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Global Policy Uncertainty and Cross-Border Acquisitions

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Highlights

- The effect of policy uncertainty on cross-border acquisitions is investigated
- Size of acquired equity stake decreases with country-specific policy uncertainty
- Acquirer is less willing to pay in cash if target faces high policy uncertainty
- The results are not sensitive to the quality of institutional environment

Abstract

Policy uncertainty has been documented to have a significant impact on corporate investment decisions. This paper investigates the effect of policy uncertainty on cross-border acquisitions. We find a significant monotonic relationship between the size of the acquired equity stake in a target firm and the level of policy uncertainty in the target's country of origin. More specifically, the acquirer is less inclined to purchase a sizeable ownership stake in the target firm, if the target is domiciled in unstable macroeconomic environment. Moreover, we find that acquirers are less willing to pay in cash if the target faces high policy uncertainty. The above results do not seem to depend on the quality of the country's institutional environment and are robust to alternative econometric specifications. Our study discusses policy implications and should be of interest to academics as well as finance practitioners.

Keywords: Policy Uncertainty, Corporate Acquisition, Cross-Border Acquisition, Investment

1. Introduction

It has been argued that policy uncertainty caused by economic and political forces affect the amount and dynamics of corporate investments (Bernanke, 1983; Baker, Bloom, and Davis, 2016). With the increasing level of policy uncertainty, companies become more inclined to defer their investment spending to a later point in time adversely impacting overall business stability and economic growth. Moreover, companies may choose to divest their assets in response to the negative shift in the country's policy risk (Blake and Moschieri, 2016). As recently as in 2020, the Global Economic Policy Uncertainty Index reached its all-time high¹ corresponding to the diminishing international capital flows and global welfare².

This paper investigates cross-border acquisitions under a varying degree of the statelevel policy uncertainty. Policy uncertainty may potentially be influenced by the decisions of governments, public authorities, as well as time-varying political and economic shocks beyond the immediate control of public officials. For instance, the recent US-China trade war and the outbreak of the novel coronavirus COVID-19 has significantly increased global as well as country-specific policy uncertainty and is currently having a profound impact on the real economy³. In our setting, we examine the characteristics of the acquisitions of real assets when the acquirer and the target are domiciled in different countries, whose respective level of policy uncertainty may vary significantly. We are primarily interested in whether acquirers make different choices regarding the size of the acquired equity stake in a foreign target when confronted with the environment of high *versus* low policy uncertainty.

On the one hand, the acquiring company may decide to postpone the commitment to make a deal involving the purchase of the majority interest in the target firm due to the illiquidity cost present in the high uncertainty environment. Instead, the acquirer could make incremental noncontrolling acquisitions spread out over time, which are easier to liquidate

¹ https://fred.stlouisfed.org/series/GEPUCURRENT

² https://unctad.org/en/PublicationsLibrary/wir2019_en.pdf

³ https://www.economist.com/international/2020/02/15/the-new-coronavirus-could-have-a-lasting-impact-on-global-supply-chains

under unfavorable circumstances. On the other hand, the acquirer may be indifferent to the level of country-specific policy uncertainty, as it may have organizational capabilities to successfully manage the policy-making process that affects the degree of uncertainty at the country-level (Holburn and Zelner, 2010) or otherwise insulate itself from higher uncertainty. In the later case, the decision about the size of the acquired equity stake in the foreign target should not depend on the extent of policy uncertainty in the target's country of origin.

Viewed from the wide-angle macroeconomic lens, existing evidence indicates that fast-growth economies are also relatively more volatile (Ranciere, Tornell, and Westermann, 2008). Consequently, investors who wish to obtain higher returns must face greater uncertainty about future outcomes. This does not imply, however, that investors favor less risky environments over more stable ones. High-growth high-risk emerging country may provide greater opportunities compared to the economy that follows a path of slow and steady growth. For example, in 2019, Argentina which is well-known for its macroeconomic instability, had the foreign direct investment (FDI) to GDP ratio higher than significantly more stable Belgium or Japan⁴. In light of these considerations, it is not obvious to what extent the decision about the size of the purchased equity stake in the foreign target may be driven by policy uncertainty.

We consider the above questions by taking advantage of a broad international sample of cross-border acquisitions occurring between 2000 and 2015. We relate our acquisition data to measures of country-specific policy uncertainty as developed in Ahir, Bloom, and Furceri (2019). Ahir et al. (2019) construct a unique uncertainty index that includes 143 countries and mirrors their economic and political developments. The index is an extension of a measure of policy uncertainty for G10 countries which is commonly used in the finance literature (Baker et al., 2016). Our regression analysis reveals a negative relationship between the degree of

⁴ https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS

policy uncertainty within a target country and the percentage of target shares sought in a cross-border acquisition proposal. More specifically, we show that if the target firm is domiciled in a country of relatively high policy uncertainty, the acquirer tends to seek a significantly smaller equity interest in the target, everything else equal. In a parallel set of regressions, we find that the above relationship also holds for the percentage of shares of the target firm that has been actually purchased by the acquirer, as well as for the percentage of shares in the target firm as owned by the acquirer at any given point in time. In a related test, we find that the acquirer prefers to invest in a noncontrolling *versus* controlling equity stake whenever the country of origin of a target firm is associated with higher uncertainty policies. Further, we employ several different measures of the quality of the institutional environment and examine whether our results are sensitive to the cross-country differences in the institutional investors' infrastructure. We confirm that our results remain robust to the inclusion of the various observed determinants of country-specific institutional environment. We further establish that our findings are not driven by the alternative measures of policy uncertainty and are insensitive to time-invariant heterogeneity of the firms in our sample.

Overall, we interpret the above evidence as being consistent with the claim that exogenous uncertainty caused by a single event or a sequence of events may retard corporate investments (Bernanke, 1983). This line of reasoning suggests that companies that pursue international acquisitions and choose to acquire a foreign target domiciled in the country of relatively high level of policy uncertainty may decide to make incremental noncontrolling investments in lieu of undertaking an outright acquisition involving a controlling or 100% stake, which remains more difficult to liquidate in time of an unfavorable event (Kogut, 1991). The above assertion appears to be consistent with our data. We document that the acquirers take a significantly smaller equity stake, if the target's main office is located in a high uncertainty environment. Equally important, if the uncertainty in the target's economy is

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relatively high, the acquirer is significantly more likely to acquire a minority noncontrolling stake and pay for the target in equity instead of cash.

Our paper makes several contributions to the literature. To the best of our knowledge this is the first study to present evidence of a link between global policy uncertainty and the equity interest investment decision in the context of international acquisitions. In this regard, our study complements existing empirical research on policy uncertainty and M&A conducted using the US sample (e.g., Nguyen and Phan, 2017). Second, our work extends the literature on the country-specific determinants of M&A decisions, which includes for example, the effects of national culture (Ahern, Daminelli, and Fracassi, 2015), employment protection laws (Dessaint, Goluboy, and Volpin, 2017), tax rate on capital gains (Huizinga, Voget, and Wagner, 2018), accounting standards and shareholder rights (e.g., Rossi and Volpin, 2004). We add to this literature by providing evidence on the existence of a significant relation between policy uncertainties across various international economies and the equity ownership choice of the acquirer with respect to the target firm domiciled in a foreign country with potentially very different level of uncertainty risk. Third, our paper provides new insights into the literature on corporate investments. More concretely, we find that the process of acquiring foreign companies when the target firm is located in a country of high policy uncertainty is akin to real option investments characterized by staging (e.g., Gompers, 1995; Ewens, Nanda, Rhodes-Kropf, 2018). When confronted with relatively high economic uncertainty in a cross-border deal, acquirers prefer to invest in a noncontrolling ownership stake that provides them with greater flexibility for a possible expansion, or alternatively, abandonment. Following the resolution of uncertainty over time, the acquirer may decide to continue purchasing equity interest in the target firm until a 100% stake is assumed. On the other hand, the acquirer may decide to liquidate its stake altogether. Finally, our analysis adds to the strand of research on the determinants of choice of the equity

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ownership stake in the company (e.g., Volpin 2002; Goldman and Qian, 2005; Larrain and Urzua, 2013). We show that macroeconomic and political factors such as the uncertainty about economic policies play an important role in determining the size of the ownership interest in the target firm.

The reminder of the paper proceeds as follows. Section 2 discusses the related literature and develops hypotheses. A description of data and methodology is provided in Section 3. Section 4 presents empirical models and reports results. Section 5 concludes, discusses limitations of the paper, and suggests avenues for future research.

2. Hypothesis development

Many existing empirical studies have found evidence that foreign acquirers use strategic market entry to pursue acquisition opportunities abroad (Fukao, Ito, Kwon, and Takizawa, 2006; Bertrand and Zitouna, 2008; Zhu, Jog, and Otchere, 2011; Dang, Henry, Nguyen, and Hoang, 2018). Accordingly, foreign acquirers are relatively more disadvantageous than domestic acquirers due to the asymmetry of information and cultural distance. Therefore, in order to ensure greater acquisition success, foreign acquirers should seek target firms in transparent, low uncertainty markets.⁵ When the level of policy uncertainty is low and the institutional environment in the target's country of origin is less opaque, information asymmetry is not a serious problem and hence the acquirer should seek greater equity ownership stake in the target. Although high equity ownership stake means high upfront acquisition costs, the acquirer can enjoy the benefits of the acquisition in the form of the synergy value generated over time after deal completion (Chen and Hennart, 2004; Chen, 2008). On the other hand, as the policy uncertainty rises, it increases profiteering behaviour

⁵ Chen and Hennart (2004), Chen (2008), Hennart (2009), and Arslan and Larimo (2012) find that a proper market entry can help the bidders have access to valuable resources and supplements in local target firms, achieving economies of scale and scope and, therefore, can enhance their competitive position relative to domestic and international competitors.

from both policy-makers as well as the management team in the company, affecting the sustainability of investment policies, increasing direct and indirect costs for the company and decreasing shareholder wealth (Ross, Westerfield, and Jordan, 2010). Arguably, under these conditions, the acquiring companies tend to decide to purchase lower ownership stake in the target.

Foreign market penetration often involves dealing with exogenous uncertainty which is not affected by company actions (Cuypers and Martin, 2010). Exogenous uncertainty has been discussed in the existing studies as a state in which firms could not determine the outcome and are unable to differentiate between relevant and irrelevant projects due to numerous traits of economic externalities (Brouthers and Dikova, 2010). Existing literature also provides evidence on the effect of exogenous uncertainty for firms' market entry strategies using real options theory. Delios and Henisz (2003), Brouthers and Dikova (2010), and Cuypers and Martin (2010) exploit this theory to explain why foreign investing firms make incremental investments to defer part of the investment but gain some exposure to the market. In a similar vein, Cuypers and Martin (2010), Tong, Reuer, and Peng (2008) and Li and Li (2010) find that joint venture might be an appropriate real option, creating opportunities for foreign firms to obtain more information about the domestic partners, better evaluate the intrinsic value as well as the potential of the company, and therefore mitigate exogenous uncertainties. In the context of acquisitions, the conjecture is that acquirers may prefer minority ownership or partial acquisitions over a 100% stake to capitalize on target firms' resource availability, while having the opportunity to wait and invest more in the future.

Politicians and policy makers frequently make decisions that alter the business environment in which firms and investors operate. Policy uncertainty may result from macro shocks as well as other exogenous shocks that are largely out of investors' and firms' control (e.g., oil-price shocks, political elections, economic or financial crises). To the extent that firms and investors

cannot fully anticipate the sources of policy decisions, they face uncertainty over future changes in various policies. Consequently, firms' decisions and investors' behaviour is considerably influenced by policy uncertainty. Firms and investors may need to adjust their actions when they face uncertainty regarding the timing, content, and the potential implications of new policies on the economy.

Concerns about policy uncertainty and its economic consequences tend to intensify in the world, and thus, research on the effect of country uncertainty has stimulated considerable interest among researchers and policy makers. At the macro level, prior studies find that policy uncertainty influences capital flows, business cycle, and the speed of economic recovery (Baker et al., 2016; Julio and Yook, 2016). Specifically, policy uncertainty can inhibit the development of the economy through the decline in investment, growth, and rising unemployment. The study of Antonakakis, Chatziantoniou, and Filis (2013) finds that there exists an inverse relationship between stock return and policy risks. The existing literature also finds evidence of the impact of policy risks on international investment activities. The ambiguity in macro-level management policies has implicit policy risks, and therefore directly affects cross-county portfolios (Gelos and Wei, 2005). Conducting surveys in 21 countries, Brogaard and Detzel (2015) find that a 1% change in policy risk will cause market income to fluctuate in the opposite direction with a rate of 2.9%. Tian and Ye (2017) and Bloom, Floetotto, Jaimovich, Saporta- Eksten, and Terry (2018) report that policy risks reduce the source of corporate investment capital. Yung and Root (2019) find that policy risks have a positive correlation with the earnings management behaviour of firms. Accordingly, high policy uncertainty may lead to mispricing of firms' equity and increase the likelihood of a company being acquired. Therefore, investors and companies tend to adjust their investment decisions when they face high policy risk (Pastor and Veronesi, 2012b).

In the M&A context, Rossi & Volpin (2004) find that the number of M&A and their value are much greater in the target's country of origin with better institutional environment, stronger shareholder protection, and higher level of information transparency. Gulen and Ion (2016) find that policy risks affect investment decisions of acquiring companies. More specifically, Bhagwat, Dam, and Harford (2016) provide evidence that intended acquisitions tend to be delayed when policy risks are high. Recent evidence indicates that policy risks increase volatility (Pastor and Veronesi, 2012a), affect intrinsic value of target companies (Bhagwat, Dam, and Harford, 2016), increase the time to completion and trading costs, as well as reduce synergies after the deal completes (Nguyen & Phan, 2017). Moreover, policy risks also influence the process of making acquisition plans through the selection of payment methods (Nguyen and Phan, 2017; Bonaime, Gulen, and Ion, 2018). Baker et al., (2016) show that the increased policy uncertainty reduces the number of cross-border acquisitions by 10% on average. Nevertheless, existing studies do not provide evidence on whether policy uncertainty has any direct impact on the decision about the size of the stake acquired in the target firm. From the perspective of the real options theory (Bernanke, 1983; McDonald and Siegel, 1986; Pindyck, 1991; Brouthers and Dikova, 2010; Cuypers and Martin, 2010; Ahammad, Leone, Tarba, Glaister, and Arslan, 2017) in the context of acquisitions firms may avoid taking action and prefer to "wait and see", if the environment is uncertain. We therefore conjecture that acquirers are more likely to seek a smaller size of equity ownership in the target firm or a noncontrolling stake rather than 100% ownership, if the policy in the target's county of origin is highly uncertain. On that basis, we formulate our first hypothesis:

Hypothesis *H1*: Acquirer will seek lower (higher) equity ownership stake in the foreign target, if the target is domiciled in a country of a relatively high (low) level of policy uncertainty.

We next examine whether and how country-level institutional characteristics influence the relation between policy uncertainty and share of ownership sought in acquisitions. Existing research finds that economic fluctuations accompanied by political events is one of the major sources of policy uncertainty (Bialkowski, Gottschalk, and Wisniewski, 2008; Aisen and Veiga, 2013; Fatas and Mihov, 2013; Baker et al., 2016). These studies indicate that economic and political uncertainty has a negative effect on a country's economic outcome at the macro level. It increases risk premia and leads firms and investors to delay spending until the uncertainty remains resolved.

On the other hand, the current literature indicates the importance of country-level institutional environments in equity ownership decisions, and suggests that acquirers tend to prefer a higher degree of share ownership in target companies located in countries with strong institutional environment. Prior studies document that a healthy institutional environment might serve as an alternative external governance mechanism to enhance investor protection, lessen information asymmetry, and thus increase firm value (e.g., Healy and Palepu, 2001; Hennart, 2009; Meyer, Mudambi, and Narula, 2011). In this sense, acquirers are more likely to purchases larger equity stake in the target firm, if the target is domiciled in the country with stronger institutional environment.

Motivated by the above literatures, our study sheds light on whether policy uncertainty in the target's country of origin interacts with the quality of institutional environment in determining the size of the equity stake purchased by the acquirer. We postulate that the incremental effect of the policy uncertainty in the target's country of origin on the sought ownership level in the target firm is more pronounced in countries with weaker institutional infrastructure and greater information asymmetry. In this sense, government with weak institutional environment is less likely to effectively manage fiscal deficit, money supply, interest rates, employment, and many other factors. Thus, negative association between the policy uncertainty in target's country of origin and the size of the equity stake sought by the

acquirer is anticipated to be lower in countries with the stronger institutional environment. The second hypothesis is therefore given as follows:

Hypothesis *H2*: *The impact of policy uncertainty (in the target's country of origin) on the* size of the equity ownership stake purchased by the acquirer is greater (weaker) for targets domiciled in countries of relatively weak (strong) institutional environment.

3. Research design

3.1. Data and sample

To test the hypotheses, we use the sample of international acquisitions during the period between 2000 and 2015 across 82 target countries. The acquisition data are derived from the Thomson Reuters SDC Platinum database. Country-level characteristics data are obtained from highly reliable sources such as Policy Uncertainty, Fraser Institute, Transparency International, Worldwide Governance Indicators (World Bank) and World Development Indicators (World Bank). We split the sample into three groups of deals: minority, majority, and 100% (Contractor, Lahiri, and Elang, 2014). We require companies to acquire at least 5% stake in a target company and do not hold less than 5% of equity after deal completion. Also, in order to address sample selection bias, we exclude observations in which multiple firms acquire the same company on the same day. For any acquisition to remain in the sample, the transaction value has to be at least US\$1.0 million. After applying the above screening criteria and deleting observations with missing values, we end up with 80,449 completed acquisition deals performed in 82 target countries across six continents.

3.2. Methodology

To test our first hypothesis, we carry out single unbalanced panel data regressions of the ownership choice variable, *Shares sought*, on the level of policy uncertainty in the target

country of origin.⁶ We control for firm- and country-level variables as well as deal characteristics and geographic location. Specifically, we estimate the following equation:

Shares sought_{i,t} = $\beta_0 + \beta_1 Policy$ uncertainty_{j,t-1} + $\beta_2 Controls_{t-1} + \gamma_s + \delta_t + \Omega_g + \zeta_{i,t}$ (1) 3.2.1. Dependent variable

Shares sought captures the fraction of the target firm's shares sought by the acquirer in transaction *i* during year *t*.

3.2.2. Explanatory variables

We employ the World Uncertainty Index (variable *Policy Uncertainty*) which indicates country-specific uncertainty for 143 countries from 1996 onwards and developed by Ahir et al. (2018) using the frequency of the word "uncertainty" in the Economist Intelligence Unit (EIU) country reports. These reports debate main political and economic developments in each country, accompanied by investigation and predictions of political and socio-economic circumstances⁷. Putting together a report follows a five-step process: writing, editing, second check, sub-editing, production, and is supervised by senior staff at headquarters. Writing style is checked for adequacy at the production stage, and sub-editors make sure the report is consistent and well-drafted. In any case, we cannot completely rule out the possibility that the reports may to some extent over- and under- use the word "uncertainty" based on the confounding factor (e.g., based on the writing style of the experts). However, knowing that the reports are of extremely high quality the possibility of a significant bias is rather unlikely.

We employ a number of alternative proxies for a country's uncertainty as in Nguyen and Phan (2017). Accordingly, *Control of corruption* captures the extent to which public power is

⁶ The database to test the hypotheses is made up of target firms which announced an acquisition during the 2000-2015 period, with the target firm being listed or unlisted in 82 countries. The regressions in this study employ acquisition data with country-, year-, firm-, and deal-specific characteristics and macroeconomic country-year data. These data types are combined into a single unbalanced panel by means of the year of the transaction and of the countries involved.

⁷ For details about the World Uncertainty Index, see https://www.policyuncertainty.com/Policy uncertainty_quarterly.html

exercised for personal benefits. This variable is obtained from Worldwide Governance Indicators (World Bank). Its value ranges from -2.5 to +2.5, where the higher the value of the index the lesser the corruption. The second proxy *Corruption perceived* ranks 180 countries and territories by their perceived levels of public sector corruption according to experts and business professionals, and uses a scale of 0 to 100, where 0 is equal to highly corrupt. The information on corruption perceived is provided by Transparency International.

3.2.3. Control variables

In addition to the key explanatory variables, we control for a number of factors that could potentially affect the acquirer's decision on the size of the equity stake bought in a foreign target (Baker et al., 2016; Nguyen and Phan, 2017; Bonaime, Gulen, and Ion, 2018). First, we include variables capturing deal-specific characteristics. *Related deal* is an indicator variable that takes on the value of one if the target and the acquirer operate in related industries, and zero otherwise. *Cash* is an indicator variable takes on the value of one if an acquisition is paid for in cash, and zero otherwise. *Cross-border* is an indicator variable that takes on the value of one if the target firm are not domiciled in the same country, and zero otherwise. *Toehold* is the proportion of target's equity held by the acquirer before the acquisition. *Deal value* is the value of the transaction transformed by the natural logarithm in US\$ million.

Second, we include variables representing country-level characteristics. When examining the effects of country uncertainty on the size of the ownership stake invested in the target, it might be necessary to take into consideration the institutional environment and economic conditions in the country of both the target and acquirer (Kiymaz, 2004; Rossi and Volpin, 2004; Marshall and Anderson, 2009; Bhagat, Malhotra, Zhu, 2011; Barbopoulos, Paudyal, Pescetto, 2012; Dang, Henry, Nguyen, and Hoang, 2018). The first country-level control variable refers to the quality of economic freedom (*Economic freedom*). This study uses the index published by the Fraser Institute, which measures the degree of economic freedom of a

country, ranging from 0 (lowest degree of economic freedom) to 10.⁸ We also employ the *Tax rate* variable that proxies for the tax rate on the income and capital gains. This variable is taken from Global Financial Development Database. Further, ownership decision might be affected by the wealth and purchasing power of consumers in the economy, measured by the market capitalization to GDP (*Stock market cap*) and GDP growth (*GDP growth*). We winsorize all country-level control variables at the 1% and 99% levels. In order to control for year, industry, and geographic effects, we respectively include year (δ_t), industry (γ_s), and target's country of origin geographic location (Ω_g) in all models.

4. Regression results

4.1. Sample description

Table 1 reports the summary of deal-specific characteristics (Panel A) and institutional environment variables in the target's country of origin (Panel B). As can be seen in Panel A, in 28% of the deals the target operates in the related industry, 44% of transactions use cash as the mode of payment, and approximately 24% of all deals are cross-border. The percentage of cross-border deals is almost identical with 24% reported in Ahern, Daminelli, and Fracassi (2015) and slightly higher than the one found in Alexandridis, Antypas, Travlos (2017). On average, the bidder seeks 67% of the target's equity ownership and the mean transaction value is US\$258.36 million. We also present the data by the quartile for target countries of origin. Panel B presents the summary of the target country's institutional variables. Accordingly, target countries in the top quartile are less corrupt, have greater economic freedom, higher tax rates, and exhibit higher policy uncertainty.

[Insert Table 1 here]

⁸ See De Haan and Sturm (2000) for a review on this variable.

Table 2 presents summary statistics of the selected variables for each target country according to the classification of economies (developed or emerging/developing) as well as for the entire sample. On average, a transaction in the entire sample has an industry relatedness ratio of 32% and a cash payment ratio of 42%. The highest average transaction value for developed markets is Netherlands with 1,638 US\$ mil, while for emerging markets it is Russia with 715 US\$ mil. Moreover, the average percentage of share sought in target companies for developed economies is quantitatively similar to those in emerging markets (55.30% relative to 57.27%), though there are huge differences across countries. For instance, the average percentage of share sought in the United States is 90.03%, while only 28.52% for Portugal.

Regarding institutional environment variables, the average value of policy uncertainty for our sample is 0.62. Among developed economies, South Korea has the highest policy uncertainty (1.62), whereas Argentina has the highest policy uncertainty among the developing and emerging markets (1.46). Further, it is not surprising that developed economies have higher institutional transparency and corruption control (1.64) as compared to emerging markets (-0.02).

[Insert Table 2 here]

Table 3 presents descriptive statistics across different types of deals: minority, majority, and 100%. We use *t*-test to examine statistical significance of the differences in means between these groups. The univariate comparisons show that the greater the level of policy uncertainty in the target's country of origin, the lower share ownership the acquirer seeks in the target firm. In addition, the higher quality of corruption controls in the target's country of origin, the more likely it is that the deal involves a purchase of 100% of the target. Further, the number of 100% ownership acquisition deals is higher than that of minority ownership deals if the target's country of origin has a higher value of economic freedom index (*Economic freedom*) and better developed financial market (*Stock market cap*). In addition, when considering factors related

to the characteristics of the deal, transactions in which the acquirers seek full share ownership usually take place with higher deal value (*Deal value*), in domestic markets (*Cross-border*), in the same industry (*Related deal*), employ less cash (*Cash*), and less prior ownership (*Toehold*).

[Insert Table 3 here]

4.2. Policy uncertainty and share ownership choice in acquisitions

To examine the first hypothesis on the influence the level of policy uncertainty on share ownership choice, we estimate Eq. (1) for the entire sample and report the results in Table 4. As shown in Column (1), the coefficient for *Policy uncertainty(target)* is negative and significant at the 1% level across all models. These results seem to support hypothesis H1. Accordingly, the negative and statistically significant coefficient of the *Policy uncertainty(target)* variable suggests that acquiring firms reduce the share of ownership sought in the target firm, if the deal takes place in target's country of origin with a high level of uncertainty. The results obtained after controlling for other country-level characteristics (Columns 2-3) further reinforce our findings.

[Insert Table 4 here]

In the subsequent tests, displayed in Table 5, we redo the analysis by replacing the main dependent variable, *Shares sought*, with alternative measures, *Shares acquired* or *Shares held*. *Shares acquired* is defined as the proportion of the acquired equity in the target; and *Shares held* is the proportion of the acquired equity held after the acquisitions. The key explanatory variable is the policy uncertainty in the target's country of origin (*Policy uncertainty(target)*). Control variables include: (i) Deal-specific and firm-level characteristics: *Related deal, Cash, Toehold, Ln(Deal value),* and *Cross-border;* and (ii) Country-level variables: *Economic freedom, Tax rate, Stock market capitalization,* and *GDP growth.* The empirical models are formalized as:

Shares acquired_{i,t} =
$$\beta_0 + \beta_1 Policy$$
 uncertainty_{j,t-1} + $\beta_2 Controls_{t-1} + \gamma_s + \delta_t + \Omega_g + \zeta_{i,t}$ (2)

Shares $held_{i,t} = \beta_0 + \beta_1 Policy$ uncertainty_{j,t-1} + $\beta_2 Controls_{t-1} + \gamma_s + \delta_t + \Omega_g + \zeta_{i,t}$ (3)

Here again, the findings shown in Table 5 support hypothesis H1 indicating that higher ownership levels tend to be acquired and owned if the target's country of origin has lower policy uncertainty.

[Insert Table 5 here]

4.3. Robustness checks

We employ a number of tests to verify the robustness of the results. First, we rerun the estimations on country uncertainty variable and share ownership choice for different subsamples of target firms from countries with different economic conditions, including firms in developed versus emerging markets. Accordingly, we conduct initial analysis of the impact of target country's policy uncertainty, in association with economic development levels, on the acquirers' share ownership choice. This represents an initial assessment of whether the nature of the relationship between policy uncertainty and share ownership choice in acquisitions differs across countries with diverse levels of economic development. We re-estimate Eq. (1) separately for target firms domiciled in developed economies as well as for those domiciled in developing countries, and report the regression results in Models [1] and [2] of Table 6. The coefficient estimate on *Policy uncertainty(target)* is significant for the developed economy subsample, but the results do not hold for the developing economy sub-sample. This suggests that policy uncertainty has an impact on the choice of the size of the ownership stake in the target firm in the developed markets only. Overall, these results provide further evidence in support of H1 indicating that higher policy uncertainty in the target's jurisdiction reduces ownership levels sought in target firms.

[Insert Table 6 here]

To verify our previous findings, in Table 6, we also examine the robustness of our results to using the subsample of non-U.S. firms, and excluding the global financial crisis period. Since our sample has a significant percentage of U.S. firms, the regression results could be driven by a U.S. firm sample selection bias. To check for this possibility, we re-estimate Equation (1) for the sub-sample of non-U.S. markets and report the regression results in Model [3] of Table 6. The negative coefficient estimate on *Policy uncertainty(target)* supports our earlier results, suggesting that the target country's policy uncertainty remains a significant predictor of ownership choices in takeovers, regardless of whether the target firms are located in the U.S. or not. Additionally, it is also possible that our regression results are prejudiced by the 2007-2008 global financial crisis, which had a key effect on the functioning of world capital markets. Hence, we do another test by removing firm-year observations for 2007-2008 and present the re-estimated results in Models [4] and [5] of Table 6. We find that the sign of the coefficients on the *Policy uncertainty(target)* remains negative and statistically significant, suggesting that the inclusion of the global financial crisis period has not contaminated our baseline results.

Second, we categorize our original sample into three acquisition types on the basis of the percentage of shares owned in the target: 1) full-control (100%), 2) Majority ownership (more than 50% but less than 100%), and 3) Minority ownership (less than 50%). We then examine the effects of the target country's policy uncertainty on the three sub-samples using a multinomial logit framework. Table 7 presents the results of this analysis and indicates that there is a significant negative correlation between the target country's policy uncertainty and full-control or majority ownership takeover propensity. Put differently, acquiring firms tend to prefer minority equity stakes in target firms operating in target's country of origin with a high level of uncertainty and, therefore, this result remains in line with H1.

[Insert Table 7 here]

Further, as another complementary analysis, we employ a number of alternative proxies for country policy uncertainty. Accordingly, we use *Control of corruption* and *Corruption perceived*. We report the results in Table 8. We find that the coefficient estimate on *Control of corruption(target)* is positive and statistically significant at the 1% level and, hence, strongly support H1. The results when using the variable *Corruption perceived(target)* reinforce our baseline findings. Acquirers tend to purchase higher equity ownership in the target, if the target firm is located in a country with better institutional environment and greater transparency.

[Insert Table 8 here]

4.4. The role of institutional environment

In this section, we examine whether the relation between policy uncertainty and equity ownership choice varies across countries with different institutional environment and information transparency. We posit that the association between country uncertainty and ownership choice will be weaker for acquisition transactions taking place in target countries with stronger institutional setting and better information transparency. Our regression model is given as follows:

Shares sought_{i,t} = $\beta_0 + \beta_1 Policy$ uncertaint_{j,t-1} + $\beta_2 Institutional environment_{t-1} + \beta_3 Policy$ uncertaint_{j,t-1}*Institutional environment_{,t-1} + $\beta_4 Controls_{t-1} + \gamma_s + \delta_t + \Omega_g + \zeta_{i,t}$ (4)

The main variable of interest is policy uncertainty in the target's country of origin (*Policy uncertainty*). *Institutional environment* is represented by the four proxy variables including (1) Disclosure score index (*DiscScr*), (2) Regulatory quality index (*RegQlt*), (3) Government effectiveness index (*GovEff*), and (4) IFRS adoption at the country level (*IFRS*). *Controls*_{t-1} is a set of deal-level and country-level control variables with a one-year lag. In all specifications, we also control for year (δ_t), industry (γ_s), and geographic (Ω_g) fixed effects.

Regression results are reported in Table 9. We find that *Policy uncertainty(target)* is negatively related to the proportion of the target's equity stake sought by the acquirer, controlling for the cross-country institutional setting across all specifications, although the

coefficient on *Policy uncertainty(target)* in Model [3] when controlling for disclosure quality, remains statistically insignificant. We also find that the coefficient estimates on the institutional environment proxies are statistically significant and positive, which is in line with the existing evidence (e.g., Dang et al., 2018). We further interact *Policy uncertainty(target)* with the four institutional environment and find that the coefficients proxies. on Policy uncertainty(target)*Institutional environment interaction term are statistically negative across the four models. These results do not support hypothesis (H2) and suggest that the effect of the policy uncertainty on the choice of the acquirer's equity ownership in the target does not appear to depend on the quality of the institutional environment.

[Insert Table 9 here]

5. Conclusion

Policy uncertainty has been highlighted by economic theory to affect firm-level outcomes. When firms are exposed to high uncertainty about policy choices by governments and other official bodies, they tend to adjust their behaviour to mitigate the potential severity of their existing risk exposure. Recent years have witnessed elevated levels of global uncertainty, which reached their climax in 2020.

In this paper, we examine the empirical question of the impact of country-specific policy uncertainty on cross-border acquisitions when the acquirer and the target may be domiciled in countries of varying degree of policy risk. We focus on acquisitions, as they are one of the most important corporate investment decisions. We find that whenever the target firm is located in the environment of a relatively high policy uncertainty, the acquirer decides to purchase a significantly smaller equity stake in the target. Also, whenever the acquirer faces a choice between a minority and controlling interest, there is a significantly higher probability that if the target is domiciled in high uncertainty country the acquirer will take only a noncontrolling interest. The above results are robust to the alternative measures of policy uncertainty and different econometric specifications.

A key implication of our study is that if nation states desire to attract greater foreign investments, they should extend effort to reduce policy uncertainty at the country level. To this end, states should avoid disruptive events that tend to increase uncertainty such as full scale political and economic crises. One way to counter this possibility is to curb leverage and the overexpansion of the financial sector, as both have been shown to have a significant impact on the frequency of crises (Schularick and Taylor, 2012). On the other hand, the response to crises should be prompt and adequate with the emphasis on the permanent institutional and legal change that in turn should diminish the likelihood of disruptive events in the future. Moreover, increasing the quality of shareholder protection could be another solution to the policy uncertainty problem with the objective to ensure that e.g., private wealth will not be seized by the state at the sole discretion of the politicians.

There are some potential limitations of our investigation. First, we share some imperfections inherent in the mergers and acquisitions studies. Following the existing literature, we require acquirers to purchase and hold at least 5% stake in the target firm and exclude deals where multiple firms acquire the same target on the same day. We also impose value threshold on the acquisition transaction. The above criteria filter out very small acquisitions and may introduce measurement biases in our estimates. Second, our cross-country sample is limited to 82 jurisdictions which represents about a half of all existing countries. We nevertheless believe that our sample ensures enough variation in the response variable, as it includes a diverse group of countries on six continents. Finally, our measure of policy uncertainty may be a subject to some idiosyncratic noise stemming from the fact that the reports on which it is based are written by different experts that might be to some degree unintentionally biased. Nevertheless, the above concern is mitigated by a number of checks and edits the reports must go through before being published.

Our paper suggests several avenues for future research. First, our framework might be extended to study the relationship between the level of policy uncertainty and cross-border acquisitions over a very long term. That way we could understand better the cross-border asset accumulation dynamics by the same acquirers. Second, an important and interesting question is whether acquirers unwind acquisitions in asset divestiture deals (reverse acquisitions) and to what extent this behavior is motivated by e.g., negative changes in policy uncertainty. Finally, another topic which is worthy of future investigation in the context of corporate finance is the impact of policy uncertainty on cross-border cooperative efforts such as strategic alliances, joint ventures, short- and long-term partnerships. We leave these important challenges for future work.

Declaration of interests

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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Variable	Definition and data source
Dependent variables	
Shares sought	The fraction of the target firm's equity ownership stake sought by the acquirer (Source: SDC Platinum)
Shares acquired	The fraction of the target firm's equity ownership stake actually acquired by the acquirer (Source: SDC Platinum)
Shares held	The fraction of the target firm's equity ownership stake held following the acquisition (Source: SDC Platinum)
Cross-country uncertain	nty-related variables
Policy uncertainty	Developed in Ahir et al., (2019) and defined using the frequency of the word "uncertainty" in the quarterly Economist Intelligence Unit (EIU) country reports. These reports discuss major political and economic developments in each country, along with analysis and forecasts of political, policy and economic conditions. The index is associated with greater economic policy uncertainty (EPU), stock market volatility, risk and lower GDP growth. Therefore, the index can also be interpreted as e.g., the measure of economic activity or macroeconomic volatility (Source: Ahir, Bloom, and Furceri, 2019).

Appendix

Control of corruption	Index variable related to the level of control of corruption reflecting the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the extent to which the state is captured by elites and private interests. Its value ranges from -2.5 to +2.5, where higher value indicates lower incidence of corruption (Source: Worldwide Governance Indicators, World Bank).
Corruption	index variable related to the level of corruption perceived. 180 countries and
perceivea	termones are ranked by their perceived levels of public sector corruption according
	maximum level of corruption perceived (Source: Transperopey International)
Other cross country yor	indximum level of corruption perceived (Source: Transparency International).
Other cross-country var	
Economic freedom	index variable related to country's quality of economic freedom. The index measures the country's degree of economic freedom in five wide-ranging areas: (1)
	size of government, (2) legal structure and security of property rights, (3) access to
	sound money, (4) freedom to trade internationally, and (5) regulation of credit,
	labor, and business (Source: Fraser Institute).
Stock market cap	Stock market capitalization divided by GDP (Source: Global Financial
	Development Database).
Tax rate	Tax rate on income and capital gains (Source: World Development Indicators,
	World Bank).
GDP growth	Annual percentage growth rate in the gross domestic product (Source: World
	Development Indicators, World Bank).
Deal-specific and firm-	level variables
Related deal	An indicator variable taking on the value of one if the target and the acquirer
	operate in the same industry, and zero otherwise (Source: SDC Platinum).
Cash	An indicator variable taking on the value of one if the transaction is paid with cash
	only, and zero otherwise (Source: SDC Platinum).
Toehold	The percentage of target equity held by the bidder before the acquisition (Source:
	SDC Platinum).
Cross-border	An indicator variable taking on the value of one if the bidder and target firm are
	headquartered in different countries, and zero otherwise (Source: SDC Platinum).
Deal value	Value of the acquisition transaction (US\$ million) (Source: SDC Platinum).

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Table 1

Deal-specific characteristics and institutional environment

This table reports deal-specific characteristics and the features of the institutional environment for target countries arranged into quartiles based on the number of acquisitions made in the country. Definitions of variables can be found in the Appendix.

Panel A: Deal-characteristics in the target's country of origin

Number of deals by target country	Related deal	Cash	Toehold	Shares sought	Deal value (\$M)	Cross- border
Top quartile	27.58%	43.96%	16.61%	67.67%	254.43	22.25%
2 nd quartile	30.76%	39.97%	28.02%	53.32%	392.29	53.84%
3 rd quartile	47.00%	35.29%	19.26%	66.18%	200.98	78.43%
Bottom quartile	45.21%	36.30%	23.29%	61.12%	115.70	84.93%
All countries	27.89%	43.73%	17.04%	67.16%	258.36	23.92%

Panel B: Institutional environment in the target's country of origin

Number of deals by target country	Policy uncertainty	Control of corruption	Corruption perceived	Economic freedom	Tax rate	GDP growth
Top quartile	0.693	2.001	6.884	7.666	45.12%	3.40%
2 nd quartile	0.551	1.119	5.187	6.928	24.44%	3.62%
3 rd quartile	0.594	0.910	3.851	6.159	24.00%	5.08%
Bottom quartile	0.599	0.769	3.377	5.047	20.39%	4.25%
All countries	0.688	6.802	1.073	7.627	44.46%	3.42%

Table 2

Summary statistics by target's country of origin

This table reports the summary of deal-specific characteristics and features of institutional environment by target country of origin. Acquisition data come from Thomson Reuters SDC Platinum. *Shares sought* is expressed in percentages and *Deal value* is in \$million. The sample period runs from 2000 to 2015. Definitions of variables can be found in the Appendix.

Panel A: Developed markets

Target Country	Number of deals	Related deal	Cash	Toehold	Shares sought	Deal value	Cross- border	Policy uncertainty	Control of corruption	Corruption perceived	Economic freedom	Tax rate	GDP growth
US	24243	0.32	0.41	0.04	90.03	404.82	0.16	0.71	1.51	7.51	8.19	0.53	0.02
Japan	7286	0.26	0.67	0.33	44.40	112.78	0.07	0.71	1.37	7.55	7.69	0.48	0.01
Canada	6157	0.38	0.32	0.10	82.34	171.06	0.25	0.52	1.98	8.13	8.09	0.54	0.02
South Korea	5665	0.14	0.43	0.20	46.42	90.31	0.11	1.62	0.50	6.17	7.47	0.28	0.04
Australia	5525	0.29	0.36	0.14	68.47	108.34	0.27	0.43	1.97	8.51	8.06	0.65	0.03
Singapore	2175	0.19	0.56	0.28	61.75	108.65	0.35	0.33	2.18	9.08	8.74	0.32	0.06
UK	1669	0.25	0.55	0.25	73.93	843.58	0.32	0.82	1.85	7.94	8.18	0.37	0.02
New Zealand	1113	0.30	0.31	0.16	74.43	70.18	0.45	0.48	2.24	9.03	8.40	0.53	0.03
France	965	0.26	0.52	0.45	44.28	576.75	0.32	0.75	1.37	6.97	7.34	0.25	0.02
Taiwan	927	0.34	0.33	0.21	57.13	142.39	0.32	0.52	0.67	6.37	7.53	0.07	NA
Israel	666	0.23	0.29	0.15	66.81	105.73	0.45	0.85	0.94	6.14	7.21	0.31	0.04
Germany	629	0.32	0.57	0.47	45.57	530.41	0.39	0.26	1.82	7.57	7.66	0.16	0.01
Norway	463	0.18	0.44	0.54	40.76	246.21	0.33	0.62	2.10	8.15	7.55	0.30	0.01
Italy	454	0.31	0.39	0.44	41.48	975.14	0.26	0.79	0.32	4.84	7.29	0.33	0.01
Sweden	363	0.22	0.54	0.39	60.74	318.73	0.38	0.63	2.23	8.72	7.54	0.15	0.03
Spain	340	0.23	0.38	0.30	34.17	902.12	0.28	0.64	1.04	6.33	7.53	0.41	0.03
Switzerland	234	0.42	0.51	0.41	42.83	1419.12	0.37	0.48	2.01	8.06	8.33	0.20	0.02
Netherlands	219	0.25	0.64	0.26	61.77	1638.52	0.45	0.44	2.11	8.33	7.70	0.25	0.02
Denmark	168	0.39	0.46	0.35	58.04	452.85	0.33	0.71	2.37	8.90	7.85	0.40	0.01
Belgium	145	0.26	0.54	0.43	49.35	580.14	0.45	0.37	1.33	6.95	7.39	0.36	0.02
Finland	122	0.25	0.39	0.45	45.32	293.51	0.45	0.27	2.36	9.03	7.87	0.20	0.02
Portugal	118	0.36	0.54	0.55	28.52	389.32	0.31	0.52	1.11	6.40	7.38	0.22	0.01
Austria	90	0.21	0.50	0.49	37.17	650.95	0.57	0.54	1.67	7.52	7.71	0.27	0.02
Ireland	79	0.22	0.59	0.16	74.46	1532.94	0.49	0.61	1.57	7.11	7.96	0.38	0.04
Luxembourg	55	0.40	0.49	0.36	60.45	3920.66	0.80	0.71	1.42	7.16	7.33	0.29	0.04

Iceland	25	0.24	0.28	0.36	41.27	360.93	0.20	0.58	2.25	8.36	7.79	0.29	0.03
Panel B: Emerg	ing and Dev	veloping ma	arkets										
Target Country	Number of deals	Related deal	Cash	Toehold	Shares sought	Deal value	Cross- border	Policy uncertainty	Control of corruption	Corruption perceived	Economic freedom	Tax rate	GDP growth
China	4950	0.20	0.37	0.18	50.29	115.56	0.21	0.32	-0.45	4.33	6.26	0.23	0.09
India	2851	0.23	0.41	0.28	47.85	89.48	0.40	0.28	-0.41	4.49	6.44	0.41	0.07
Malaysia	2453	0.22	0.67	0.29	62.93	73.63	0.18	0.57	0.20	5.52	6.73	0.47	0.06
Thailand	1198	0.25	0.30	0.32	48.10	69.82	0.27	0.77	-0.31	4.37	6.69	0.34	0.04
South Africa	1146	0.28	0.47	0.17	69.63	155.32	0.29	1.19	0.27	5.02	6.82	0.51	0.03
Indonesia	1033	0.33	0.33	0.23	56.13	95.20	0.51	0.81	-0.75	4.25	6.55	0.35	0.06
Mexico	809	0.37	0.32	0.18	77.54	359.56	0.56	0.96	-0.37	3.75	6.77	0.30	0.03
Vietnam	602	0.25	0.74	0.22	38.09	29.18	0.38	0.59	-0.55	3.68	6.20	0.35	0.06
Philippines	580	0.33	0.31	0.24	55.86	118.58	0.30	0.72	-0.62	3.82	7.07	0.40	0.05
Brazil	399	0.38	0.44	0.53	40.01	549.30	0.28	0.87	-0.03	4.32	6.14	0.25	0.03
Russia	396	0.33	0.26	0.40	35.27	715.51	0.23	0.76	-0.99	3.41	6.45	0.04	0.04
Kuwait	303	0.27	0.31	0.20	54.06	102.46	0.41	0.76	-0.11	4.37	6.34	0.03	0.02
Poland	297	0.21	0.41	0.45	40.89	117.56	0.47	0.53	0.57	5.41	7.05	0.13	0.04
Egypt	294	0.32	0.34	0.26	52.48	205.62	0.47	0.76	-0.64	3.85	6.15	0.26	0.04
Turkey	243	0.31	0.56	0.34	35.50	276.18	0.40	1.05	-0.07	4.49	6.75	0.17	0.06
UAE	232	0.25	0.34	0.10	67.06	209.00	0.63	0.63	1.04	6.24	7.59	0.00	0.04
Greece	215	0.33	0.31	0.36	50.27	447.96	0.54	0.30	0.01	4.11	7.01	0.21	0.01
British Virgin Islands	170	0.34	0.26	0.06	84.73	37.52	0.88	0.86	0.78	NA	NA	NA	NA
Saudi Arabia	166	0.20	0.26	0.23	53.88	99.69	0.53	0.41	-0.11	4.48	4.78	0.20	0.05
Bermuda	163	0.34	0.42	0.15	75.93	430.08	0.75	0.49	1.17	5.40	7.01	0.21	0.01
Chile	145	0.30	0.48	0.41	41.14	279.16	0.29	0.22	1.47	7.20	7.73	0.28	0.04
Morocco	132	0.35	0.42	0.29	48.30	262.64	0.56	0.30	-0.36	3.90	6.08	0.27	0.05
Kazakhstan	131	0.44	0.35	0.21	60.73	401.89	0.61	0.27	-0.96	3.61	6.40	0.34	0.06
Peru	117	0.33	0.42	0.40	39.67	130.42	0.45	1.01	-0.33	4.04	7.50	0.29	0.05
Nigeria	98	0.38	0.45	0.13	61.68	371.46	0.51	1.41	-1.14	2.75	6.21	0.31	0.06
Jordan	89	0.26	0.35	0.13	54.72	55.57	0.47	0.29	0.16	5.49	7.34	0.11	0.05
Panama	84	0.44	0.32	0.10	82.67	163.38	0.68	0.53	-0.31	3.75	7.40	0.07	NA
Argentina	83	0.37	0.28	0.42	33.23	357.00	0.52	1.46	-0.36	3.63	6.23	0.15	0.02

Puerto Rico	67	0.27	0.54	0.04	89.94	229.11	0.69	0.68	0.72	-0.01	NA	NA	NA
Qatar	64	0.36	0.28	0.23	52.53	226.21	0.50	0.12	0.63	5.52	4.18	0.29	0.10
Bulgaria	63	0.33	0.29	0.25	56.06	95.91	0.68	0.56	-0.34	4.33	6.49	0.19	0.04
Venezuela	60	0.48	0.84	0.36	57.20	473.20	0.24	1.22	-0.87	3.25	5.26	0.03	NA
Colombia	56	0.36	0.41	0.48	48.42	378.27	0.43	0.90	-0.29	3.99	6.21	0.20	0.05
Czechia	56	0.30	0.48	0.41	52.74	425.48	0.73	0.77	-0.15	4.24	6.45	0.15	0.05
Cayman Islands	54	0.41	0.46	0.13	68.69	72.42	0.93	0.57	1.03	1.90	4.96	0.05	NA
Tunisia	54	0.51	0.40	0.14	63.93	131.68	0.72	0.82	-0.15	4.71	6.45	0.26	0.04
Romania	52	0.35	0.35	0.42	41.38	58.09	0.62	0.58	-0.27	4.33	6.96	0.19	0.03
Oman	51	0.20	0.37	0.22	51.45	57.86	0.43	0.86	0.37	5.04	7.05	0.03	0.05
Cyprus	48	0.19	0.38	0.35	36.79	228.84	0.58	0.43	1.04	5.44	7.61	0.26	0.02
Kenya	48	0.27	0.50	0.13	66.33	54.97	0.65	1.24	-0.99	2.75	7.03	0.37	0.05
El Salvador	47	0.47	0.34	0.19	76.09	208.92	0.74	0.59	-0.53	3.54	6.68	0.22	0.06
Namibia	47	0.45	0.34	0.09	75.01	57.87	0.83	0.54	0.46	4.66	6.73	0.36	0.06
Hungary	43	0.33	0.58	0.51	42.46	605.11	0.56	0.65	0.67	5.36	7.10	0.20	0.03
Bahrain	42	0.21	0.24	0.05	43.95	97.33	0.60	0.26	0.25	7.38	0.01	0.05	NA
Mauritius	40	0.45	0.45	0.20	62.49	90.89	0.73	0.13	0.40	5.10	7.77	0.17	0.04
Costa Rica	36	0.44	0.28	0.11	84.87	72.05	0.69	0.56	0.63	4.80	7.50	0.15	0.05
Uzbekistan	36	0.22	0.22	0.06	67.20	44.26	0.92	0.60	-1.11	3.39	0.19	0.07	NA
Dominican Republic	35	0.51	0.31	0.26	64.66	202.73	0.77	0.84	-0.75	4.34	6.63	0.21	0.06
Ghana	33	0.61	0.39	0.06	78.44	108.11	0.76	0.30	-0.13	4.20	6.52	0.24	0.06
Armenia	29	0.24	0.38	0.14	71.94	110.72	0.93	0.23	-0.39	3.79	6.24	0.22	0.06
Bahamas	28	0.43	0.29	0.21	71.45	433.23	0.93	0.28	1.36	7.22	NA	NA	NA
Croatia	27	0.37	0.33	0.33	55.36	200.20	0.59	0.43	0.12	4.15	6.51	0.08	0.03
Iraq	23	0.65	0.57	0.30	46.73	234.21	0.87	0.66	-1.27	1.82	0.02	0.10	NA
Barbados	21	0.33	0.38	0.29	72.86	241.37	0.90	0.56	1.46	7.12	6.33	0.33	0.02
Azerbaijan	15	0.53	0.40	0.13	40.07	360.50	0.80	0.15	-1.09	3.42	3.73	0.15	0.09
Total developed	59895	0.28	0.46	0.32	55.07	651.77	0.35	0.61	1.63	7.57	7.76	0.33	0.02
Total emerging	20554	0.34	0.39	0.24	57.41	214.88	0.57	0.63	-0.04	4.36	6.16	0.22	0.05
Grand total	80449												

Table 3

Descriptive statistics

This table reports summary statistics for the acquisition sample split into three groups depending on the size of the equity ownership stake purchased by the acquirer. *Minority* is defined as 50% or less. *Majority* lie in the range of higher than 50% and less than 100%. Differences in means are calculated using a *t*-test. *** and ** indicate significance at the 1% and 5% levels, respectively. Variable definitions are provided in the Appendix.

Variabla	Minority ownership			Major	Majority ownership			owners	hip	Difference	
variable	N	Mean	SD	Ν	Mean	SD	Ν	Mean	SD	(t-stat	tistics)
		(1)			(2)			(3)		(1)-(2)	(1)-(3)
Panel A: Target's cou	ntry of o	rigin									
Policy uncertainty	28,269	0.71	0.61	11,102	0.69	0.56	40,261	0.67	0.47	3.19***	10.34***
Control of corruption	28,257	0.81	0.97	11,091	0.78	0.99	40,235	1.34	0.75	2.46**	-81.39***
Corruption perceived	26,944	6.39	2.13	10,463	6.29	2.16	37,632	7.24	1.54	4.14***	-58.30***
Economic freedom	28,134	7.36	0.82	10,997	7.36	0.87	39,905	7.89	0.67	0.10	-93.38***
Stock market cap	26,305	0.88	0.48	10,164	0.92	0.53	38,669	1.16	0.41	-8.38***	-80.98***
Tax rate	25,856	0.39	0.15	9,983	0.39	0.14	38,484	0.49	0.11	-0.37	-103.67***
GDP growth	27,801	0.04	0.04	10,892	0.04	0.03	39,736	0.03	0.02	-4.51***	31.99***
Panel B: Acquirer's co	ountry of	origin									
Control of corruption	27,323	0.95	0.93	10,776	0.96	0.95	39,555	1.41	0.69	-1.35	-74.11***
Corruption perceived	26,403	6.65	1.99	10,332	6.63	2.01	37,392	7.36	1.43	1.04	-52.40***
Economic freedom	27,598	7.49	0.83	10,889	7.51	0.83	39,651	7.93	0.61	-1.96**	-79.77***
Stock market cap	25,465	0.93	0.50	10,032	0.97	0.52	37,917	1.17	0.39	-8.09***	-67.50***
Tax rate	25,219	0.39	0.14	10,010	0.40	0.14	38,367	0.49	0.11	-5.13***	-97.88***
GDP growth	26,756	0.04	0.03	10,591	0.04	0.03	39,200	0.03	0.02	-3.71***	25.10***
Panel C: Deal charact	eristics										
Related deal	28,269	0.25	0.43	11,102	0.25	0.43	40,261	0.31	0.46	-0.01	-19.20***
Cash	28,269	0.51	0.50	11,102	0.46	0.50	40,261	0.37	0.48	7.81***	35.64***
Toehold	28,269	0.36	0.48	11,102	0.31	0.46	40,261	0.00	0.01	8.22***	15.32***
Cross-border	28,269	0.27	0.44	11,102	0.27	0.45	40,261	0.21	0.41	-1.62	15.68***
Ln (Deal value)	28,269	2.79	1.84	11,102	3.25	1.97	40,261	3.44	1.96	-21.89***	-43.91***

Table 4

Impact of policy uncertainty on the fraction of shares sought in the foreign target

The table reports regression results of the determinants of the fraction of shares sought in the target firm domiciled in a foreign country. The main variable of interest is the degree of policy uncertainty in the target's country of origin (*Policy uncertainty(target)*). The proposed empirical model is defined as:

Shares sought_{i,t} = $\beta_0 + \beta_1 Policy$ uncertainty_{j,t-1} + $\beta_2 Controls_{t-1} + \gamma_s + \delta_t + \Omega_g + \zeta_{i,t}$ (1)

In all model specifications, we include year, industry, and geographic location indicators to control for the unobservable firm characteristics that may affect acquirer's decision about the fraction of shares sought in a deal. *t*-statistics are shown in parentheses. *** indicates significance at the 1% level. Variable definitions are provided in the Appendix.

Variables	(1)	(2)	(3)
Policy uncertainty (target)	-2.71***	-1.84***	-1.52***
	(-10.72)	(-6.21)	(-4.96)
Related deal	1.66***	1.23***	0.66***
	(6.72)	(4.80)	(2.59)
Toehold	-28.91***	-28.17***	-27.97***
	(-104.66)	(-94.91)	(-91.68)
Cross-border	-2.71***	-3.53***	-2.16***
	(-9.98)	(-12.16)	(-6.55)
Cash	-6.49***	-7.18***	-7.40***
	(-28.45)	(-30.35)	(-30.67)
Ln (Deal value)	2.77***	2.86***	2.82***
	(47.36)	(47.18)	(45.67)
Economic freedom (target)		1.53***	1.75***
		(4.96)	(3.87)
Stock market cap (target)		5.36***	4.26***
		(13.57)	(7.46)
Tax rate (target)		31.84***	8.79***
		(20.59)	(4.09)
GDP growth (target)		60.88***	59.12***
		(8.45)	(5.58)
Economic freedom (acauirer)			-0.11
	×		(-0.27)
Stock market cap (acquirer)			1.76***
			(3.30)
Tax rate (acauirer)			29.80***
			(16.30)
GDP growth (acquirer)			-2.38
			(-0.25)
Intercept	74.15***	35.21***	29.70***
inclusive and the second	(52.69)	(12.97)	(9.99)
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Geographic Fixed Effects	YES	YES	YES
See Stapine I wear Dijeens	1	1 200	
N	79.632	71.801	68.314
Adjusted R^2	0.32	0.35	0.35

Table 5

Impact of policy uncertainty on the fraction of shares acquired and held in the foreign target

This table reports the results from regressions of the shares acquired in a single transaction and the total shares held by the acquirer following the acquisition on the level of policy uncertainty in the target's country of origin. We estimate the following equations:

> Shares acquired_{i,t} = $\beta_0 + \beta_1 Policy$ uncertainty_{j,t-1} + $\beta_2 Controls_{t-1} + \gamma_s + \delta_t + \Omega_g + \zeta_{i,t}$ (2) Shares held_{i,t} = $\beta_0 + \beta_1 Policy$ uncertainty_{j,t-1} + $\beta_2 Controls_{t-1} + \gamma_s + \delta_t + \Omega_g + \zeta_{i,t}$ (3)

In all model specifications, we include year, industry, and geographic location indicators to control for the unobservable firm characteristics that may affect acquirer's decision about the size of the shares acquired and held after the acquisition. *t*-statistics are shown in parentheses. Results for Eq. (2)-(3) are reported in Columns (1)-(2), respectively. *** indicates significance at the 1% level. Variable definitions are provided in the Appendix.

Variables	Shares acquired	Shares held
variables	(1)	(2)
Policy uncertainty (target)	-1.33***	-1.92***
	(-4.36)	(-6.02)
Related deal	0.70***	1.38***
	(2.69)	(5.14)
Toehold	-29.47***	8.23***
	(-98.10)	(23.50)
Cross-border	-1.99***	-1.70***
	(-6.07)	(-5.02)
Cash	-7.98***	-7.86***
	(-33.11)	(-31.54)
Ln (Deal value)	2.85***	2.73***
	(46.28)	(43.01)
Economic freedom (target)	1.43***	0.56
	(3.20)	(1.22)
Stock market cap (target)	4.44***	5.67***
	(7.83)	(9.62)
Tax rate (target)	8.16***	3.55
	(3.81)	(1.60)
GDP growth (target)	51.19***	42.58***
	(4.92)	(3.89)
Economic freedom (acquirer)	0.22	0.09
5	(0.52)	(0.21)
Stock market cap (acquirer)	1.49***	2.20***
	(2.82)	(3.99)
Tax rate (acquirer)	30.25***	30.07***
	(16.62)	(15.97)
GDP growth (acquirer)	10.71	1.58
	(1.14)	(0.16)
Intercept	29.15***	38.68***
	(9.96)	(12.73)
Year Fixed Effects	YES	YES
Industry Fixed Effects	YES	YES
Geographic Fixed Effects	YES	YES
N	68,149	68,314
Adjusted R^2	0.37	0.22

Table 6 Sub-samples

This table reports the results from regressions of the equity ownership stake sought in the target firm on the level of policy uncertainty in the target's country of origin for various sub-samples, including target firms operating in developed versus emerging markets (Columns 1-2), and non-US firms (Column 3). We also split our sample into crisis and non-crisis period (Columns 4-5). The dependent variable (*Shares sought*) is defined as the fraction of shares sought in the target firm domiciled in a foreign country. In all model specifications, we include year, industry, and geographic location indicators to control for the unobservable firm characteristics that may affect acquirer's decision about the size of the equity ownership stake sought in the acquisition. *t*-statistics are shown in parentheses. *** indicates significance at the 1% level. Variable definitions are provided in the Appendix.

Variables	Developed	Developing	Non-US	Crisis	Non-Crisis
	(1)	(2)	(3)	(4)	(5)
Policy uncertainty (target)	-1.67***	1.00	-1.82***	-0.96	-1.80***
	(-4.26)	(1.58)	(-5.54)	-1.57	(-4.98)
Deal-specific controls	Yes	Yes	Yes	Yes	Yes
Target country controls	Yes	Yes	Yes	Yes	Yes
Acquirer country controls	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes
Geographic Fixed Effects	Yes	Yes	Yes	Yes	Yes
Ν	55,334	12,980	45,018	9,757	58,557
Adjusted R^2	0.36	0.24	0.25	0.29	0.36

Table 7 Multinomial Logit Model

The table reports the results from multinomial logit regressions using three sub-samples (*minority*, *majority*, and 100% control). Minority is defined as 50% or less. Majority lie in the range of higher than 50% and less than 100%. The dependent variable is a multinomial variable, taking the value of 1 for 100% control sub-sample, 2 for the majority, and 3 for the minority sub-sample. We select the minority sub-sample as our baseline outcome. In all model specifications, we include year, industry, and geographic location indicators to control for the unobservable firm characteristics that may affect acquirer's decision about the fraction of shares sought in the acquisition. The LR Chi-squared and the Pseudo R-squared values confirm the significance of our model. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively. All other variable definitions are provided in the Appendix.

Variable	100% cont	rol vs.	majority	majority vs. minority			
Variable	Coef.	SE	z	Coef.	SE	z	
Policy uncertainty (target)	-0.04*	0.02	-1.75	-0.06**	0.03	-2.12	
Related deal	0.10***	0.02	4.00	-0.10***	0.03	-3.42	
Toehold	-8.74***	0.58	-15.13	-0.20***	0.03	-7.14	
Cross-border	-0.25***	0.03	-8.31	-0.10***	0.04	-2.87	
Cash	-0.65***	0.02	-27.96	-0.19***	0.03	-7.15	
Ln (Deal value)	0.26***	0.01	39.15	0.16***	0.01	22.32	
Economic freedom (target)	0.19***	0.04	5.20	-0.07*	0.04	-1.72	
Stock market cap (target)	0.32***	0.05	6.96	0.22***	0.05	4.27	
Tax rate (target)	1.29***	0.17	7.52	-1.10***	0.19	-5.75	
GDP growth (target)	6.65***	0.90	7.39	0.54	0.96	0.57	
Economic freedom (acquirer)	0.05	0.04	1.48	-0.04	0.04	-1.15	
Stock market cap (acquirer)	0.14***	0.04	3.22	0.07	0.05	1.37	
Tax rate (acquirer)	2.55***	0.15	16.90	1.14***	0.17	6.68	
GDP growth (acquirer)	0.63	0.82	0.77	0.86	0.91	0.94	
Intercept	-4.05***	0.25	-16.13	-0.37	0.26	-1.42	
Year Fixed Effects	Yes						
Industry Fixed Effects	Yes						
Geographic Fixed Effects	Yes						
Ν	68,314						
Pseudo R ²	0.23						
$LR \chi^2$	39273						

Table 8

Robustness check with alternative independent variables

The table displays estimated regression coefficients for two alternative proxies for a country's policy uncertainty including *Control of corruption* and *Corruption perceived*. The dependent variable (*Shares sought*) is defined as the fraction of shares sought in the target firm domiciled in a foreign country. In all model specifications, we include year, industry, and geographic location indicators to control for the unobservable firm characteristics that may affect acquirer's decision about the fraction of shares sought in the acquisition. *t*-statistics are shown in parentheses. Symbols ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively. Variable definitions are provided in the Appendix.

Variables	(1)	(2)	
Control of corruption (target)	0.95***		
	(2.73)		
Corruption perceived (target)		0.44***	
		(3.84)	
Related deal	0.69***	0.91***	
	(2.66)	(3.39)	
Toehold	-27.91***	-27.67***	
	(-91.54)	(-88.63)	
Cross-border	-1.98***	-1.94***	
	(-6.02)	(-5.73)	
Cash	-7.36***	-7.23***	
	(-30.47)	(-29.25)	
Ln (Deal value)	2.83***	2.84***	
	(45.77)	(44.61)	
Economic freedom (target)	0.68	0.90*	
	(1.24)	(1.85)	
Stock market cap (target)	4.14***	4.20***	
	(7.28)	(7.17)	
Tax rate (target)	9.94***	8.78***	
	(4.64)	(4.03	
GDP growth (target)	65.12***	60.56***	
	(6.40)	(5.89)	
Economic freedom (acquirer)	0.12	0.28	
	(0.29)	(0.65)	
Stock market cap (acquirer)	1.62***	1.27**	
	(3.04)	(2.33)	
Tax rate (acquirer)	30.26***	31.51***	
	(16.53)	(16.64)	
GDP growth (acquirer)	8.51	10.94	
	(0.90)	(1.14)	
Intercept	32.86***	28.11***	
	(8.69)	9.16)	
Year Fixed Effects	Yes	Yes	
Industry Fixed Effects	Yes	Yes	
Geographic Fixed Effects	Yes	Yes	
N	68,314 64,871		
Adjusted R^2	0.35	0.35	

Table 9

The role of institutional environment

The table displays regression coefficients representing the effect of the institutional environment on the relation between policy uncertainty and the fraction of equity ownership stake invested in the foreign target. We employ four proxies for a country's quality of institutional environment, including Disclosure score index (*DiscScr*), Regulatory quality index (*RegQlt*), Government effectiveness index (*GovEff*), and IFRS adoption at the country level (*IFRS*). The empirical model is defined as follows:

Shares sought_{i,t} = $\beta_0 + \beta_1 Policy$ uncertainty_{j,t-1} + $\beta_2 Institutional environment_{t-1} + \beta_3 Policy$ uncertainty_{j,t-1}*Institutional environment_{,t-1} + $\beta_4 Controls_{t-1} + \gamma_s + \delta_t + \Omega_g + \zeta_{i,t}$ (4)

Information environment represents each of the four proxy variables *DiscScr*, *RegQlt*, *GovEff*, and *IFRS* depending on the specific proxy included in the model. In all model specifications, we include year, industry, and geographic location indicators to control for the unobservable firm characteristics that may affect acquirer's decision about the fraction of equity ownership stake invested in the foreign target. *t*-statistics are shown in parentheses. *** and ** indicate significance at the 1% and 5% levels, respectively. All other variable definitions are provided in the Appendix.

Variables	GovEff	RegQlt	DiscScr	IFRS	
	(1)	(2)	(3)	(4)	
Policy uncertainty (target)	-0.94**	-1.51***	-0.17	-1.39***	
Institutional environment	(-1.98)	(-3.56)	(-0.10)	(-3.24)	
	7.00***	6.89***	2.28***	5.65***	
	(23.83)	(24.24)	(13.54)	(13.57)	
Policy uncertainty	-2.70***	-2.41***	-0.56**	-7.07***	
(target)*Institutional	(-6.88)	(-6.02)	(-2.54)	(-14.75)	
environment					
Deal-specific controls	Yes	Yes	Yes	Yes	
Target country controls	Yes	Yes	Yes	Yes	
Acquirer country controls	Yes	Yes	Yes	Yes	
Year Fixed Effects	Yes	Yes	Yes	Yes	
Industry Fixed Effects	Yes	Yes	Yes	Yes	
Geographic Fixed Effects	Yes	Yes	Yes	Yes	
N	75,313	75,313	34,833	79,231	
Adjusted R^2	0.33	0.33	0.30	0.33	

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