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DISSERTATION

**DOES POLITICAL UNCERTAINTY AND POLITICAL
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PREMIUMS?**

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Abstract

This paper aims to study the relationship between political uncertainty and M&A premium, with emphasis on close calls, political ideology, and political polarization of extreme political parties. We cover a dataset from 2000 to 2022, covering 1646 announced deals in 29 different countries. Our results suggest that ideology can significantly lower the M&A premium in countries that lean more to the right, corresponding to a higher ideology variable. Overall, our findings support the argument that investors place a discount on the premiums in M&A deals on account of the political uncertainty of the target nation.

JEL: D72; D34

Keywords: M&A; Mergers and Acquisitions; Politics; Election; Uncertainty; Premium; Polarization; Ideology; Left; Right

Resumo

Esta tese tem como objetivo estudar a relação entre a incerteza política e o prêmio em fusões e aquisições (M&A), com ênfase em disputas eleitorais renhidas, ideologia política e polarização política de partidos políticos extremos. Analisamos um conjunto de dados de 2000 a 2022, abrangendo 1646 negócios anunciados em 29 países diferentes. Os nossos resultados sugerem que a ideologia pode diminuir significativamente o prêmio de M&A em países que tendem mais para a direita, correspondendo a uma ideologia mais forte. No geral, as nossas conclusões apoiam o argumento de que os investidores aplicam um desconto nos prêmios em negócios de M&A devido à incerteza política do país-alvo.

JEL: D72; D34

Palavras-chave: M&A; Fusões e Aquisições; Política; Eleição; Incerteza; Prêmio; Polarização; Ideologia; Esquerda; Direita

Acknowledgment

Thank you so much for the guidance, help, and support from my supervisor, Professor Barros. Thank you to all of my friends, ISEG - University of Lisbon, my parents, and my brother.

Abbreviations

M&A	Mergers and Acquisitions
EU	European Union
FDI	Foreign Direct Investment
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development

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1 Introduction

Mergers and Acquisitions (M&A), one of the most important business activities, in 2023, the total amount of the M&A market reached USD 3.2 trillion according to the M&A Report 2024 by Bain & Company. Included both domestic M&A and cross-border M&A, a type of M&A that takes place between firms of different national origins or home countries (Kang, 2000).

The benefits of M&A, including domestic and cross-border, have been extensively studied, as a mechanism that allows firms to obtain synergy, through achieving the scale of economies, higher pricing power, or higher growth potential (Demodaran, 2005). Cross Border M&A can facilitate international expansion (Ahammad et al., 2016; Jongwanich et al., 2013), and acquire strategic assets (Deng, 2009). Furthermore, Cross-Border M&A can propose a positive effect on countries economic growth depending on the level of human capital (Wang and Sunny, 2009), other effects, such as employment creation, transfer of technology and management skills, enhance the efficiency in the host country (Kang and Johansson, 2000).

Is political uncertainty relevant in M&A deals and consequently on value-added for all parties involved? Decision-making by firms can be affected by the domestic political situation, such as the parties and the voting behavior of citizens, and during the election period, or the voting years, can cause uncertainty in the future economic policies, also causing Financial market uncertainty (Goodell et al., 2020; Baker et al., 2020). Sometimes it also affects the relations between countries. As the dynamic and uncertainty of policies, several studies have shown that it has negative effects on business, such as fewer Initial Public Offers (Çolak et al., 2017), lower investment willingness, and debt issuance (Jens 2017). Regarding cross-border M&A activities, political and policy uncertainty can affect the successfulness of the deal (Dang et al., 2022), as the announcement date, deal size,

and the financing method (Chen et al.,2023), also, the premium of the M&A deal, which has been shown that is related to the successfulness of the M&A transactions by several researchers, for example, Kumar et al., (2019), Okafor (2019).

Unfortunately, International relations and politics in different countries have become more complicated nowadays. Especially in recent years, there have been complicated relations between the United States and China, the two biggest countries in the world regarding GDP. The tendency to shift the political wings, evident in countries ranging from Latvia (Auers, 2023) to Italy (Ozzano, 2021), and the rising trends of far-right parties have been observed in Europe (Xiong, 2023), such as the Netherlands (van Oosten, 2023) and Germany (Angelos, 2024). In the 2024 EU Parliament Election, far-right parties in Germany, Italy, Austria, and France have seen a significant increase in their vote share. Rassemblement National (RN) in France achieved a record-breaking 31% vote share. Alternative für Deutschland (AfD) in Germany secured 15.9% of the vote, becoming the second-largest party. Fratelli d'Italia (FDI) in Italy received 28.76% of the vote, making it the largest party in the country. In Austria, Die Freiheitliche Partei Österreichs(FPÖ) also attained the highest vote share. This recent political landscape is a scenario that calls for more research, On the top is the war between Russia and Ukraine, a field of uncertain political situation. With the continuous deglobalization trend (Kim et al., 2020), M&A activities, for both domestic and cross-border M&A, have become more complicated, How they have been affected in the same way as before? Existing literature has tried to figure out the relations between M&A premium and policy uncertainty, international relations, or political uncertainty (Nguyen and Pan, 2017; Dang et al., 2022; Bertrand et al., 2016; Lee, 2018). As the more complicated voting behavior with rising populism and political polarization, frequent closed-call, more detailed research in analyzing the voting behavior and the premium cross-border M&A is necessary. To the

best of our knowledge, there is no literature analyzing how these voting behaviors affect the M&A premium.

We apply a model using a dataset from 2000 to 2022, covering 1646 announced deals in 29 different countries, mostly in OECD countries, to analyze the relationship between M&A premium and three political variables: political ideology, polarization, and close-call elections. Our results suggest that political ideology can significantly lower the M&A premium in countries that lean more to the right. The structure of the thesis is divided into five parts. The first part introduces the background of M&A, recent political trends, the motivation for the thesis, and the necessity of the study. In the second part, the literature review provides the basic concepts related to this thesis, such as M&A, premiums, political ideology, empirical evidence, and literature about how uncertainty affects M&A. This section aims to provide a review of existing literature and build a mechanism for explaining how uncertainty and changes in political ideology impact M&A premiums.

The third part details the data sources for both political data and M&A deal data, the methodology for calculating political polarization and political ideology, and the formulation of the model.

The fourth part presents the main results and various further analyses. It aims to understand how different types of political variables, mainly political uncertainty and political ideology, affect M&A premiums, explore the interaction effects between variables, and present robustness tests to demonstrate the model's reliability and results.

The final part provides the conclusion, discusses the limitations of the thesis, suggests possible improvements, and provides some suggestions for future research.

2 Literature Review

2.1 Mergers and Acquisitions

Mergers and Acquisitions (M&A) are often used interchangeably to describe the business activity that involves the combination of two or more companies into one new company or corporation (Roberts et al., 2003). Although M&A are similar, they have slight differences in their definitions. According to Sherman (2010), a merger can be defined as the combination of two or more companies in which the assets and liabilities of the selling firms are absorbed by the buying firm (Acquirer). The buying firm may be a considerably different organization after the merger. An acquisition, on the other hand, refers to the purchase of assets, such as a plant, a division, or even an entire company. Cross-Border M&A, as a type of M&A, differs from normal M&A in that Cross-Border M&A takes place between firms of different national origins or home countries (Kang, 2000).

2.2 Motivation of Mergers and Acquisitions

Firms pursue M&A deals for several different reasons, Berkovitch and Narayanan (1993) highlight that synergy, agency, and hubris are common driving factors behind mergers and acquisitions (M&A). Among these, synergy stands out as one of the popular motives (Bauer and Friesl, 2024). The effect of synergy has been often studied by various scholars, such as Signori and Vismara (2018). Typically, synergy can be classified as operating synergy, through achieving economies of scale, obtaining a higher pricing power, or higher growth potential, and financial synergies, such as tax benefit, and debt capacity (Demodaran, 2005). Besides, the Agency motive, also known as the managerial entrenchment theory (Shleifer and Vishny, 1989), mostly referred to the M&A deal by the own interests of Managers (Agency) over those of shareholders, leading to issues such as excessive consumption of corporate resources, pursuit of personal growth, and avoidance of activities that impact cash flows (Nguyen et al., 2012). Hubris, one of the

motivations of the M&A deal, referred to the M&A deal pursued by the manager's overconfidence (Malmendier and Tate, 2008), Besides the common motives, Gaughan (2010) claims that management improvement, R&D improvement, and distribution channel improvement is the motivation for pursuing M&A as well. Regarding the situation of Europe, aligning with the other scholars,

Recent Studies show that synergy, agency, and hubris are still majority motivations of M&A, Sanjukta et al., (2018) point out that the primary motive for M&A in European utility firms is synergy, Hoberg and Phillips (2010) Show that in product markets, synergy also a key motive to pursue M&A. Nguyen et al., (2012), using the evidence from the United States, finds that around 80% of M&A deal has multiple motivation, also shows that expect the synergies reason, market timing, agency motive and react to industry and economic shocks also significant to the motive of M&A. Besides, abundant liquidity can drive firms pursue M&A deals (Alexandridis et al., 2012), furthermore, Aktas et al., (2016) shows that the psychological characteristic of the managers, such as the CEO Narcissism, drives the M&A.

Cross-border M&A shares similar motivations with normal M&A. Meanwhile, Cross-Border M&A has some unique motivations, Kang and Johansson (2000) claim that purchasing intangible assets, such as technology, human resources, and brand names, is the motive for cross-border M&A deals. Ahammad et al., (2016) claim that the presence in new markets, faster entry to the market, facilitation of international expansion, gaining new capabilities, and acquiring strategic assets are the motivations that were most important for cross-border M&A, additionally, Deng (2009) find that strategic asset is one of the important motive for China's firm pursuing cross-border M&A. Later on, Nicholson and Salaber (2013) finds similar conclusion and additionally finds that fast entry to foreign markets also a key motivation for company from emerging markets

pursuing cross-border M&A, using evidence from China and India. Besides, increasing market power (Hitt et al., 2001), geographical market diversification (Seth, 1990). A recent study from Degbey and Pelto (2021) shows that customer knowledge sharing is also one of the motivations for firms engaging in cross-border M&A. Cross-border M&A can also be driven by innovation reason, especially innovative acquirers located in low-innovation countries since cross-border M&A is an efficient way to gain access to knowledge and technologies in other countries. (Hsu et al., 2021).

2.3 Premium and Successfulness of Mergers and Acquisitions

M&A as a business deal, the successfulness of M&A is noteworthy by scholars and businesspeople. Hogarty (1970) pointed out that the success of an M&A depends on whether the deal increases the present value of the wealth of the acquiring firm's owner. In other words, the success of an M&A is determined by whether it creates value for the shareholders of the acquiring firm.

2.3.1 Premium and the successfulness of M&A

Empirical studies find that from the acquirer's perspective, a lower acquisition purchase premium can significantly enhance the success of a merger and acquisition transaction (Okafor, 2019). Additionally, Clark and Mills (2013, p. 281) demonstrate that if the acquisition purchase premium is higher than the potential value of synergies that the M&A deal might create, the M&A deal destroys the company value and leads to the failure of the M&A transaction. However, Dang et al., (2022) find that a low premium can also cause the deal to be withdrawn.

2.3.2 Bid Premium Determinants

Empirical Studies show that the Premium of Mergers and Acquisitions is crucial to the success of M&A. Premium of Mergers and Acquisitions (M&A premium) is defined as the percentage difference between the final purchase price for the target (i.e., offer price)

and the trading price of the target's stocks certain days (typically 30 days) before the first announcement of the M&A deal (Krishnan et al., 2007).

The emergence of premium is based on several reasons, also it affected by different factors. Regarding the theoretical explanation. Value Creation Theory, Asymmetric Information Theory, Principal-Agent Theory, and Overconfidence Theory are the main theories that explain the occurrence of M&A premium (Zhang, 2019). Asymmetric Information argues that non-uniform information distribution causes a discrepancy between the offer price by the acquirer and the real price of the target. Dionne et al., (2015), Cheng et al., (2016), and Chae et al., (2014) have supported this theory. The value creation theory explains the M&A premium is driven by the value created by M&A deals, mainly because of the synergies it generates. Alexandridis et al., (2017) and Hazelkorn et al., (2004) have supported this theory, although Damodaran, (2005) argued that synergy is seldom delivered in acquisitions, leading to M&A failures. Overconfidence theory shows that the M&A premium is caused by the overconfidence (i.e. excess of confidence over accuracy) of the managers, and supported by various scholars such as Pan et al., (2019), Liu et al., (2017), and Hayward et al., (1997). Brahma et al., (2023) showed that overconfident managers can lead to poor M&A performance. Principal-Agent Theory tried to explain the M&A premium occurred because of the agency problems in a company, which leads an agency costs and decision-making issues (Fama et al., 1983) and Fung et al., (2009) applied this theory to the M&A premium, showing that firms with certain compensation packages are likely to finance value-destroying M&A deals with high premiums and Hayward and Hambrick (1997) shows that a hubris manager can drive a higher M&A premium.

In addition to theories explaining the existence of M&A premium, Sun et al., (2023) have summarized the common traditional factors and management behavioral factors that

affect the M&A premium. Traditional factors can be divided into Micro-Factors and Macro-Factors. Micro factors, which are related to the firms, include synergies, transaction characteristics, and characteristics of the firm. Macro factors, on the other hand, relate to a broader perspective, such as industry characteristics, national systems, and cultural differences. Furthermore, the M&A premium is also related to the target's relative bargaining strength and the buyer's pre-M&A estimation of the magnitude of acquisition gains (Varaiya, 1987).

2.4 Uncertainty and Mergers & Acquisitions

2.4.1 How Uncertainty affects the M&A deal

Empirical studies have shown that M&A can be affected by various factors, such as economic performance, financial markets development, geographical setting, cultural factors, also political and government-related factors on cross-border M&A ruling political party influence, government intervention, higher levels of corruption, and erratic behavior of bureaucracy (Xie et al.,2017). In recent decades, increasing numbers of studies about How Policies and political uncertainty affect M&A, these studies show that uncertainty can affect different aspects of M&A, Bonaime et al. (2018) found that policy uncertainty can lower the deal value, number of deals, and the likelihood of M&A wave, Dang et al. (2022) found the it can lower the M&A successfulness.

Regarding the difference between Political Uncertainty and Policy Uncertainty, Nguyen and Phan (2017) Argue that Political uncertainty is typically related to elections, such as the presidential elections, and gubernatorial elections. Policy uncertainty referred to a border sense that reflected more types of uncertainty related to policies, not only Elections. Regarding the impact of political uncertainty on M&A, Chen et al. (2023) further proved how political uncertainty affects the success of the deal, while also finding evidence about how political uncertainty affects the deal announcement date, deal size, and the financial

method of the deal. Nguyen and Pan, (2017), expect to find similar results, they found that Political Uncertainty will affect the M&A premium since it links to the successfulness of an M&A deal and M&A premium also reflects the bargaining power between the Acquirer and Targets (Lee, 2018).

2.4.2 Election and Political Uncertainty

Nguyen and Phan (2017) show that Political uncertainty is typically related to elections, such as the presidential elections, and gubernatorial elections. Cazals and Léon (2023) found that an election, even a peaceful election pushes up the political instability, using evidence from Africa. Also, various studies have used election as a measure of political uncertainty, such as Kleine and Minaudier (2019), and Kelly et al., (2016).

2.4.3 Political Factors Definition

The election is typically connected to ideologies, and the change of party, as the analysis about the election uncertainty, several factors might drive the political election uncertainty, such as polarization, and close calls (Funke et al., 2023; Carothers and O'Donohue., 2019). Election is usually connected to Political Ideologies, which are a set of convictions about the ideal structure of society, shared by a group of individuals. One common and traditional way to define Political Ideologies is by categorizing them as Left and Right. The "Right-Left" distinction has been widely used in different perspectives. Traditionally, Left-wing ideologies advocate for social change and reject inequality, while Right-wing ideologies resist social change and accept inequality. In the United States, the left wing is often considered "liberal" and the right-wing is "conservative". From an economic perspective, the Right-wing typically supports a free market, while the Left-wing advocates for government intervention. (Jost et al., 2009).

In recent years, right-wing parties, especially far-right parties have connected ideologies with negative attitudes towards minorities, also xenophobia, welfare chauvinism, and

exclusionism of migrants (Mieriņa and Koroļeva, 2015), sometimes accomplished with nationalism (Mudde, 2002). Far-right parties even though it is still minorities, can drive countries to shift their political ideology, and affect the mainstream of the country (Kotroyannos and Mavrozacharakis., 2018; Daly and Jones, 2020).

Polarization, according to Wood & Jordan, (2011), is commonly defined as a situation where two groups increasingly diverge on certain opinions, leading to a sharp division. Political Polarization has been proven to be one of the causes of the increase in Policy Uncertainty, as argued by Baker et al., (2013). Scholars have shown the increasing polarization in the world, such as Casal Bértoa and Rama, (2021) shown the increasing polarization trend in Europe, and Heltzel & Laurin, (2020) shown similar trends in the United States.

2.4.4 Mechanism of Uncertainty

Uncertainty, Political uncertainty, and Policy Uncertainty can affect corporations in several ways, the first way might be affecting the risk premium. Belkhir et al., (2017) find that political risk increases the cost of capital of the firm, Li et al., (2018) show that political uncertainty increases the firm's cost of equity, also, Xu (2020) shows economic policy uncertainty increases the firm's cost of capital. Later, Obenpong Kwabi et al., (2022) and Kwabi et al., (2024) find a similar result, showing that Political Uncertainty, especially before the election, can lead to a higher cost of capital, Kwabi et al., (2024) point out that international investor can reduce their equity portfolio investment to reduce the risk taken. It also indirectly shows the empirical studies about the decline in investment before the election. Also, Pástor and Veronesi (2013) show that political uncertainty drives investors to require a higher risk premium, and it can negatively impact the firm valuation. Which builds a foundation for further studies. Bouoiyour and Selmi, (2018) showed that the uncertainty proposed by Brexit drives the decreasing valuation of

UK firms. Besides, Julio and Yook (2012) showed that corporations lower their investment during an election period. An et al., (2016) show the same result as well by evidence from China, and Jens (2017) shows a similar result by evidence from the United States. Also, Julio and Yook (2012) argue that the election outcome is important to the company since it is related to industry regulation, monetary policy, taxation, and even the possibility of the nationalization of the private sector in certain extreme cases.

Close-call can provide a higher uncertainty to the election. Redl, C. (2020) finds that macroeconomics fluctuates more while the close call exists in the election. Julio and Yook (2012) show that investment decreases more if there's a close election. A recent study and Jens (2017) find similar results. Bird et al., (2023) show that while there's a close election. The real activity of the firm (such as investment, acquiring or disposing of an asset) falls, also the firm discloses more about the risk and uncertainty. Furthermore, Polarization has been shown to increase economic policy uncertainty in recent studies (Baker et al.,2020), and empirical study shows that political polarization is one of the keys that drive policy uncertainty in the US (Baker et al., 2014).

Regarding the relationship between Election and M&A premium. Empirical study shows that the acquirer bears risks in the M&A process (Furfine and Rosen, 2011) to obtain the synergies generated by the deal (e.g. Bauer & Friesl, 2024), Election as a political event associated with Political uncertainty (Nguyen & Phan, 2017), provides a chance in changing the governments, implied the changes in policies. This proposes the risk and uncertainty since election results are difficult to estimate, especially while there is a close election, polarization, etc. (Baker et al.,2020; Hartwell and Devinney, 2021) Political uncertainty leads to the increased cost of equity, and cost of capital of the firms (such as Belkhir et al., 2017; Kwabi et al., 2024). The investor will require a higher risk premium to compensate for the risk barrier, negatively impacting the firm valuation (Pástor and

Veronesi, 2013). As the purchase price offered by the firms can be affected by the valuation of the target (Krishnan et al., 2007), it can drive a lower M&A Premium. Also, the willingness to pursue the deal decreased, which has been shown by various scholars (such as Bonaime et al., 2018; Cao et al., 2019). Regarding the Close-Call, and Political Polarization, both cause a higher political uncertainty, which might lead to a lower M&A premium, or even drive more withdrawal of M&A deals, furthermore, extremists might introduce more xenophobic policies, in the worst case scenario, nationalization of private sectors, it is possible to predict that this can drive a lower M&A premium. Furthermore, the political ideology of the countries might affect the policies proposed by the government as well. For example, if the political ideology shifts more to the right, the government might announce more anti-immigrant, xenophobic policies, or anti-elite manifestos, which can lower the interest in mergers and acquisitions (M&A) and even affect the entire economy. This simultaneously impacts M&A activities since they are influenced by economic performance as well (Xie et al., 2017), regarding the M&A premium, if the ideologies of the country shift towards more right, might lead to a lower premium.

2.5 Research Hypotheses

The first hypothesis focuses on political wings. Although traditionally Right-wing is considered to resist social change and accept inequality, also "conservative" in the US. (Jost et al., 2009) But recently, Right-wing is more considered especially far-right parties have connected ideologies with negative attitudes towards minorities, also xenophobia, welfare chauvinism, and exclusionism toward migrants (Mierina and Koroļeva, 2015), sometimes accomplished with nationalism (Mudde, 2002). Far-right parties can affect the mainstream of the country (Kotroyannos and Mavrozacharakis., 2018; Daly and Jones, 2020) even though it is still a minority, These ideologies, have been shown to negatively

affect the business. (Tshishonga, 2015), Foreign Direct Investment (FDI) (Tocar, 2022), Which can potentially lower the M&A premium, as M&A is not only a business activity, cross-border M&A, but also a source of FDI.

H1: The M&A premium is lower if the countries shift toward more right

The second hypothesis is based on political polarization which is expected to increase the political uncertainty (Baker et al.,2020). During the M&A process, a higher uncertainty leads to the increased cost of equity, and cost of capital of the firms (such as Belkhir et al., 2017; Kwabi et al.,2024). The investor will require a higher risk premium to compensate for the risk barrier, negatively impacting the firm valuation (Pástor and Veronesi, 2013). And result in a lower M&A premium, offer by the Acquirer.

H2: The M&A premium is negatively associated with the Political Polarization

Close-Call Election is more difficult to predict, and a higher potential to have a wing-change, or new policies, which cause uncertainty. A higher uncertainty leads to the increased cost of equity, and cost of capital of the firms (such as Belkhir et al., 2017; Kwabi et al.,2024). The investor will require a higher risk premium to compensate for the risk barrier, negatively impacting the firm valuation (Pástor and Veronesi, 2013). And result in a lower M&A premium, offer by the acquirer.

H3. The M&A premium is negatively associated with close-call election

3 Empirical Analyses

3.1 Data

3.1.1 Political Data

Political data contains details such as the voting result of each election, as well as the political ideology of the Party. The dataset from ParlGov, from Döring et al., (2023) is used, for providing detailed and accurate data. ParlGov is a dataset for political science, and it contains the political information for all European Union countries and most of the OECD democracies countries. ParlGov provides a 0 (Left) to 10 (right) scale to measure the left/ right political ideology of the parties, this information is from party expert surveys, collected and calculated by ParlGov.

3.1.2 M&A and Company Financial Data

Regarding the Financial Data of the acquirer and target company, the data are obtained from Refinitiv Eikon (LSEG). Refinitiv provides a wide range of financial data about the company and details M&A deal records and data, from the size of the deal to the premium of the M&A deal.

3.1.3 Macroeconomic Data

The characteristic of the host country plays a crucial role in determining the M&A premium. Country-related data, such as GDP per capita, and GDP Growth, are obtained from both the OECD and the International Monetary Fund (IMF) Database.

3.1.4 Geographical Scope

Due to the limitation of the data from the ParlGov dataset, the geographical scope of the Host country (Target's Country) in this study will mainly focus on OECD democracies countries and European Union countries, covered by the ParlGov dataset. There's no limit to the Acquirer nation, to cover more samples.

3.1.5 Study Period

Our study aims to capture how political uncertainty which become more common in the recent decade, the study will cover the period, from 2000 to 2023.

3.2 Methodology

3.2.1 Measurement of Country Political Ideology and Polarization

Caravaca et al., (2022), provide a method for measuring political polarization and political ideology, by using the existing variable in the ParlGov Dataset, based on the method previously proposed by Dalton (2008), which facilitates the calculation process and maintains the consistency of data source. Also, this index can conduct a cross-national comparison straightforwardly, taking into account the significance of the parties and their placement on a political spectrum, making the comparison and understanding of the outcomes more accessible. The method from Caravaca et al., (2022) and Dalton (2008), first starts with the calculation of the Political Ideology of the countries. It is equal to the weighted average of political ideology according to the proportion of votes received by each party.

$$\text{Aggregate Country Ideology } (II_c) = \frac{\sum_{i=1}^N \text{Vote Share}_i \times \text{PartyLR}_i}{\sum_{i=1}^N \text{VoteShare}_i}$$

Also, to solve the missing value problem, for several minority parties, the political ideology is assumed to be 5 (Middle) for those missing values, to facilitate the calculation,

After obtaining Aggregate Country Political Ideology, by using the Polarization index from Dalton, the Polarization level of a country during the election year is obtained. The Polarization index from Dalton is calculated by:

$$\text{Polarization Index} = \sqrt{\sum_{i=1}^N \text{VoteShare}_i \times \left(\frac{\text{PartyLR}_i - II_c}{5} \right)^2}$$

$VoteShare_i$ Represent the Vote Share of the political party, which can be found in the ParlGov dataset, and the Party LR is a variable provided in the ParlGov Dataset, it is a 0 to 10 scale mean value, shows the left (0) to the right (10) political ideology of the party. Iic represents the Aggregate Country Political Ideology value, which is calculated above. In the model, the variable Political Ideology is simplified as "Ideology," and Polarization is referred to as "Polarization"

3.2.2 *Measurement M&A Premium*

M&A Premium was retrieved from the Refinitiv (LSEG) database. As there are several types of Premiums, both 4-week prior premiums, and 1-week prior premiums. 4-week prior premium as the main variable since the time lag between the day of the deal announcement and the day of the pre-announcement share price will typically be 1 month to 40 days since a time lag is necessary to ensure the premium is computed over a price which is not affected by the M&A rumors (Gomes et al., 2018). Several researchers have pointed out that the target share price is likely to increase before the announcements (Eaton et al., 2021). Schwert (1996) states that the cumulative abnormal returns (CARs) of the target share price start to increase 42 days before the M&A announcement and the largest price rise happens from 21 days before the announcement to one day before the announcement. Although the share price will likely increase before the M&A announcement, Eaton et al., (2021) found that on average, the share price started to increase around 105 trading days (5 months) before the M&A announcement. Although these might lead to an underestimate of the M&A premium, Eaton shows that it is still appropriate to use the target share price 20-63 trading days before the M&A deal announcement as a benchmark for calculating the M&A premium. Ozdemir (2022) also proved that the selection between a 42-day time lag and a 30-day time lag only causes a minor difference in the coefficient of values and will not affect the conclusions. Although

the 1-week prior premium will not be used as the main variable, it will be used for the robustness check.

3.2.3 *Measurement of Other Political Factors*

Close-Call will be a dummy variable. Close-call is defined as the difference in the voting share between the first party and the second party during the election. If there's a close call between the first party and the second party. This dummy variable will be 1, else, it will be 0.

3.2.4 *Firm-Related Control Variables*

Regarding the firm-related factors, based on empirical studies such as Laamanen (2007), Lee (2018), Dang et al. (2022), Fieberg et al., (2021), and Nguyen and Pan (2017), several firm-level characteristics are included. These are:

- Acquirer Size and Target Size

Both the Acquirer's Size and Target's Size are defined as the natural logarithm of the Book Value of the Total Asset of the Acquirer and Target.

- Acquirer's Profitability and Target's Profitability

It is defined as the EBITDA of Acquirer/ Target over the Total Asset of Acquirer/ Target. To maintain the precision of the model, the variable "Profitability Diff" was created by taking the acquirer's Profitability minus the Target's Profitability.

- Acquirer's Debt Ratio and Target's Debt Ratio

The Acquirer's Debt Ratio and the Target's Debt Ratio are defined as the total liabilities over total assets, which shows the financial situation of the Acquirer/ target. To maintain the precision of the model, the variable "Debt Diff" was created by taking the Acquirer's Debt Ratio minus the Target's Debt Ratio.

- Acquirer's Current Ratio and Target's Current Ratio

The Acquirer's Current Ratio and Target's Current Ratio are defined as the Current Assets over the Current Liabilities, which measures the liquidity of the Acquirer and the Target. To maintain the precision of the model, the variable "Liquidity Diff" was created by taking the Acquirer's Current Ratio minus the Target's Current Ratio.

3.2.5 *Macroeconomic, Deal Related and Other Control Variables*

Political factors will not be the only determinants of the premium in Cross-Border M&A; several other variables will also affect the premium, primarily related to deal characteristics, characteristics of the acquirer and target companies, and country-specific factors.

Industry dummy aims to control the effects of industry, which proposes the M&A premium. Different industries, for example, the Technology industry (Patrick and Banks, 2007) can have a higher premium. The classification of the industry is based on the Mid-industry, from Refinitiv(LSEG).

The deal size is defined as the defined as the natural logarithm of the Rank Value (i.e., The transaction value adjusted by subtracting liabilities assumed and adding the target's net debt) of the M&A deal.

M&A, especially cross-border M&A, as it involves more than one country, the characteristics of the country also can influence the Premium. We added the Target/ Acquirer GDP per Capita. GDP per Capita shows the development situation of the countries, from investment environment to average income, GDP per capita has been applied to the logarithmic transformation.

GDP growth is used as a control variable because it reflects the overall economic conditions that can influence the performance and valuation of companies. We added the Target/ Acquirer GDP growth. Higher GDP growth often indicates a robust economy,

which can lead to higher company valuations and thus, higher premiums in M&A transactions.

3.3 Empirical Model

The Basic forms of the model will be:

$$\textit{Premium} = \textit{Political Variables} + \textit{Control Variables} + \textit{Control of Fix Effects}$$

The model is based on a linear regression model, analyzing the variables by their significance and coefficients. The dependent variable of this model is the 4-week prior M&A premium, while the 1-week prior M&A premium is used for the robustness test. The political variables are the main independent variables in the model, which the thesis aims to analyze. These include political ideology, political polarization, close-call situations, and further analysis such as the interaction between political polarization and political ideology. Regarding the control variables and the control of fixed effects, the control variables include firm-related control variables, macroeconomic control variables, deal-related control variables, and other control variables. The control of fixed effects in the model includes controls for industry-fixed effects and year-fixed effects. During the analysis process, adjustments to the control variables are made to examine how political factors affect the premium and the significance of these political factors.

4 Result and Discussion

4.1 Descriptive Statistics

The dataset included a total of 1646 observations, from 2000 to 2022. Regarding the 4-Week Prior Premium (premium 4w), the average is 33.1%, and the median value is 23.1%. The 25th percentile is located at 3.51%, and the 75th percentile stands at 46.71%. In our samples, most of the deals had a positive M&A premium. The 1-week Prior

Premium (premium 1w) shows similar trends as the 4-week premium. The only difference is that the values for the mean (average), median, 25th percentile, and 75th percentile are slightly lower than those for the 4-week prior premium.

Table 1 – Statistical Table of Variables

	N	Mean	SD	p25	Median	p75
Premium 4w	1646	33.063	50.977	3.510	23.140	46.710
Premium 1w	1646	30.287	48.108	3.060	21.270	44.110
Polarization	1646	0.427	0.065	0.392	0.414	0.480
Ideology	1646	5.625	0.399	5.388	5.582	5.952
Close-Call	1646	0.388	0.487	0.000	0.000	1.000
DealSize	1646	4.750	2.014	3.307	4.734	6.111
AcquirerSize	1646	7.223	2.284	5.742	7.453	8.897
TargetSize	1646	5.326	1.916	4.012	5.224	6.567
Profitability Diff	1646	0.040	0.206	-0.038	0.018	0.074
Debt Diff	1646	0.022	0.318	-0.108	0.036	0.205
Liquidity Diff	1646	0.411	8.151	-0.682	-0.012	0.500
Target GDP	1646	10.538	0.410	10.464	10.611	10.753
Acquirer GDP	1646	10.574	0.425	10.478	10.633	10.768
Acquirer GDP Growth	1646	0.019	0.023	0.012	0.022	0.028
Target GDP Growth	1646	0.020	0.022	0.011	0.022	0.031

Regarding the main political variables in the model, Polarization and Political Ideology, both show a low standard deviation, but the standard deviation of Political Ideology is higher than that of Polarization. This indicates that, although the countries we measure are mostly within the European Union/OECD countries, there can still be differences in political ideology. Political Ideology within the sample has a mean of 5.625, a median of 5.582, a 25th percentile of 5.388, and a 75th percentile of 5.952, which implies that according to the classification of ParlGov, they are all classified as center-right. For Polarization, it has a mean of 0.427, a median of 0.414, a 25th percentile of 0.392, and a 75th percentile of 0.48. A low standard deviation implies that the levels of Polarization are similar within the countries in the sample.

Considering the distribution of Target Nation and Acquirer Nation, we find that Japan, Canada, the United Kingdom, Australia, and Israel appear most frequently as the target

countries. Regarding the Acquirer Nation, as there is no limitation for the Acquirer Nation in this situation, Japan, Canada, the United States, the United Kingdom, and Australia are the top 5 nations for acquirers. Especially Japan, which accounts for 22% of the acquirer nations, with 373 M&A deals. The distribution of Acquirer Nation and Target Nation are in Tables 1 and 2, also the distribution of year is respectively, in Appendices.

4.2 Correlations

According to the Correlation table (see Appendices, Table 4), the 4-week prior premium is correlated with the 1-week prior premium, with a coefficient of 0.94. The main political variable, Political Ideology, is negative and correlated with the 4-week prior premium as well. This supports the idea that a higher political ideology, meaning the country leans more to the right, can lead to a lower M&A premium. Regarding the close call, it shows a negative correlation to the M&A premium. This can be explained by the increase in political uncertainty caused by a close call, resulting in a lower premium. However, these pairs are weakly correlated. Regarding polarization, it shows a positive correlation with the premium, which requires further empirical analysis to understand the effects between the premium and polarization.

Regarding the deal-related control variables, such as deal size, it's positively related to the M&A premium, indicating that a larger deal can have a higher premium. Moving to the company-related control variables, such as Acquirer size, Target size, Difference of Profitability (Profitability Diff), Difference of Debt Ratio (Debt Diff), and Difference of Current Ratio (Liquidity Diff), most of them are correlated with the M&A premium. Profitability difference and target size have a relatively strong correlation, showing that a larger target usually has a lower M&A premium. This can be explained by the fact that larger targets are usually more difficult to acquire, resulting in a lower premium. For the

difference in profitability, a larger difference is positively correlated with the premium, which can be explained by various reasons, such as a more stable financial situation or an overconfident management team offering a high premium.

Lastly, regarding the country-related control variables, including the GDP per capita of the target nation (Target GDP) and GDP per capita growth of the acquirer nation (Acquirer GDP Growth), both are correlated with the premium. Furthermore, considering the correlation between political ideology and the other variables, it is possible to find that Political Ideology is negatively associated with deal size, and particularly, negatively correlated with the correlation coefficient of -0.2. This implies that a higher value of political ideology (more right) is correlated with a lower Target GDP per capita.

4.3 Empirical Results

The empirical results table presents different types of OLS settings, including the choice of the control variable, type of premium, and also independent variable, all regression has heteroskedasticity adjustment.

4.3.1 Political Ideology

Table 2 briefly shows the relationship between political ideology and premium, controlling only for industry-fixed effects and year-fixed effects, in the absence of control variables such as Deal Size (Deal-Related), Liquidity Difference (Firm-Related), and GDP per Capita (Country-Related). In this situation, political ideology remains significant at conventional levels and it is negatively associated with M&A premium. As M&A premium can be affected by many factors, further analysis with control variables is necessary to obtain accurate results.

Table 2 – Political Ideology with only Industry and Year fixed effect controlled

VARIABLES	(1) Premium 4w
Ideology	-27.15*** (3.56)
Industry Fixed	Yes
Year Fixed	Yes
Constant	177.67*** (23.52)
Observations	1,646
R-squared	0.21
Adj. R2	0.159

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 3 analyzes the relationship between political ideology and premium. Related to the second hypothesis: The M&A premium is lower if the countries shift toward more right. **Column 1** used the 4-week prior premium, with all control variables, and controlled for the year fixed effect but without the control of the industry fixed effect. **Columns 2** is similar to Model 1 but instead of using the 4-week prior premium, the 1-week prior premium was used to check the robustness of the variables. Both of these models show that political ideology is negatively associated with M&A premium and is highly significant ($p < 0.01$). A higher ideology (more right) can significantly drive a lower premium.

Columns 3 and 4, instead of controlling for the year fixed effects, controlled for the fixed effects of industry, as previous studies have shown that different industries might affect the M&A premium, especially the technology industry. After controlling for the industry fixed effects, ideology is still highly significant ($p < 0.01$) and negatively associated with the M&A premium. Based on these settings, **Column 4** used the 1-week prior premium instead of the 4-week prior premium, and the result is robust.

Columns 5 and 6 controlled for both year-fixed effects and industry-fixed effects. The results show that under this setting, ideology remains highly significant ($p < 0.01$) and negatively associated with premium. Using the 1-week prior premium for robustness

testing, the result remains the same. After controlling for year-fixed effects and industry-fixed effects, political ideology can still significantly affect the M&A premium, which provides evidence to prove Hypothesis 1.

Table 3 – Political Ideology and Premium

VARIABLES	(1) Premium 4w	(2) Premium 1w	(3) Premium 4w	(4) Premium 1w	(5) Premium 4w	(6) Premium 1w
Ideology	-23.66*** (3.10)	-19.99*** (3.15)	-19.04*** (3.31)	-16.20*** (3.24)	-23.89*** (3.21)	-20.15*** (3.22)
DealSize	10.97*** (0.99)	9.77*** (0.93)	9.65*** (1.07)	8.64*** (1.02)	10.40*** (1.16)	9.11*** (1.09)
AcquirerSize	2.94*** (0.85)	2.83*** (0.79)	1.93** (0.91)	1.89** (0.85)	2.01** (0.93)	1.89** (0.87)
TargetSize	-14.64*** (1.42)	-13.65*** (1.32)	-13.26*** (1.64)	-12.71*** (1.54)	-13.58*** (1.66)	-12.59*** (1.55)
Profitability Diff	12.98 (10.05)	9.29 (8.72)	12.77 (10.31)	7.57 (8.88)	12.19 (10.54)	8.45 (9.03)
Debt Diff	2.88 (6.52)	2.84 (6.06)	6.34 (6.91)	4.65 (6.28)	3.76 (6.94)	3.33 (6.42)
Liquidity Diff	-0.22 (0.17)	-0.20 (0.17)	-0.24 (0.17)	-0.24 (0.17)	-0.17 (0.18)	-0.17 (0.18)
Target GDP	3.72 (3.11)	3.88 (3.11)	6.40** (2.87)	6.17** (2.82)	-0.53 (3.41)	-0.63 (3.35)
Acquirer GDP	-8.45*** (3.14)	-5.73* (3.09)	-7.51** (3.32)	-5.86* (3.12)	-9.58*** (3.61)	-7.45** (3.48)
Acquirer GDP Growth	-290.64** (142.92)	-173.42 (135.43)	-300.30** (135.56)	-248.04* (128.03)	-211.38 (157.03)	-142.73 (150.55)
Target GDP Growth	181.36 (125.92)	108.72 (118.00)	-20.69 (134.08)	-52.15 (127.81)	236.96* (141.56)	180.87 (132.79)
Constant	213.75*** (48.54)	159.47*** (46.59)	161.48*** (47.05)	132.73*** (44.58)	267.89*** (60.03)	228.28*** (57.72)
Industry Fixed	No	No	Yes	Yes	Yes	Yes
Year Fixed	Yes	Yes	No	No	Yes	Yes
Observations	1,646	1,646	1,646	1,646	1,646	1,646
R-squared	0.23	0.23	0.26	0.26	0.30	0.30
Adj. R2	0.210	0.214	0.216	0.216	0.251	0.256

Robust standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

4.3.2 *Political Polarization*

Similar to the analysis process of the relation between political ideology and M&A premium, different model settings have been implied to see the relation between polarization and M&A premium. In Table 4, **Column 1** used the 4-week prior premium, with all control variables, and controlled for the year fixed effect but without the control of the industry fixed effect. **Column 2** is similar to Model 1 but instead of using the 4-week prior premium, the 1-week prior premium was used to check the robustness of the variables. Both of these models show that Polarization is not significant to the M&A premium.

Column 3 and 4, instead of controlling for the year fixed effects, controlled for the fixed effects of industry. After controlling for the industry fixed effects, political ideology is still insignificant, Column 4 used the 1-week prior premium instead of the 4-week prior premium, and the result remains the same.

Column 5 and 6 controlled for both year-fixed effects and industry-fixed effects. The results of polarization remain insignificant. Using the 1-week prior premium for robustness testing, the result remains the same.

The literature has shown that polarization in the host country can increase uncertainty, drive a higher risk premia, and result in a lower premium for the M&A deal, offered by the Acquirer Firm. However based on the analysis above, after controlling the Industry-fixed effect, the Year-fixed effect, is also the other variable that influences the M&A premium. The model shows that Polarization is not significant to M&A premium, also the positive coefficient of Polarization does not align with the theory and assumption, which needs further discussion.

Table 4 – Polarization and M&A Premium

VARIABLES	(1) Premium 4w	(2) Premium 1w	(3) Premium 4w	(4) Premium 1w	(5) Premium 4w	(6) Premium 1w
Polarization	13.05 (22.97)	12.08 (20.97)	15.93 (22.40)	18.64 (20.92)	22.13 (26.81)	12.30 (24.72)
DealSize	10.80*** (0.98)	9.61*** (0.92)	10.19*** (1.08)	9.10*** (1.03)	10.72*** (1.15)	9.38*** (1.09)
AcquirerSize	3.05*** (0.86)	2.92*** (0.80)	1.76* (0.93)	1.73** (0.86)	1.98** (0.94)	1.86** (0.87)
TargetSize	-14.32*** (1.43)	-13.37*** (1.33)	-13.74*** (1.68)	-13.10*** (1.57)	-13.82*** (1.67)	-12.80*** (1.56)
Profitability Diff	13.91 (10.13)	10.08 (8.78)	14.12 (10.40)	8.76 (8.97)	13.60 (10.57)	9.61 (9.05)
Debt Diff	4.35 (6.77)	4.10 (6.27)	8.96 (7.06)	6.97 (6.39)	6.40 (7.17)	5.42 (6.59)
Liquidity Diff	-0.17 (0.17)	-0.16 (0.17)	-0.20 (0.18)	-0.21 (0.17)	-0.12 (0.18)	-0.13 (0.18)
Target GDP	10.49*** (3.11)	9.59*** (3.05)	9.92*** (2.93)	9.04*** (2.85)	6.81* (3.50)	5.63* (3.37)
Acquirer GDP	-8.01** (3.22)	-5.36* (3.15)	-8.13** (3.32)	-6.45** (3.10)	-9.11** (3.59)	-7.05** (3.43)
Acquirer GDP Growth	-326.25** (143.75)	-203.07 (135.44)	-320.57** (137.14)	-266.13** (127.77)	-237.72 (157.04)	-168.23 (150.29)
Target GDP Growth	179.89 (125.85)	108.21 (115.03)	-10.06 (135.26)	-42.90 (126.90)	236.34* (140.23)	176.61 (129.60)
Constant	-1.60 (44.99)	-22.84 (42.98)	17.68 (44.14)	10.26 (42.21)	42.87 (56.59)	40.77 (54.08)
Industry Fixed	No	No	Yes	Yes	Yes	Yes
Year Fixed	Yes	Yes	No	No	Yes	Yes
Observations	1,646	1,646	1,646	1,646	1,646	1,646
R-squared	0.20	0.21	0.24	0.24	0.28	0.29
Adj. R2	0.184	0.193	0.200	0.203	0.229	0.238

Robust standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

4.4 Further Discussion and Robustness Test

4.4.1 Robustness Test: Political Data Extension, Political Ideology

As the analysis above shows, political ideology significantly affects the M&A premium, but there is no evidence that polarization can significantly affect the M&A premium. One reason for the insignificance might be the insufficient sample size. Therefore, instead of using only the M&A data from election years and using election results to estimate political ideology and polarization, political ideology, and polarization from previous years are also used as proxies. For example, the political ideology and polarization calculated from the 2002 election are used as a proxy for the social situation in 2001.

Using this method, the number of observations increased from 1,646 to 3,516, providing better support for further analysis.

Table 5 – Political Ideology and M&A Premium, Extended Observations.

VARIABLES	(1) Premium 4w	(2) Premium 1w	(3) Premium 4w	(4) Premium 1w	(5) Premium 4w	(6) Premium 1w
Ideology Extended	-17.10*** (2.47)	-14.64*** (2.35)	-17.38*** (2.72)	-14.65*** (2.56)	-18.41*** (2.61)	-15.55*** (2.46)
DealSize	7.40*** (0.67)	7.11*** (0.64)	7.25*** (0.72)	6.85*** (0.69)	7.19*** (0.74)	6.72*** (0.70)
AcquirerSize	2.94*** (0.57)	2.89*** (0.53)	2.79*** (0.66)	2.79*** (0.62)	2.56*** (0.64)	2.50*** (0.60)
TargetSize	-10.98*** (1.10)	-10.58*** (1.03)	-9.95*** (1.16)	-9.47*** (1.08)	-9.78*** (1.17)	-9.24*** (1.08)
Profitability Diff	-0.05 (7.34)	0.02 (6.49)	0.05 (7.51)	0.21 (6.63)	-1.71 (7.54)	-1.81 (6.64)
Debt Diff	-3.88 (4.26)	-2.89 (3.99)	-3.10 (4.47)	-2.12 (4.11)	-3.14 (4.48)	-2.55 (4.12)
Liquidity Diff	0.69** (0.27)	0.66*** (0.25)	0.41 (0.26)	0.40 (0.24)	0.50** (0.25)	0.49** (0.24)
Target GDP	-9.70*** (3.07)	-9.73*** (2.92)	-3.73 (3.03)	-2.85 (2.81)	-9.28*** (3.04)	-8.84*** (2.85)
Acquirer GDP	-3.67 (2.92)	-3.47 (2.74)	-0.04 (2.84)	-0.40 (2.60)	-4.28 (3.06)	-3.75 (2.84)
Acquirer GDP Growth	93.39 (66.78)	115.48* (62.70)	-86.15 (60.27)	-71.48 (58.83)	76.99 (69.70)	115.70* (65.93)
Target GDP Growth	-18.43 (49.71)	-45.53 (46.26)	21.00 (56.29)	-31.36 (54.46)	22.24 (59.94)	-31.02 (55.48)
Constant	271.14*** (38.14)	254.75*** (37.21)	166.76*** (42.60)	141.14*** (38.74)	280.87*** (45.43)	252.22*** (42.57)
Industry Fixed	No	No	Yes	Yes	Yes	Yes
Year Fixed	Yes	Yes	No	No	Yes	Yes
Observations	3,516	3,516	3,516	3,516	3,516	3,516
R-squared	0.13	0.13	0.17	0.18	0.21	0.23
Adj. R2	0.118	0.124	0.147	0.160	0.189	0.205

Robust standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Regarding Political Ideology, with a similar setting to the previous Model, political ideology maintains high significance ($p < 0.01$) and is negatively associated with Premium.

Using both 4-week prior and 1-week prior, or under different conditions of control variables, both deliver the same conclusion as the previous model shown. Which also provides evidence to prove Hypothesis 1.

4.4.2 Robustness Test: Political Data Extension, Polarization

Moving to polarization, the model settings are similar to the previous model settings, presented in Table 6. **Columns 1 and 2** included all control variables with the year-fixed

effect controlled. **Columns 3** and **4** included all control variables with the industry fixed effect controlled. **Columns 5** and **6** included all control variables, industry-fixed effects, and year-fixed effects. After extending the observations, although polarization remains insignificant, the coefficient of polarization changed from positive (Table 4) to negative, which aligns with our assumption. This result remains stable across different columns.

Table 6 – Polarization and M&A Premium, Extended Observations

VARIABLES	(1) Premium 4w	(2) Premium 1w	(3) Premium 4w	(4) Premium 1w	(5) Premium 4w	(6) Premium 1w
Polarization Extended	-18.24 (12.65)	-12.87 (11.93)	-11.71 (12.54)	-5.67 (11.70)	-8.18 (13.56)	-3.34 (12.64)
DealSize	8.02*** (0.66)	7.64*** (0.63)	7.73*** (0.72)	7.26*** (0.69)	7.65*** (0.73)	7.12*** (0.70)
AcquirerSize	2.84*** (0.57)	2.80*** (0.54)	2.66*** (0.67)	2.67*** (0.63)	2.42*** (0.64)	2.37*** (0.60)
TargetSize	-10.95*** (1.12)	-10.55*** (1.04)	-9.89*** (1.18)	-9.42*** (1.09)	-9.66*** (1.18)	-9.13*** (1.09)
Profitability Diff	1.25 (7.40)	1.06 (6.54)	1.25 (7.63)	1.13 (6.74)	-0.50 (7.64)	-0.87 (6.72)
Debt Diff	-2.58 (4.29)	-1.73 (4.02)	-1.54 (4.53)	-0.71 (4.16)	-1.42 (4.55)	-1.01 (4.18)
Liquidity Diff	0.77*** (0.28)	0.73*** (0.26)	0.49* (0.27)	0.46* (0.25)	0.58** (0.26)	0.56** (0.25)
Target GDP	-6.40** (3.09)	-6.95** (2.93)	-0.99 (3.01)	-0.64 (2.78)	-5.39* (3.06)	-5.61** (2.86)
Acquirer GDP	-2.96 (2.94)	-2.90 (2.74)	0.02 (2.88)	-0.42 (2.63)	-3.68 (3.09)	-3.26 (2.86)
Acquirer GDP Growth	46.80 (68.22)	76.41 (64.20)	-111.50* (61.56)	-93.48 (60.05)	40.77 (70.71)	85.70 (67.09)
Target GDP Growth	-4.70 (49.65)	-33.02 (46.29)	39.30 (56.64)	-14.67 (54.95)	43.25 (60.09)	-11.89 (55.62)
Constant	141.46*** (31.96)	143.25*** (32.34)	42.91 (35.96)	36.79 (32.96)	133.32*** (39.12)	126.97*** (36.97)
Industry Fixed	No	No	Yes	Yes	Yes	Yes
Year Fixed	Yes	Yes	No	No	Yes	Yes
Observations	3,516	3,516	3,516	3,516	3,516	3,516
R-squared	0.11	0.12	0.16	0.17	0.20	0.22
Adj. R2	0.106	0.113	0.135	0.150	0.176	0.195

Robust standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

4.4.3 Political Ideology: Cross-Border Subset

Cross-border M&A, a type of M&A that takes place between firms of different national origins or home countries, often has different motivations, such as acquiring strategic assets. Its premium might be more easily affected by political ideology and polarization. As the previous analyses have shown, polarization is insignificant to the premium. In this part of the analysis, the model focuses only on analyzing the effects of political ideology. Using the basic dataset (only election years) and the main M&A premium (4-week prior premium), the rest of the model settings are similar to those above.

The results show that without the industry-fixed effects, cross-border deals show a significant result, indicating that cross-border deals tend to have a higher premium, which can be more easily driven by the biases of industry-related and year-related effects. After controlling for industry-fixed effects and year-fixed effects, Ideology×Cross-Border becomes insignificant. This means that there is no significant difference between the effect of how political ideology impacts the premium of domestic M&A deals and cross-border M&A deals.

Political effects can affect cross-border M&A in different aspects, such as withdrawing the deal, lowering the deal size, or reducing the number of M&A deals. Successful cross-border M&A deals might be driven by various reasons that can overcome these kinds of political risks, such as the limitation of foreign investment.

Table 7 – Cross-Border and Political Ideology.

VARIABLES	(1) Premium 4w	(2) Premium 4w	(3) Premium 4w
Ideology	-22.49*** (3.09)	-18.01*** (3.33)	-23.32*** (3.23)
Ideology × Cross-Border	1.55*** (0.47)	1.04** (0.49)	0.70 (0.56)
DealSize	10.43*** (1.02)	9.32*** (1.09)	10.22*** (1.17)
AcquirerSize	2.56*** (0.86)	1.76* (0.92)	1.88** (0.94)
TargetSize	-14.12*** (1.45)	-13.13*** (1.65)	-13.50*** (1.67)
Profitability Diff	13.75 (10.10)	13.20 (10.38)	12.82 (10.72)
Debt Diff	2.38 (6.54)	6.07 (6.93)	3.63 (6.96)
Liquidity Diff	-0.23 (0.18)	-0.26 (0.18)	-0.18 (0.18)
Target GDP	5.45* (3.23)	7.44** (2.93)	0.22 (3.45)
Acquirer GDP	-9.24*** (3.21)	-7.67** (3.33)	-9.80*** (3.65)
Acquirer GDP Growth	-319.74** (143.86)	-311.93** (135.92)	-231.63 (158.64)
Target GDP Growth	157.86 (125.71)	-18.38 (134.81)	229.73 (141.89)
Constant	200.40*** (49.10)	147.33*** (46.80)	261.14*** (59.97)
Industry Fixed	No	Yes	Yes
Year Fixed	Yes	No	Yes
Observations	1,646	1,646	1,646
R-squared	0.23	0.26	0.30
Adj. R2	0.215	0.218	0.251

Robust standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

4.4.4 Interaction Effect between Political Ideology and Polarization

Similar to the model set above, **column 1** included all control variables and the control of the year-fixed effect only. **Column 2** included all control variables and the industry-fixed effect only, instead of the year-fixed effect. **Column 3** included both the control of the year-fixed effect and the industry-fixed effect. This model aims to analyze the effect of political ideology on the premium, varying depending on the level of polarization, to see how the effect of political ideology changes with the level of polarization. The regression result shows that this interaction term (Ideology × Polarization) is insignificant, which indicates that the level of polarization does not affect the effect of

political ideology on the M&A premium. Additionally, table 8, below, shows that political ideology is still significant, with a negative correlation coefficient.

Table 8 – Interaction Effect between Political Ideology and Polarization

VARIABLES	(1) Premium 4w	(2) Premium 4w	(3) Premium 4w
Ideology	-24.90*** (3.76)	-20.19*** (3.91)	-25.48*** (3.95)
Ideology × Polarization	2.95 (4.15)	2.80 (3.94)	3.98 (4.74)
DealSize	10.91*** (1.01)	9.64*** (1.07)	10.39*** (1.16)
AcquirerSize	2.94*** (0.84)	1.89** (0.92)	1.99** (0.93)
TargetSize	-14.56*** (1.44)	-13.21*** (1.65)	-13.55*** (1.67)
Profitability Diff	13.03 (10.05)	12.88 (10.33)	12.30 (10.54)
Debt Diff	3.22 (6.68)	6.62 (6.99)	4.25 (7.09)
Liquidity Diff	-0.22 (0.17)	-0.24 (0.17)	-0.17 (0.18)
Target GDP	3.54 (3.10)	6.03** (2.85)	-0.78 (3.43)
Acquirer GDP	-8.42*** (3.14)	-7.71** (3.33)	-9.59*** (3.61)
Acquirer GDP Growth	-283.03** (143.66)	-302.75** (135.48)	-198.99 (158.44)
Target GDP Growth	193.13 (125.24)	-20.17 (133.96)	250.44* (140.62)
Constant	214.26*** (48.46)	167.50*** (47.52)	268.60*** (60.10)
Industry-Fixed	No	Yes	Yes
Year-Fixed	Yes	No	Yes
Observations	1,646	1,646	1,646
R-squared	0.23	0.26	0.30
Adj. R2	0.209	0.216	0.251

Robust standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

4.4.5 Close-Call

With a similar setting to the previous model, using the main dataset (only election years), it is possible to find that although, after controlling for variables, Close-call has a negative correlation coefficient, which means that if there's a Close-call election, the M&A premium will be lower, the result is not significant. This result can be due to several reasons. First, it might be because of the bias in sample selection. During periods of political uncertainty, rational managers might decide to give up or postpone deals. Since the sample only includes successful deals, this might result in deals mainly driven by

managerial hubris. These kinds of selection biases will be further discussed in the next section. As the result is not significant, it is not possible to conclude that a Close-call election can significantly impact the premium, and more research is needed in the future.

Table 9 – Close-Call and Premium.

VARIABLES	(1) Premium 4w	(2) Premium 4w	(3) Premium 4w
Close-Call	0.58 (2.63)	-1.23 (2.50)	-1.76 (2.71)
DealSize	10.85*** (0.97)	10.18*** (1.08)	10.74*** (1.15)
AcquirerSize	3.06*** (0.86)	1.79* (0.91)	1.98** (0.93)
TargetSize	-14.40*** (1.41)	-13.73*** (1.66)	-13.81*** (1.67)
Profitability Diff	13.79 (10.17)	14.14 (10.38)	13.66 (10.58)
Debt Diff	4.17 (6.65)	8.50 (7.05)	5.78 (7.05)
Liquidity Diff	-0.17 (0.17)	-0.20 (0.18)	-0.12 (0.18)
Target GDP	10.62*** (3.13)	10.24*** (2.98)	7.10** (3.49)
Acquirer GDP	-8.06** (3.22)	-7.88** (3.30)	-9.02** (3.58)
Acquirer GDP Growth	-333.60** (144.43)	-313.37** (138.11)	-242.96 (157.09)
Target GDP Growth	170.58 (125.94)	-14.23 (136.21)	224.12 (141.35)
Constant	3.63 (43.01)	18.10 (43.92)	50.15 (55.02)
Industry Fixed	No	Yes	Yes
Year Fixed	Yes	No	Yes
Observations	1,646	1,646	1,646
R-squared	0.20	0.24	0.28
Adj. R2	0.183	0.200	0.229

Robust standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

5 Conclusions

5.1 Conclusions and Further Research Pathway

Due to increased political uncertainty nowadays and the rise of far-right parties in Europe, announcing policies with xenophobic and welfare chauvinism ideologies, business operations might be affected. We applied a model using a dataset from 2000 to 2022 that contained announced deals in 29 different countries, mostly in OECD/EU countries. Our results suggest that political ideology can significantly affect the M&A premium. If a

country's political ideology leans more to the right, the premium is likely to be lower. This provides evidence for the second hypothesis of the thesis: The M&A premium is lower if the countries shift more to the right.

Regarding the effects of polarization on the M&A premium, the model does not provide evidence to prove that polarization can significantly affect the M&A premium, although theoretically, the connection between these two exists. Therefore, more research is needed to support this theory. Regarding the first hypothesis: The M&A premium is negatively associated with political polarization. Unfortunately, the thesis does not provide evidence to prove it.

Regarding close-call elections, although it is assumed that increased uncertainty may drive a lower M&A premium, our model captured this negative correlation, but it is not significant and requires further research to determine the relationship between close-call elections and the M&A premium. This means the thesis does not provide evidence to prove the third hypothesis: The M&A premium is negatively associated with close-call elections. Additionally, the model shows that the effect of political ideology is not influenced by the level of political polarization.

5.1.1 Contribution to Literature and Practice

The thesis contributes to the literature by providing a new dimension in analyzing M&A premiums. Regarding political factors, existing literature has shown that several politics-related factors can affect the M&A premium, such as policy uncertainty, and political affinity. This thesis shows that the political ideology of the target country can also affect M&A premiums. To the best of our knowledge, there is no literature directly analyzing the impact of the political ideology of the target country on M&A premiums. This finding points to a future research direction for a better understanding of how politics and social factors influence M&A premiums. In addition to its theoretical contributions, this

research offers practical implications for companies and governments. Currently, the global north is facing a trend of shifting political ideologies from right/center to left, especially in Europe. This thesis demonstrates how this shift can practically affect business activities (lowering the M&A premium) and provides the potential mechanism behind this phenomenon. Practitioners can apply these insights to business operations and decisions. Policymakers can use these insights to better estimate how political changes affect the business environment in the M&A field or to gain a more comprehensive understanding of how political environments impact the economics of countries. This can help policymakers provide corresponding solutions to address these issues.

5.2 Limitation and Future Research

Our Political Factors including polarization, political ideology, and close call, are based on the information provided by ParlGov. It is possible to get bias by the database, furthermore, the data of party position (left-right) is a time-invariant unweighted mean value of information from party expert surveys, which cannot capture the change of the political ideology within the same party, which might affect the accuracy of measuring the political ideology and polarization since many far-right parties will ‘Normalize’ when they became a majority party of the country. For the measurement of polarization, as there are several methods to measure this phenomenon, further research may explore different methods.

The sample we analyzed only included M&A deals that were completed. This can cause bias, as literature has shown that political uncertainty affects not only the premium of M&A deals but also the deal size, number of deals, etc. Additionally, lower premiums can result in withdrawal by the target company. Selecting only successful or unconditional deals, can drive bias and result in political factors becoming insignificant.

To better analyze how this political uncertainty affects M&A premium, future analysis will be necessary, to have a more accurate result.

6 Bibliography

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7 Appendices

Table 1 – Distribution of Acquirer Nation

Acquirer Nation	Freq.	Percent	Cum.
Australia	105	6.38	6.38
Austria	4	0.24	6.62
Bahamas	1	0.06	6.68
Belgium	29	1.76	8.44
Brazil	1	0.06	8.51
Canada	205	12.45	20.96
Chile	1	0.06	21.02
China (Mainland)	6	0.36	21.39
Czech Republic	1	0.06	21.45
Denmark	14	0.85	22.30
Finland	24	1.46	23.75
France	83	5.04	28.80
Georgia	1	0.06	28.86
Germany	102	6.20	35.05
Greece	25	1.52	36.57
Hong Kong	4	0.24	36.82
Hungary	21	1.28	38.09
India	1	0.06	38.15
Indonesia	1	0.06	38.21
Ireland	5	0.30	38.52
Israel	38	2.31	40.83
Italy	49	2.98	43.80
Japan	373	22.66	66.46
Luxembourg	3	0.18	66.65
Malaysia	2	0.12	66.77
Netherlands	8	0.49	67.25
New Zealand	10	0.61	67.86
Nigeria	1	0.06	67.92
Norway	13	0.79	68.71
Peru	1	0.06	68.77
Philippines	1	0.06	68.83
Poland	31	1.88	70.72
Portugal	8	0.49	71.20
Singapore	1	0.06	71.26
South Africa	11	0.67	71.93
South Korea	1	0.06	71.99
Spain	21	1.28	73.27
Sweden	83	5.04	78.31
Switzerland	24	1.46	79.77
Thailand	1	0.06	79.83
Turkey	5	0.30	80.13
United Kingdom	133	8.08	88.21
United States	194	11.79	100.00
Total	1646	100.00	

Table 2 – Distribution of Target Nation

Target Country	Freq.	Percent	Cum.
Australia	143	8.69	8.69
Austria	18	1.09	9.78
Belgium	32	1.94	11.73
Bulgaria	18	1.09	12.82
Canada	281	17.07	29.89
Czech Republic	10	0.61	30.50
Denmark	19	1.15	31.65
Finland	35	2.13	33.78
France	75	4.56	38.34
Germany	45	2.73	41.07
Greece	34	2.07	43.13
Hungary	8	0.49	43.62
Ireland	12	0.73	44.35
Israel	92	5.59	49.94
Italy	45	2.73	52.67
Japan	340	20.66	73.33
Luxembourg	1	0.06	73.39
Netherlands	60	3.65	77.04
New Zealand	14	0.85	77.89
Norway	22	1.34	79.22
Poland	37	2.25	81.47
Portugal	8	0.49	81.96
Slovakia	13	0.79	82.75
Slovenia	24	1.46	84.20
Spain	32	1.94	86.15
Sweden	39	2.37	88.52
Switzerland	21	1.28	89.79
Turkey	10	0.61	90.40
United Kingdom	158	9.60	100.00
Total	1646	100.00	

Table 3 – Distribution of M&A Announcement Year

Year	Freq.	Percent	Cum.
2000	27	1.64	1.64
2001	42	2.55	4.19
2002	41	2.49	6.68
2003	106	6.44	13.12
2004	161	9.78	22.90
2005	126	7.65	30.56
2006	74	4.50	35.05
2007	62	3.77	38.82
2008	72	4.37	43.20
2009	104	6.32	49.51
2010	40	2.43	51.94
2011	53	3.22	55.16
2012	51	3.10	58.26
2013	70	4.25	62.52
2014	145	8.81	71.32
2015	80	4.86	76.18
2016	15	0.91	77.10
2017	78	4.74	81.83
2018	29	1.76	83.60
2019	140	8.51	92.10
2020	13	0.79	92.89
2021	91	5.53	98.42
2022	26	1.58	100.00
Total	1646	100.00	

Table 4 – Correlation Table

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
(1) Premium 4w	1.00														
(2) Premium 1w	0.94*	1.00													
(3) Polarization	0.06*	0.07*	1.00												
(4) Ideology	-0.19*	-0.18*	-0.03	1.00											
(5) Close-Call	-0.03	-0.04	-0.19*	0.05*	1.00										
(6) DealSize	0.09*	0.07*	0.04	-0.07*	0.03	1.00									
(7) AcquirerSize	-0.01	-0.02	-0.04	0.01	0.07*	0.42*	1.00								
(8) TargetSize	-0.17*	-0.19*	-0.08*	0.00	0.11*	0.68*	0.63*	1.00							
(9) Profitability Diff.	0.14*	0.13*	0.05*	-0.02	0.03	-0.07*	0.06*	-0.21*	1.00						
(10) Debt Diff.	0.01	-0.01	-0.06*	-0.06*	-0.11*	0.03	0.12*	0.07*	-0.11*	1.00					
(11) Liquidity Diff.	-0.06*	-0.05*	0.03	-0.01	-0.01	-0.07*	-0.12*	-0.07*	-0.08*	-0.33*	1.00				
(12) Target GDP	0.14*	0.14*	0.18*	-0.20*	-0.06*	0.14*	-0.02	-0.01	0.06*	-0.03	0.02	1.00			
(13) Acquirer GDP	0.09*	0.10*	0.15*	-0.09*	-0.02	0.14*	-0.03	-0.06*	0.07*	-0.04	0.01	0.45*	1.00		
(14) Acquirer GDP Gr.	-0.12*	-0.12*	0.03	-0.01	0.01	0.11*	-0.10*	-0.02	0.02	0.16*	-0.02	-0.10*	-0.15*	1.00	
(15) Target GDP Gr.	-0.08*	-0.08*	0.03	-0.02	-0.03	0.16*	-0.09*	-0.03	0.03	0.19*	-0.01	-0.08*	-0.03	0.89*	1.00

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

8 Disclaimer

I disclose that AI tools were employed during the development of this thesis as follows:

- AI-based research tools were used to assist in the literature review and data collection.
- AI-powered software was utilized for data analysis.
- AI-powered software was utilized for grammar correction.
- Generative AI tools were consulted for brainstorming and outlining purposes.

However, all final writing, synthesis, and critical analysis are my own work. Instances where AI contributions were significant are clearly cited and acknowledged.

Nonetheless, I have ensured that the use of AI tools did not compromise the originality and integrity of my work. All sources of information, whether traditional or AI-assisted, have been appropriately cited in accordance with academic standards. The ethical use of AI in research and writing has been a guiding principle throughout the preparation of this thesis.

I understand the importance of maintaining academic integrity and take full responsibility for the content and originality of this work.

Kuan Hon Cheang,

15/June/2024