex Post Own.(%)*	*Prior Own.(%)*	*cash_deal*	*stock_deal*	*mixed_deal*	*Left*	*Gov. Exprop.*	*Gov. Size*	*Political*	*Financial*	*Economic*
Leverage (debt-to-assets)	1																															
Dividend Yield	0.05	1																														
Quick Ratio	-0.31	-0.09	1																													
ROA	-0.12	0.24	-0.11	1																												
Tobin's Q	-0.04	-0.15	-0.07	-0.12	1																											
Size (log total assets)	0.38	0.24	-0.2	0.27	-0.29	1																										
Foreign Deal	-0.15	-0.07	0.1	-0.05	0.04	-0.02	1																									
Capital Inflow	-0.01	-0.08	0.11	-0.11	0.07	-0.01	0.12	1																								
Same Industry (2-digit SIC)	-0.14	0.01	-0.04	0.11	0	0.02	0.13	-0.06	1																							
Warrants	0.33	0.2	-0.01	-0.04	-0.11	0.13	-0.24	-0.1	-0.24	1																						
Convertible Debt	0.02	-0.01	0	-0.02	-0.01	0.1	0.07	-0.02	-0.03	-0.02	1																					
Stock	-0.31	-0.18	0	0.05	0.1	-0.17	0.19	0.1	0.23	-0.91	-0.39	1																				
Gov-to-Gov Deal	-0.09	0.02	-0.02	0.07	-0.03	0.01	-0.08	-0.03	0.17	-0.07	-0.01	0.08	1																			
Government Acquirer	0.15	0.09	-0.02	0	-0.03	0.13	-0.21	-0.06	-0.3	0.33	-0.01	-0.29	0.13	1																		
Bank Crisis	0.28	0.09	-0.01	0	-0.2	0.27	-0.19	-0.07	-0.18	0.57	-0.04	-0.51	-0.05	0.25	1																	
Crisis__08_09	0.17	0.1	0.15	-0.02	-0.15	0.18	-0.14	0.02	-0.16	0.51	0	-0.48	-0.07	0.18	0.58	1																
TARP	0.32	0.19	.	0	-0.12	0.14	-0.24	-0.1	-0.24	0.92	-0.05	-0.83	-0.08	0.33	0.59	0.53	1															
Common Law (target)	-0.02	0.11	0.15	-0.09	0	-0.09	0.23	0.05	-0.2	0.33	0.03	-0.32	-0.02	0.18	0.11	0.14	0.32	1														
Common Law (acquirer	0.05	0.13	0.08	-0.04	-0.04	-0.02	0.05	0.01	-0.22	0.36	-0.01	-0.33	-0.02	0.16	0.16	0.13	0.37	0.73	1													
Common Law (acquirer)	0.13	0.15	0.01	-0.02	-0.03	0.05	-0.08	-0.04	-0.27	0.41	0	-0.38	-0.01	0.27	0.2	0.15	0.41	0.65	0.84	1												
Gov. Shares Acquired (%)	-0.08	0.02	0.02	0.05	0.04	-0.11	0.03	-0.04	0.26	-0.2	0.02	0.18	0.14	-0.19	-0.14	-0.09	-0.2	-0.08	-0.14	-0.17	1											
Gov. Ex Post Ownership (%)	-0.09	0.03	-0.01	0.09	0.02	-0.08	0.01	-0.05	0.36	-0.25	0	0.23	0.17	-0.2	-0.16	-0.11	-0.25	-0.13	-0.17	-0.2	0.82	1										
Gov.Prior Ownership (%)	-0.05	0.04	-0.05	0.08	-0.03	0.01	-0.04	-0.03	0.24	-0.14	-0.02	0.14	0.07	-0.07	-0.09	-0.07	-0.13	-0.11	-0.09	-0.08	-0.05	0.51	1									
cash_deal	0.01	-0.01	0.06	0	-0.02	-0.02	0.05	0.01	-0.03	0.13	0.01	-0.13	0	0.03	0	0.07	0.13	0.18	0.16	0.13	0.02	0.07	0.09	1								
stock_deal	-0.05	0.08	-0.01	0.03	-0.01	-0.02	-0.01	0.07	0.11	-0.04	0.04	0.02	0	-0.1	-0.07	-0.06	-0.04	-0.01	0.01	-0.02	0.2	0.18	0.04	-0.09	1							
mixed_deal	0.01	-0.01	-0.06	0	0.02	0.03	-0.04	-0.02	0	-0.12	-0.02	0.12	0	-0.01	0.02	-0.05	-0.12	-0.18	-0.17	-0.12	-0.08	-0.12	-0.1	-0.96	-0.18	1						
Left-wing Gov.	-0.02	-0.04	-0.02	-0.03	0.04	-0.17	0.03	0.04	0.07	-0.03	-0.04	0.04	-0.03	-0.08	-0.19	-0.07	-0.01	-0.05	-0.14	-0.27	0.04	0	-0.05	0	-0.02	0.01	1					
Gov. Exprop.	-0.15	-0.07	0.05	0	0.06	-0.05	0.16	0.08	0.07	-0.19	0.06	0.15	-0.04	-0.12	-0.07	0.07	-0.2	-0.08	-0.1	-0.06	0.04	0.1	0.1	-0.04	0	0.04	-0.11	1				
Gov. Size	0.08	0.09	0.02	0.04	-0.04	0.14	-0.06	-0.02	-0.19	0.27	0.05	-0.27	0	0.18	0.27	0.27	0.27	0.35	0.5	0.65	-0.14	-0.15	-0.06	0.08	-0.07	-0.06	-0.48	0.18	1			
Political Gov. Investor	0.29	0.16	-0.02	0.02	-0.12	0.24	-0.29	-0.05	-0.33	0.63	-0.06	-0.56	0.02	0.48	0.48	0.39	0.67	0.25	0.3	0.35	-0.17	-0.19	-0.08	0.08	-0.06	-0.07	-0.1	-0.2	0.25	1		
Financial Gov. Investor	-0.01	-0.03	0	-0.04	-0.01	0.01	0.08	0.02	-0.16	-0.26	0.11	0.2	-0.03	-0.1	-0.19	-0.2	-0.28	-0.02	0.06	0.1	-0.11	-0.1	-0.02	-0.07	-0.03	0.07	-0.09	0.04	0.12	-0.42	1	
Economic Gov. Investor	-0.24	-0.11	0.01	0.02	0.11	-0.2	0.15	0.02	0.43	-0.25	-0.06	0.25	0.02	-0.29	-0.2	-0.12	-0.26	-0.18	-0.3	-0.38	0.24	0.26	0.08	0	0.08	-0.02	0.17	0.12	-0.32	-0.39	-0.68	1

Table 3. Event Study Results for All, Foreign and Domestic Deals

This table presents target reaction to the news of increased government ownership. The results are broken down by all, foreign or domestic deals. Foreign deal are cross-border deals where acquiror parent nation is different from the target nation, while domestic deal are where they are the same. Standard event study methodology is used. Returns are adjusted by the corresponding country index. Market Model is estimated (-230) to (-30). Firms are required to have at least 100 returns in order to be a part of the evaluation. Mean and median returns, as well as their p-values are presented. P-values at a 10% significance level or lower are grayed out.

	All						Foreign						Domestic					
Event Window	N	Positive: Negative	Mean CAR	Patell Z p-value	Median CAR	Signed Rank p-value	N	Positive: Negative	Mean CAR	Patell Z p-value	Median CAR	Signed Rank p-value	N	Positive: Negative	Mean CAR	Patell Z p-value	Median CAR	Signed Rank p-value
Market Adjusted (using country specific indices)																		
(0,+1)	1809	1024:778	2.48%	<.0001	0.46%	<.0001	659	407:250	5.05%	<.0001	1.33%	<.0001	1150	617:528	1.01%	<.0001	0.22%	<.0001
(-2,+2)	1809	1021:787	2.81%	<.0001	0.91%	<.0001	659	418:241	6.28%	<.0001	2.25%	<.0001	1150	603:546	0.82%	<.0001	0.30%	0.0009
(-5,+5)	1809	1005:804	2.50%	<.0001	1.03%	<.0001	659	416:243	6.70%	<.0001	2.49%	<.0001	1150	589:561	0.09%	0.0079	0.20%	0.1149
(-10,+10)	1809	937:872	1.85%	<.0001	0.51%	0.0007	659	385:274	6.73%	<.0001	2.22%	<.0001	1150	552:598	-0.95%	0.8209	-0.33%	0.6443
(-30,-10)	1809	910:899	0.30%	0.1476	0.05%	0.7841	659	371:288	3.11%	<.0001	1.13%	0.0001	1150	539:611	-1.31%	0.0351	-0.76%	0.0073
(+10,+30)	1809	786:1023	-1.60%	<.0001	-1.26%	<.0001	659	288:371	-1.03%	0.0155	-1.15%	0.0038	1150	498:652	-1.93%	<.0001	-1.30%	<.0001
Market Model (using country specific indices)																		
(0,+1)	1809	1061:748	2.55%	<.0001	0.55%	<.0001	659	421:238	5.18%	<.0001	1.36%	<.0001	1150	640:510	1.05%	<.0001	0.28%	<.0001
(-2,+2)	1809	1048:761	2.93%	<.0001	0.99%	<.0001	659	432:227	6.40%	<.0001	2.19%	<.0001	1150	616:534	0.94%	<.0001	0.43%	0.0003
(-5,+5)	1809	1025:784	3.00%	<.0001	1.18%	<.0001	659	419:240	7.10%	<.0001	2.51%	<.0001	1150	606:544	0.65%	0.362	0.47%	0.0109
(-10,+10)	1809	998:811	3.05%	0.0003	1.28%	<.0001	659	400:259	7.61%	<.0001	3.19%	<.0001	1150	598:552	0.44%	0.9823	0.49%	0.0725
(-30,-10)	1809	926:883	1.28%	<.0001	0.28%	0.0174	659	368:291	3.85%	0.0101	1.50%	<.0001	1150	558:592	-0.19%	<.0001	-0.25%	0.4809
(+10,+30)	1809	840:969	-0.74%	0.4295	-0.65%	0.0082	659	300:359	-0.29%	<.0001	-0.70%	0.1275	1150	540:610	-1.01%	<.0001	-0.60%	0.0306

Table 4. Event Study Results for Different Types of Government Acquirers

This table presents target reaction to the news of increased government ownership. The results are broken down types of government acquirers. Political acquirers are national and local governments and government pension funds. Financial acquirers are banks, asset managers, SWFs, supranationals. Economic acquirers are various SOEs. Standard event study methodology is used. Returns are adjusted by the corresponding country index. Market Model is estimated (-230) to (-30). Firms are required to have at least 100 returns in order to be a part of the evaluation. Mean and median returns, as well as their p-values are presented. P-values at a 10% significance level or lower are grayed out.

	Political						**Financial**						**Economic (SOE)**					
Event Window	N	Positive: Negative	Mean CAR	Patell Z p-value	Median CAR	Signed Rank p-value	N	Positive: Negative	Mean CAR	Patell Z p-value	Median CAR	Signed Rank p-value	N	Positive: Negative	Mean CAR	Patell Z p-value	Median CAR	Signed Rank p-value
Market Adjusted (using country specific indices)																		
(0,+1)	347	160:187	-1.16%	<.0001	-0.31%	0.3162	764	410:349	2.03%	<.0001	0.32%	<.0001	698	454:242	4.78%	<.0001	1.19%	<.0001
(-2,+2)	347	161:186	-2.92%	<.0001	-0.64%	0.0302	764	413:350	2.23%	<.0001	0.48%	<.0001	698	447:251	6.30%	<.0001	2.36%	<.0001
(-5,+5)	347	152:195	-4.36%	<.0001	-1.73%	0.0005	764	409:355	2.18%	<.0001	0.63%	0.0011	698	444:254	6.26%	<.0001	2.76%	<.0001
(-10,+10)	347	142:205	-6.43%	<.0001	-3.57%	<.0001	764	384:380	0.99%	0.0004	0.03%	0.2432	698	411:287	6.90%	<.0001	2.97%	<.0001
(-30,-10)	347	139:208	-5.60%	<.0001	-3.97%	<.0001	764	390:374	0.53%	0.4299	0.10%	0.6119	698	381:317	2.98%	<.0001	1.24%	<.0001
(+10,+30)	347	147:200	-3.61%	<.0001	-2.69%	0.0006	764	332:432	-1.36%	0.0075	-1.08%	0.0012	698	307:391	-0.86%	0.0652	-1.17%	0.0195
Market Model (using country specific indices)																		
(0,+1)	347	173:174	-1.26%	<.0001	-0.03%	0.2826	764	430:334	2.18%	<.0001	0.45%	<.0001	698	458:240	4.87%	<.0001	1.08%	<.0001
(-2,+2)	347	162:185	-2.99%	<.0001	-0.56%	0.0061	764	442:322	2.42%	<.0001	0.85%	<.0001	698	444:254	6.44%	<.0001	2.29%	<.0001
(-5,+5)	347	159:188	-3.47%	<.0001	-0.89%	0.0039	764	421:343	2.60%	<.0001	0.87%	<.0001	698	445:253	6.66%	<.0001	2.94%	<.0001
(-10,+10)	347	153:194	-3.77%	<.0001	-1.65%	0.0047	764	408:356	1.82%	0.7801	0.77%	0.0179	698	437:261	7.80%	<.0001	3.79%	<.0001
(-30,-10)	347	147:200	-3.26%	0.0186	-2.16%	0.0025	764	398:366	1.12%	<.0001	0.40%	0.1498	698	381:317	3.73%	0.7064	1.31%	<.0001
(+10,+30)	347	157:190	-2.63%	<.0001	-2.11%	0.0167	764	349:415	-0.55%	<.0001	-0.63%	0.0526	698	334:364	-0.02%	0.2312	-0.35%	0.6395

Table 5. Event Study Results for Different Levels of Government Expropriation

This table presents target reaction to the news of increased government ownership. The results are broken down by the level of expropriation risk and left- or right-wing nature of the acquirer parent nation government. Standard event study methodology is used. Returns are adjusted by the corresponding country index. Market Model is estimated (-230) to (-30). Firms are required to have at least 100 returns in order to be a part of the evaluation. Mean and median returns, as well as their p-values are presented. P-values at a 10% significance level or lower are grayed out.

		Expropriation Risk High						Expropriation Risk Low				
Event Window	N	Positive: Negative	Mean CAR	Patell Z p-value	Median CAR	Signed Rank p-value	N	Positive: Negative	Mean CAR	Patell Z p-value	Median CAR	Signed Rank p-value
Market Adjusted (using country specific indices)												
(0,+1)	915	491:419	1.59%	<.0001	0.18%	0.0004	891	531:358	3.35%	<.0001	0.93%	<.0001
(-2,+2)	915	477:437	1.00%	<.0001	0.22%	0.0164	891	542:349	4.63%	<.0001	1.74%	<.0001
(-5,+5)	915	468:447	0.33%	0.1428	0.16%	0.3449	891	535:356	4.52%	<.0001	2.02%	<.0001
(-10,+10)	915	431:484	-0.65%	0.5106	-0.73%	0.2387	891	503:388	4.21%	<.0001	2.09%	<.0001
(-30,-10)	915	449:466	-0.32%	0.2523	-0.28%	0.2441	891	460:431	0.93%	0.4325	0.28%	0.1179
(+10,+30)	915	378:537	-2.26%	<.0001	-1.73%	<.0001	891	407:484	-0.85%	0.0484	-0.87%	0.0179
Market Model (using country specific indices)												
(0,+1)	915	516:399	1.66%	<.0001	0.31%	<.0001	891	543:348	3.42%	<.0001	0.83%	<.0001
(-2,+2)	915	485:430	1.16%	<.0001	0.42%	0.005	891	561:330	4.71%	<.0001	1.80%	<.0001
(-5,+5)	915	477:438	1.05%	0.524	0.42%	0.0294	891	546:345	4.79%	<.0001	1.81%	<.0001
(-10,+10)	915	461:454	1.06%	0.5883	0.10%	0.2358	891	534:357	4.89%	<.0001	2.63%	<.0001
(-30,-10)	915	470:445	0.94%	0.0005	0.31%	0.2591	891	454:437	1.63%	<.0001	0.22%	0.0244
(+10,+30)	915	410:505	-1.44%	<.0001	-1.01%	0.0019	891	429:462	0.05%	<.0001	-0.41%	0.6034
		Left-Winged Government						Right-Winged (or other) Government				
Market Adjusted (using country specific indices)												
(0,+1)	892	515:374	3.01%	<.0001	0.53%	<.0001	916	508:404	1.96%	<.0001	0.42%	<.0001
(-2,+2)	892	520:372	3.75%	<.0001	1.15%	<.0001	916	500:415	1.90%	<.0001	0.70%	<.0001
(-5,+5)	892	524:368	4.21%	<.0001	1.65%	<.0001	916	481:435	0.85%	0.001	0.47%	0.0245
(-10,+10)	892	489:403	3.97%	<.0001	1.18%	<.0001	916	447:469	-0.22%	0.4304	-0.31%	0.9375
(-30,-10)	892	477:415	1.69%	<.0001	0.65%	0.0049	916	433:483	-1.05%	0.0348	-0.75%	0.0144
(+10,+30)	892	400:492	-0.95%	0.0342	-1.07%	0.0177	916	385:531	-2.24%	<.0001	-1.53%	<.0001
Market Model (using country specific indices)												
(0,+1)	892	532:360	3.05%	<.0001	0.53%	<.0001	916	528:388	2.07%	<.0001	0.55%	<.0001
(-2,+2)	892	520:372	3.88%	<.0001	1.15%	<.0001	916	527:389	2.02%	<.0001	0.90%	<.0001
(-5,+5)	892	524:368	4.67%	<.0001	1.68%	<.0001	916	501:415	1.38%	<.0001	0.74%	0.0009
(-10,+10)	892	519:373	5.08%	0.0103	1.82%	<.0001	916	478:438	1.08%	0.0092	0.59%	0.0346
(-30,-10)	892	480:412	2.64%	0.1112	0.92%	<.0001	916	446:470	-0.03%	<.0001	-0.30%	0.4842
(+10,+30)	892	428:464	-0.16%	0.0062	-0.36%	0.4292	916	411:505	-1.32%	0.0001	-1.00%	0.0031

Table 6. Event Study Results for Different Government Ownership Stakes

This table presents target reaction to the news of increased government ownership. The results are broken down by the majority and minority government ownership and acquistion. Standard event study methodology is used. Returns are adjusted by the corresponding country index. Market Model is estimated (-230) to (-30). Firms are required to have at least 100 returns in order to be a part of the evaluation. Mean and median returns, as well as their p-values are presented. P-values at a 10% significance level or lower are grayed out.

		Government Ownership 50% or above						Government Ownership below 10%				
Event Window	N	Positive: Negative	Mean CAR	Patell Z p-value	Median CAR	Signed Rank p-value	N	Positive: Negative	Mean CAR	Patell Z p-value	Median CAR	Signed Rank p-value
Market Adjusted (using country specific indices)												
(0,+1)	408	256:149	5.11%	<.0001	1.29%	<.0001	515	270:245	0.41%	0.021	0.16%	0.1608
(-2,+2)	408	264:143	5.87%	<.0001	2.84%	<.0001	515	268:247	-0.02%	0.2627	0.39%	0.3502
(-5,+5)	408	267:141	7.26%	<.0001	3.60%	<.0001	515	237:278	-1.41%	0.0034	-0.94%	0.0606
(-10,+10)	408	263:145	8.14%	<.0001	5.50%	<.0001	515	224:291	-2.94%	<.0001	-1.65%	0.0007
(-30,-10)	408	220:188	0.69%	0.0496	0.68%	0.1153	515	224:291	-1.59%	0.0408	-1.59%	0.0021
(+10,+30)	408	192:216	0.15%	0.4339	-0.64%	0.7452	515	198:317	-3.10%	<.0001	-2.13%	<.0001
Market Model (using country specific indices)												
(0,+1)	408	261:147	5.29%	<.0001	1.07%	<.0001	515	278:237	0.41%	<.0001	0.23%	0.0731
(-2,+2)	408	273:135	6.27%	<.0001	2.70%	<.0001	515	268:247	-0.16%	<.0001	0.25%	0.7315
(-5,+5)	408	272:136	7.77%	<.0001	4.04%	<.0001	515	237:278	-1.29%	0.159	-0.60%	0.074
(-10,+10)	408	283:125	9.14%	<.0001	5.59%	<.0001	515	238:277	-2.20%	<.0001	-1.24%	0.0107
(-30,-10)	408	224:184	1.80%	<.0001	0.97%	0.0088	515	228:287	-0.85%	<.0001	-1.25%	0.0762
(+10,+30)	408	215:193	1.28%	0.0144	0.45%	0.1942	515	200:315	-3.33%	<.0001	-2.59%	<.0001

Table 7. Event Study Results During Economy Wide Crises

This table presents target reaction to the news of increased government ownership. The results reflect reactions during and outside of the following economy-wide crises: Banking Crises, as defined by Laeven, Valencia (2010) and the 2008 Financial Crisis. Banking Crises covers country specific years when those nations are under a banking crisis. The 2008 Financial Crisis covers deals announced between 2008-2010, while the sample outside of this crisis covers the 1990-2007 period. Standard event study methodology is used. Returns are adjusted by the corresponding country index. Market Model is estimated (-230) to (-30). Firms are required to have at least 100 returns in order to be a part of the evaluation. Mean and median returns, as well as their p-values are presented. P-values at a 10% significance level or lower are grayed out.

		Banking Crises						Outside of Banking Crises				
Event Window	N	Positive: Negative	Mean CAR	Patell Z p-value	Median CAR	Signed Rank p-value	N	Positive: Negative	Mean CAR	Patell Z p-value	Median CAR	Signed Rank p-value
Market Adjusted (using country specific indices)												
(0,+1)	347	160:187	-1.16%	<.0001	-0.31%	0.3162	764	410:349	2.03%	<.0001	0.32%	<.0001
(-2,+2)	347	161:186	-2.92%	<.0001	-0.64%	0.0302	764	413:350	2.23%	<.0001	0.48%	<.0001
(-5,+5)	347	152:195	-4.36%	<.0001	-1.73%	0.0005	764	409:355	2.18%	<.0001	0.63%	0.0011
(-10,+10)	347	142:205	-6.43%	<.0001	-3.57%	<.0001	764	384:380	0.99%	0.0004	0.03%	0.2432
(-30,-10)	347	139:208	-5.60%	<.0001	-3.97%	<.0001	764	390:374	0.53%	0.4299	0.10%	0.6119
(+10,+30)	347	147:200	-3.61%	<.0001	-2.69%	0.0006	764	332:432	-1.36%	0.0075	-1.08%	0.0012
Market Model (using country specific indices)												
(0,+1)	347	173:174	-1.26%	<.0001	-0.03%	0.2826	764	430:334	2.18%	<.0001	0.45%	<.0001
(-2,+2)	347	162:185	-2.99%	<.0001	-0.56%	0.0061	764	442:322	2.42%	<.0001	0.85%	<.0001
(-5,+5)	347	159:188	-3.47%	<.0001	-0.89%	0.0039	764	421:343	2.60%	<.0001	0.87%	<.0001
(-10,+10)	347	153:194	-3.77%	<.0001	-1.65%	0.0047	764	408:356	1.82%	0.7801	0.77%	0.0179
(-30,-10)	347	147:200	-3.26%	0.0186	-2.16%	0.0025	764	398:366	1.12%	<.0001	0.40%	0.1498
(+10,+30)	347	157:190	-2.63%	<.0001	-2.11%	0.0167	764	349:415	-0.55%	<.0001	-0.63%	0.0526
		2008 Financial Crisis (2008-2010)						Outside of 2008 Financial Crisis (1988-2007)				
Market Adjusted (using country specific indices)												
(0,+1)	698	454:242	4.78%	<.0001	1.19%	<.0001	1213	696:511	2.76%	<.0001	0.43%	<.0001
(-2,+2)	698	447:251	6.30%	<.0001	2.36%	<.0001	1213	688:524	3.48%	<.0001	0.84%	<.0001
(-5,+5)	698	444:254	6.26%	<.0001	2.76%	<.0001	1213	687:526	3.31%	<.0001	0.99%	<.0001
(-10,+10)	698	411:287	6.90%	<.0001	2.97%	<.0001	1213	644:569	2.73%	<.0001	0.71%	<.0001
(-30,-10)	698	381:317	2.98%	<.0001	1.24%	<.0001	1213	631:582	1.27%	<.0001	0.36%	0.0471
(+10,+30)	698	307:391	-0.86%	0.0652	-1.17%	0.0195	1213	531:682	-0.52%	0.0142	-1.06%	0.001
Market Model (using country specific indices)												
(0,+1)	698	458:240	4.87%	<.0001	1.08%	<.0001	1213	719:494	2.84%	<.0001	0.53%	<.0001
(-2,+2)	698	444:254	6.44%	<.0001	2.29%	<.0001	1213	711:502	3.61%	<.0001	0.99%	<.0001
(-5,+5)	698	445:253	6.66%	<.0001	2.94%	<.0001	1213	691:522	3.63%	<.0001	1.10%	<.0001
(-10,+10)	698	437:261	7.80%	<.0001	3.79%	<.0001	1213	681:532	3.39%	<.0001	1.26%	<.0001
(-30,-10)	698	381:317	3.73%	0.7064	1.31%	<.0001	1213	638:575	1.78%	0.441	0.66%	0.0035
(+10,+30)	698	334:364	-0.02%	0.2312	-0.35%	0.6395	1213	577:636	0.10%	0.481	-0.49%	0.1701

Table 8. Target Reaction to Government Investment

The dependent variable is the market adjusted cumulative abnormal 5 day (-2, +2) return (MAR)around the announcement of government investment. The independent variables are described in Appendix 1. Model 1 includes all deals, Model 2 shows foreign and Model 3 domestic deals.The regression is run via OLS (Ordinary Least Squares) with the Newey-West adjustment. Coefficients significant at the 10% level are in boldface and t-statistics is listed below in parentheses.

	(1) All	(2) Foreign	(3) Domestic
Foreign Deal	**0.0309**		
	(2.50)		
Gov. Shares Acquired (%)	**0.0012**	**0.0021**	**0.0006**
	(5.63)	*(5.20)*	*(2.69)*
Gov. Prior Ownership (%)	**0.0008**	0.0002	**0.0008**
	(3.33)	*(0.46)*	*(2.72)*
Gov-to-Gov Deal	**0.0215**	0.0567	**0.0253**
	(1.68)	*(1.44)*	*(1.86)*
Withdrawn Deal	-0.0396	0.0029	**-0.0448**
	(-1.53)	*(0.07)*	*(-1.89)*
Last Year Performance	0.0014	-0.0095	0.0059
	(0.19)	*(-0.61)*	*(0.72)*
Cash Deal	0.0089	0.0005	0.0150
	(1.09)	*(0.02)*	*(1.51)*
Stock Deal	**-0.0378**	**-0.0936**	-0.0196
	(-1.67)	*(-1.85)*	*(-0.96)*
Bank Crisis Dummy	-0.0151	-0.0054	-0.0134
	(-0.98)	*(-0.21)*	*(-0.60)*
Size	**-0.0061**	-0.0051	**-0.0067**
	(-2.71)	*(-1.09)*	*(-2.47)*
Leverage	0.0000	0.0000	0.0000
	(-0.69)	*(-0.55)*	*(-0.15)*
ROA	-0.0001	-0.0004	-0.0001
	(-0.38)	*(-0.59)*	*(-0.28)*
Tobin's Q	**-0.0058**	-0.0022	**-0.0058**
	(-1.81)	*(-0.37)*	*(-1.70)*
Intercept	0.0465	0.1819	0.0048
	(0.84)	*(1.38)*	*(0.09)*
Year Dummies	Yes	Yes	Yes
SIC Dummies	Yes	Yes	Yes
Target Nation Dummies	Yes	Yes	Yes
Acquirer P. Nation Dummies	Yes	Yes	
Observations	1160	412	748
R-squared	0.229	0.360	0.184
Adjusted R-squared	0.152	0.155	0.097

Table 9. Target Reaction to Investment by Different Types of Government Investor

The dependent variable is the market adjusted cumulative abnormal 5 day (-2, +2) return (MAR)around the announcement of government investment. The independent variables are described in Appendix 1. Model 1 includes all deals, Model 2 shows foreign and Model 3 domestic deals. Model 4 includes investments by political, Model 5 by economic, and Model 6 financial arms of government. The regression is run via OLS (Ordinary Least Squares) with the Newey-West adjustment. Coefficients significant at the 10% level are in boldface and t-statistics is listed below in parentheses.

	(1) All	(2) Foreign	(3) Domestic	(4) Political	(5) Financial	(6) Economic
Political Gov. Investor	**-0.0302**	-0.0134	**-0.0364**			
	(-2.23)	*(-0.29)*	*(-2.45)*			
Financial Gov. Investor	-0.0025	-0.0001	-0.0052			
	(-0.23)	*(-0.00)*	*(-0.44)*			
Foreign Deal	**0.0232**			0.0681	-0.0019	0.0176
	(1.82)			*(1.35)*	*(-0.13)*	*(0.90)*
Gov. Shares Acquired (%)	**0.0012**	**0.0021**	**0.0006**	**-0.0014**	**0.0014**	**0.0010**
	(5.40)	*(5.07)*	*(2.45)*	*(-2.34)*	*(3.64)*	*(3.70)*
Gov. Prior Ownership (%)	**0.0008**	0.0002	**0.0008**	0.0009	**0.0008**	**0.0006**
	(3.24)	*(0.45)*	*(2.66)*	*(1.10)*	*(2.09)*	*(1.64)*
Gov-to-Gov Deal	**0.0223**	0.0576	**0.0263**	**0.0879**	-0.0009	0.0041
	(1.75)	*(1.45)*	*(1.94)*	*(2.78)*	*(-0.04)*	*(0.21)*
Withdrawn Deal	-0.0404	0.0012	**-0.0448**	**0.1148**	0.0659	**-0.0697**
	(-1.56)	*(0.03)*	*(-1.86)*	*(2.20)*	*(1.19)*	*(-2.58)*
Last Year Performance	0.0013	-0.0096	0.0057	0.0015	-0.0007	0.0047
	(0.18)	*(-0.62)*	*(0.72)*	*(0.10)*	*(-0.07)*	*(0.41)*
Cash Deal	0.0083	0.0008	0.0129	0.0198	0.0015	0.0031
	(1.02)	*(0.04)*	*(1.30)*	*(1.18)*	*(0.09)*	*(0.20)*
Stock Deal	**-0.0416**	**-0.0954**	-0.0263		-0.0892	**-0.0555**
	(-1.84)	*(-1.90)*	*(-1.25)*		*(-1.67)*	*(-1.92)*
Bank Crisis Dummy	-0.0144	-0.0054	-0.0146	0.0039	-0.0132	-0.0301
	(-0.94)	*(-0.21)*	*(-0.66)*	*(0.11)*	*(-0.59)*	*(-1.13)*
Size	**-0.0055**	-0.0050	**-0.0057**	**-0.0072**	-0.0020	**-0.0075**
	(-2.46)	*(-1.07)*	*(-2.14)*	*(-1.77)*	*(-0.62)*	*(-1.99)*
Leverage	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	(-0.65)	*(-0.52)*	*(-0.11)*	*(0.58)*	*(-0.63)*	*(-0.40)*
ROA	-0.0001	-0.0004	-0.0001	-0.0007	-0.0001	0.0000
	(-0.32)	*(-0.59)*	*(-0.24)*	*(-0.43)*	*(-0.19)*	*(-0.00)*
Tobin's Q	**-0.0054**	-0.0021	-0.0052	0.0138	-0.0011	**-0.0132**
	(-1.66)	*(-0.34)*	*(-1.50)*	*(1.20)*	*(-0.30)*	*(-2.97)*
Intercept	0.0504	0.1780	0.0095	0.0536	0.0065	0.1503
	(0.93)	*(1.35)*	*(0.19)*	*(0.69)*	*(0.10)*	*(1.57)*
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
SIC Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Target Nation Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer P. Nation Dummies	Yes	Yes		Yes	Yes	Yes
Observations	1160	412	748	252	455	453
R-squared	0.232	0.361	0.191	0.167	0.233	0.278
Adjusted R-squared	0.154	0.149	0.102	0.032	0.107	0.163

Table 10. Target Reaction to Investment by Different Types of Government Investor

The dependent variable is the market adjusted cumulative abnormal 5 day (-2, +2) return (MAR)around the announcement of government investment. The independent variables are described in Appendix 1. Model 1 (a,b) includes all deals, Model 2 (a,b) shows foreign and Model 3 (a,b) domestic deals.The regression is run via OLS (Ordinary Least Squares) with the Newey-West adjustment. Coefficients significant at the 10% level are in boldface and t-statistics is listed below in parentheses.

	(1a) All	(1b) All	(2a) Foreign	(2b) Foreign	(3a) Domestic	(3b) Domestic
Political_Gov_Local	-0.0301	-0.0254	-0.0217	-0.0076	**-0.0422**	**-0.0404**
	(-1.60)	*(-1.28)*	*(-0.47)*	*(-0.14)*	*(-2.08)*	*(-1.89)*
Political_Gov_National	**-0.0346**	**-0.0302**	0.0296	0.0303	**-0.0454**	**-0.0427**
	(-1.88)	*(-1.68)*	*(0.55)*	*(0.59)*	*(-2.70)*	*(-2.59)*
Political_Pension_Fund	**-0.0457**	**-0.0349**	-0.0035	0.0088	**-0.0358**	-0.0330
	(-2.26)	*(-1.81)*	*(-0.04)*	*(0.11)*	*(-1.64)*	*(-1.56)*
Finanacial_SWF	-0.0216		0.0165		0.0021	
	(-1.02)		*(0.56)*		*(0.06)*	
Financial_Restate	-0.0010		0.0177		-0.0255	
	(-0.02)		*(0.27)*		*(-1.12)*	
Financial_Bank	-0.0034		0.0014		-0.0090	
	(-0.20)		*(0.04)*		*(-0.40)*	
Financial_Develop_Bank	0.0077		-0.0684		0.0163	
	(0.28)		*(-1.04)*		*(0.58)*	
Financial_Other	-0.0053		-0.0183		-0.0020	
	(-0.44)		*(-0.67)*		*(-0.14)*	
Financial_Supranational	0.0229		-0.0123			
	(0.43)		*(-0.21)*			
SOE_Energy		-0.0102		-0.0366		0.0079
		(-0.73)		*(-1.30)*		*(0.52)*
SOE_Consumer		0.0151		0.0460		0.0068
		(0.62)		*(0.70)*		*(0.29)*
SOE_Industrial		0.0147		0.0628		-0.0182
		(0.91)		*(1.61)*		*(-0.97)*
SOE_Materials		-0.0052		-0.0077		0.0020
		(-0.23)		*(-0.20)*		*(0.08)*
SOE_Media		-0.0116		-0.0099		-0.0119
		(-0.50)		*(-0.25)*		*(-0.42)*
SOE_Telecomtech		0.0322		0.0343		0.0293
		(1.51)		*(0.82)*		*(1.58)*
Foreign Deal	**0.0222**	**0.0223**				
	(1.78)	*(1.87)*				
Gov. Shares Acquired (%)	**0.0011**	**0.0011**	**0.0020**	**0.0019**	**0.0006**	**0.0006**
	(5.20)	*(5.16)*	*(4.68)*	*(4.63)*	*(2.64)*	*(2.49)*
Gov. Prior Ownership (%)	**0.0007**	**0.0007**	0.0002	0.0001	**0.0008**	**0.0008**
	(2.91)	*(2.81)*	*(0.49)*	*(0.31)*	*(2.79)*	*(2.81)*

Table 10 *(continued)*

	(1a) All	(1b) All	(2a) Foreign	(2b) Foreign	(3a) Domestic	(3b) Domestic
Gov-to-Gov Deal	**0.0258**	**0.0249**	0.0451	0.0324	**0.0276**	**0.0298**
	(2.00)	*(1.94)*	*(1.41)*	*(1.13)*	*(2.08)*	*(2.26)*
Withdrawn Deal	-0.0399	-0.0399	-0.0608	-0.0701	-0.0315	-0.0265
	(-1.56)	*(-1.51)*	*(-0.87)*	*(-1.03)*	*(-1.07)*	*(-0.88)*
Last Year Performance	0.0014	0.0009	-0.0102	-0.0080	0.0069	0.0064
	(0.20)	*(0.12)*	*(-0.80)*	*(-0.67)*	*(0.92)*	*(0.84)*
Cash Deal	0.0077	0.0077	0.0021	0.0012	0.0114	0.0131
	(0.95)	*(0.94)*	*(0.12)*	*(0.07)*	*(1.19)*	*(1.35)*
Stock Deal	**-0.0467**	**-0.0532**	**-0.0967**	**-0.1235**	**-0.0365**	**-0.0394**
	(-2.05)	*(-2.30)*	*(-2.05)*	*(-2.93)*	*(-1.97)*	*(-2.00)*
Bank Crisis Dummy	-0.0181	-0.0181	0.0027	0.0009	-0.0250	-0.0271
	(-1.19)	*(-1.21)*	*(0.12)*	*(0.04)*	*(-1.36)*	*(-1.52)*
Size	**-0.0058**	**-0.0061**	-0.0043	-0.0022	**-0.0062**	**-0.0065**
	(-2.50)	*(-2.64)*	*(-1.14)*	*(-0.61)*	*(-2.29)*	*(-2.41)*
Leverage	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	(-0.44)	*(-0.55)*	*(-1.05)*	*(-1.24)*	*(-0.19)*	*(-0.05)*
ROA	-0.0001	-0.0001	-0.0005	-0.0005	0.0000	0.0000
	(-0.28)	*(-0.36)*	*(-0.83)*	*(-0.93)*	*(-0.05)*	*(-0.09)*
Tobin's Q	**-0.0055**	**-0.0058**	-0.0020	-0.0025	**-0.0057**	**-0.0068**
	(-1.71)	*(-1.67)*	*(-0.37)*	*(-0.46)*	*(-1.64)*	*(-1.91)*
Intercept	0.0564	0.0564	0.1515	0.0959	0.0257	0.0211
	(1.06)	*(1.07)*	*(1.63)*	*(1.00)*	*(0.56)*	*(0.46)*
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
SIC Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Target Nation Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer P. Nation Dummies	Yes	Yes	Yes	Yes		
Observations	1160	1160	412	412	748	748
R-squared	0.221	0.225	0.292	0.311	0.170	0.173
Adjusted R-squared	0.145	0.149	0.154	0.177	0.093	0.096

Table 11. Reaction to Investment by Governments with High Risk of Expropriation

The dependent variable is the market adjusted cumulative abnormal 5 day (-2, +2) return (MAR)around the announcement of government investment. The independent variables are described in Appendix 1. Model 1 includes all deals, Model 2 shows foreign and Model 3 domestic deals. Model 4 includes investments by political, Model 5 by economic, and Model 6 financial arms of government. The regression is run via OLS (Ordinary Least Squares) with the Newey-West adjustment. Coefficients significant at the 10% level are in boldface and t-statistics is listed below in parentheses.

	(1) All	(2) Foreign	(3) Domestic	(4) Political	(5) Financial	(6) Economic
Gov. Exprop	**-0.0054**	-0.0079	**-0.0066**	**0.0085**	-0.0038	**-0.0082**
	(-1.98)	*(-1.22)*	*(-2.23)*	*(1.68)*	*(-0.95)*	*(-1.65)*
Political Gov. Investor	**-0.0285**	-0.0182	**-0.0395**			
	(-2.10)	*(-0.39)*	*(-2.78)*			
Financial Gov. Investor	-0.0017	0.0033	-0.0022			
	(-0.15)	*(0.11)*	*(-0.19)*			
Foreign Deal	**0.0218**			0.0748	-0.0055	0.0125
	(1.71)			*(1.56)*	*(-0.40)*	*(0.60)*
Gov. Shares Acquired (%)	**0.0012**	**0.0021**	**0.0006**	**-0.0013**	**0.0014**	**0.0010**
	(5.38)	*(5.08)*	*(2.56)*	*(-2.21)*	*(3.67)*	*(3.60)*
Gov. Prior Ownership (%)	**0.0008**	0.0002	**0.0008**	0.0011	**0.0008**	**0.0006**
	(3.22)	*(0.46)*	*(2.77)*	*(1.30)*	*(2.10)*	*(1.68)*
Gov-to-Gov Deal	**0.0234**	0.0526	**0.0291**	**0.0858**	-0.0001	0.0079
	(1.84)	*(1.31)*	*(2.21)*	*(2.67)*	*(-0.00)*	*(0.39)*
Withdrawn Deal	-0.0386	0.0025	**-0.0333**	**0.0995**	0.0667	**-0.0684**
	(-1.52)	*(0.06)*	*(-1.16)*	*(1.87)*	*(1.20)*	*(-2.53)*
Last Year Performance	0.0009	-0.0092	0.0059	0.0013	-0.0010	0.0031
	(0.12)	*(-0.59)*	*(0.76)*	*(0.09)*	*(-0.11)*	*(0.26)*
Cash Deal	0.0088	0.0001	0.0125	0.0208	0.0023	0.0013
	(1.09)	*(0.00)*	*(1.32)*	*(1.24)*	*(0.15)*	*(0.08)*
Stock Deal	**-0.0430**	**-0.1056**	**-0.0398**		**-0.0899**	**-0.0640**
	(-1.89)	*(-1.99)*	*(-2.03)*		*(-1.66)*	*(-2.11)*
Bank Crisis Dummy	-0.0101	0.0025	-0.0217	0.0083	-0.0111	-0.0255
	(-0.66)	*(0.09)*	*(-1.16)*	*(0.24)*	*(-0.49)*	*(-0.96)*
Size	**-0.0054**	-0.0049	**-0.0067**	**-0.0062**	-0.0022	**-0.0073**
	(-2.47)	*(-1.07)*	*(-2.58)*	*(-1.49)*	*(-0.67)*	*(-1.92)*
Leverage	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	(-0.76)	*(-0.55)*	*(-0.31)*	*(0.23)*	*(-0.70)*	*(-0.47)*
ROA	-0.0002	-0.0004	-0.0001	-0.0009	-0.0001	-0.0001
	(-0.47)	*(-0.61)*	*(-0.18)*	*(-0.55)*	*(-0.28)*	*(-0.15)*
Tobin's Q	-0.0051	-0.0022	-0.0054	0.0178	-0.0007	**-0.0133**
	(-1.56)	*(-0.37)*	*(-1.56)*	*(1.53)*	*(-0.19)*	*(-3.03)*
Intercept	0.0664	0.1867	0.0572	0.0078	0.0205	**0.1754**
	(1.20)	*(1.41)*	*(1.27)*	*(0.09)*	*(0.33)*	*(1.83)*
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
SIC Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Target Nation Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer P. Nation Dummies	Yes	Yes		Yes	Yes	Yes
Observations	1159	411	748	252	455	452
R-squared	0.234	0.363	0.174	0.173	0.234	0.283
Adjusted R-squared	0.156	0.149	0.103	0.035	0.106	0.167

Table 12. Reaction to Investment by Left-Winged Governments

The dependent variable is the market adjusted cumulative abnormal 5 day (-2, +2) return (MAR)around the announcement of government investment. The independent variables are described in Appendix 1. Model 1 includes all deals, Model 2 shows foreign and Model 3 domestic deals. Model 4 includes investments by political, Model 5 by economic, and Model 6 financial arms of government. The regression is run via OLS (Ordinary Least Squares) with the Newey-West adjustment. Coefficients significant at the 10% level are in boldface and t-statistics is listed below in parentheses.

	(1) All	(2) Foreign	(3) Domestic	(4) Political	(5) Financial	(6) Economic
Left-wing Gov.	**-0.0214**	-0.0391	**-0.0250**	**-0.0631**	0.0097	-0.0276
	(-1.77)	*(-1.61)*	*(-2.11)*	*(-2.63)*	*(0.62)*	*(-1.30)*
Political Gov. Investor	**-0.0316**	-0.0156	**-0.0393**			
	(-2.35)	*(-0.34)*	*(-3.02)*			
Financial Gov. Investor	-0.0032	0.0002	-0.0033			
	(-0.29)	*(0.00)*	*(-0.28)*			
Foreign Deal	**0.0231**			0.0593	-0.0008	0.0154
	(1.81)			*(1.19)*	*(-0.05)*	*(0.78)*
Gov. Shares Acquired (%)	**0.0012**	**0.0021**	**0.0006**	**-0.0013**	**0.0014**	**0.0010**
	(5.42)	*(5.05)*	*(2.52)*	*(-2.28)*	*(3.66)*	*(3.68)*
Gov. Prior Ownership (%)	**0.0008**	0.0002	**0.0008**	0.0007	**0.0007**	0.0005
	(3.24)	*(0.44)*	*(2.81)*	*(0.85)*	*(2.07)*	*(1.60)*
Gov-to-Gov Deal	**0.0212**	0.0559	**0.0242**	**0.0845**	-0.0001	0.0021
	(1.66)	*(1.39)*	*(1.82)*	*(2.97)*	*(-0.00)*	*(0.10)*
Withdrawn Deal	-0.0400	-0.0020	-0.0308	**0.1233**	0.0645	**-0.0683**
	(-1.54)	*(-0.04)*	*(-1.05)*	*(2.49)*	*(1.16)*	*(-2.57)*
Last Year Performance	0.0012	-0.0084	0.0054	-0.0060	-0.0006	0.0034
	(0.16)	*(-0.54)*	*(0.69)*	*(-0.43)*	*(-0.06)*	*(0.29)*
Cash Deal	0.0082	0.0002	0.0116	0.0147	0.0013	0.0044
	(1.01)	*(0.00)*	*(1.23)*	*(0.88)*	*(0.08)*	*(0.29)*
Stock Deal	**-0.0437**	**-0.0965**	**-0.0418**		-0.0862	**-0.0555**
	(-1.99)	*(-1.98)*	*(-2.20)*		*(-1.59)*	*(-2.02)*
Bank Crisis Dummy	-0.0176	-0.0081	**-0.0286**	-0.0056	-0.0117	-0.0293
	(-1.14)	*(-0.30)*	*(-1.75)*	*(-0.16)*	*(-0.53)*	*(-1.11)*
Size	**-0.0054**	-0.0047	**-0.0065**	**-0.0069**	-0.0020	**-0.0079**
	(-2.43)	*(-1.00)*	*(-2.51)*	*(-1.69)*	*(-0.60)*	*(-2.08)*
Leverage	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	(-0.62)	*(-0.52)*	*(-0.24)*	*(0.43)*	*(-0.64)*	*(-0.32)*
ROA	-0.0001	-0.0003	0.0001	-0.0005	-0.0001	0.0000
	(-0.19)	*(-0.49)*	*(0.16)*	*(-0.36)*	*(-0.25)*	*(0.06)*
Tobin's Q	-0.0052	-0.0024	**-0.0058**	0.0164	-0.0011	**-0.0136**
	(-1.61)	*(-0.40)*	*(-1.72)*	*(1.46)*	*(-0.29)*	*(-3.03)*
Intercept	0.0551	0.1926	0.0445	0.0815	0.0008	**0.1679**
	(1.02)	*(1.48)*	*(0.99)*	*(1.10)*	*(0.01)*	*(1.76)*
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
SIC Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Target Nation Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer P. Nation Dummies	Yes	Yes		Yes	Yes	Yes
Observations	1159	411	748	252	455	452
R-squared	0.234	0.364	0.172	0.189	0.233	0.280
Adjusted R-squared	0.155	0.151	0.101	0.053	0.105	0.164

Table 13. Target Reaction to Majority and Minority Government Stake Investment

The dependent variable is the market adjusted cumulative abnormal 5 day (-2, +2) return (MAR)around the announcement of government investment. The independent variables are described in Appendix 1. Model 1 includes all deals. Model 2 shows deals with majority stake purchases of above 50%; Model 3 with stake acquistions of below 50% and above 10%; Model 4 with minority stake investments of below 10%. The regression is run via OLS (Ordinary Least Squares) with the Newey-West adjustment. Coefficients significant at the 10% level are in boldface and t-statistics is listed below in parentheses.

	(1) All	(2) Maj. Own (>=50%)	(3) 50% > Maj. Own >= 10%	(4) Min. Own. (<10%)
Majority Ownership (>50%)	**0.0727**			
	(5.47)			
Minority Ownership(50%-10%)	**0.0220**			
	(2.71)			
Political	**-0.0404**	-0.0382	**-0.0591**	-0.0166
	(-2.82)	*(-0.74)*	*(-3.11)*	*(-0.74)*
Financial	-0.0094	0.0162	-0.0200	-0.0135
	(-0.82)	*(0.48)*	*(-1.11)*	*(-0.76)*
*Political * Foreign*	0.0076	0.2239	0.0622	**0.0694**
	(0.19)	*(1.53)*	*(0.90)*	*(2.11)*
*Financial * Foreign*	-0.0004	0.0350	-0.0386	**0.0606**
	(-0.01)	*(0.48)*	*(-1.23)*	*(2.44)*
Foreign Deal	0.0255	-0.0272	**0.0505**	**-0.0337**
	(1.43)	*(-0.65)*	*(1.77)*	*(-1.64)*
Gov-to-Gov Deal	**0.0250**	**0.0536**	0.0153	0.0005
	(1.83)	*(2.17)*	*(0.70)*	*(0.02)*
Withdrawn Deal	0.0106	**-0.0682**	**0.0720**	-0.0668
	(0.42)	*(-1.83)*	*(1.91)*	*(-1.32)*
Last Year Performance	0.0010	0.0303	-0.0073	0.0000
	(0.14)	*(1.30)*	*(-0.78)*	*(-0.00)*
Cash Deal	0.0112	0.0085	0.0078	0.0054
	(1.34)	*(0.32)*	*(0.55)*	*(0.46)*
Stock Deal	-0.0366	-0.0498	-0.0350	
	(-1.54)	*(-1.28)*	*(-0.95)*	
Bank Crisis Dummy	-0.0193	**-0.0973**	-0.0112	0.0101
	(-1.26)	*(-2.01)*	*(-0.50)*	*(0.65)*
Size	**-0.0054**	-0.0032	**-0.0095**	0.0002
	(-2.45)	*(-0.47)*	*(-2.45)*	*(0.06)*
Leverage	0.0000	0.0000	0.0000	**-0.000004**
	(-0.66)	*(-0.04)*	*(-0.72)*	*(-1.95)*
ROA	-0.0001	-0.0018	-0.0007	0.0001
	(-0.27)	*(-1.45)*	*(-1.60)*	*(0.31)*
Tobin's Q	-0.0045	**-0.0215**	-0.0006	0.0026
	(-1.40)	*(-3.20)*	*(-0.11)*	*(0.82)*
Intercept	0.0430	0.0038	**0.1961**	0.0581
	(0.77)	*(0.02)*	*(2.58)*	*(0.86)*
Year Dummies	Yes	Yes	Yes	Yes
SIC Dummies	Yes	Yes	Yes	Yes
Target Nation Dummies	Yes	Yes	Yes	Yes
Acquirer P. Nation Dummies	Yes	Yes	Yes	Yes
Observations	1183	275	509	399
R-squared	0.226	0.456	0.230	0.154
Adjusted R-squared	0.147	0.258	0.091	0.052

Applendix 2: Deals with Government Involvement

	All Deals (in publicly traded and private targets)						Deal in publicly traded targets					
By Year	Value $US	Deals (Completed and Withdrawn)	% With-drawn	% With Deal Value	Propor-tion of Value	Propor-tion of Count	Value $US	Deals (Completed and Withdrawn)	% With-drawn	% With Deal Value	Propor-tion of Value	Propor-tion of Count
1988	16,643	137	12%	44%	1%	1%	7,001	19	11%	58%	1%	1%
1989	30,533	235	10%	45%	1%	1%	8,072	26	12%	58%	1%	1%
1990	56,624	350	12%	50%	2%	2%	21,631	44	18%	75%	2%	2%
1991	27,659	617	5%	34%	1%	3%	5,153	68	4%	44%	1%	3%
1992	23,702	610	8%	35%	1%	3%	3,120	67	12%	48%	0%	3%
1993	29,838	544	10%	38%	1%	3%	6,033	72	13%	53%	1%	3%
1994	26,610	488	5%	36%	1%	3%	5,304	52	10%	56%	1%	2%
1995	29,651	613	5%	38%	1%	3%	7,428	55	11%	56%	1%	3%
1996	37,908	556	4%	44%	1%	3%	15,833	50	4%	70%	2%	2%
1997	63,745	549	4%	55%	2%	3%	6,395	65	6%	57%	1%	3%
1998	99,860	598	4%	52%	3%	3%	31,676	83	13%	61%	4%	4%
1999	113,229	785	4%	47%	4%	4%	22,498	98	10%	69%	3%	5%
2000	119,025	915	4%	49%	4%	5%	11,261	105	5%	72%	1%	5%
2001	101,132	817	4%	47%	3%	4%	19,403	67	12%	51%	2%	3%
2002	91,523	749	3%	52%	3%	4%	9,440	82	5%	60%	1%	4%
2003	78,830	830	4%	52%	3%	4%	8,125	91	7%	56%	1%	4%
2004	70,567	860	6%	53%	2%	5%	10,051	80	15%	59%	1%	4%
2005	150,728	863	4%	50%	5%	5%	58,698	89	11%	58%	7%	4%
2006	199,330	870	3%	50%	7%	5%	61,091	82	4%	68%	7%	4%
2007	297,317	1073	3%	50%	10%	6%	104,440	113	5%	71%	12%	5%
2008	428,666	1404	5%	49%	15%	8%	186,943	238	7%	77%	21%	11%
2009	391,549	1603	6%	47%	13%	9%	210,683	264	8%	69%	24%	13%
2010	245,172	1360	3%	45%	8%	7%	46,221	98	9%	64%	5%	5%
2011	195,895	1068	2%	48%	7%	6%	26,107	80	3%	59%	3%	4%
Total	**2,925,737**	**18494**	**5%**	**47%**	**100%**	**100%**	**892,604**	**2088**	**8%**	**64%**	**100%**	**100%**
By % Owned After Acquisition												
No data	439,379	3046	25%	44%	15%	16%	161,139	286	46%	52%	18%	14%
0%-10%	196,933	1198	1%	65%	7%	6%	100,427	530	1%	69%	11%	25%
10%-25%	250,029	1951	1%	56%	9%	11%	95,423	438	1%	65%	11%	21%
25%-50%	301,764	2199	1%	52%	10%	12%	103,475	317	5%	61%	12%	15%
50%-75%	321,712	2071	2%	49%	11%	11%	123,576	200	6%	59%	14%	10%
75%-99%	218,331	1137	0%	51%	7%	6%	86,080	123	1%	70%	10%	6%
100%	1,197,589	6892	0%	40%	41%	37%	222,484	194	1%	70%	25%	9%
Total	**2,925,737**	**18494**	**5%**	**47%**	**100%**	**100%**	**892,604**	**2088**	**8%**	**64%**	**100%**	**100%**
By Target 1-digit SIC Code												
0	11,088	164	5%	52%	0.4%	1%	2,194	21	24%	71%	0.2%	1%
1	484,058	1810	7%	55%	17%	10%	147,573	195	17%	71%	17%	9%
2	210,618	2126	5%	48%	7%	11%	45,027	220	5%	60%	5%	11%
3	248,475	2574	5%	45%	8%	14%	99,321	293	5%	57%	11%	14%
4	979,908	4498	6%	45%	33%	24%	202,198	426	12%	59%	23%	20%
5	41,445	939	4%	42%	1%	5%	6,025	78	6%	60%	1%	4%
6	851,671	3996	4%	52%	29%	22%	368,915	709	7%	69%	41%	34%
7	69,020	1590	2%	43%	2%	9%	9,533	111	3%	59%	1%	5%
8	18,309	691	2%	31%	0.6%	4%	4,393	28	0%	68%	0.5%	1%
9	11,143	106	5%	39%	0.4%	1%	7,425	7	29%	43%	0.8%	0.3%
Total	**2,925,737**	**18494**	**5%**	**47%**	**100%**	**100%**	**892,604**	**2088**	**8%**	**64%**	**100%**	**100%**