Government Investment in Publicly Traded Firms

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November 14, 2018

Abstract

I examine shareholder wealth effects associated with different types of government investors in an international sample. I develop a taxonomy to identify government political, financial, and industrial arms. State investments, similar in dollar amount to state privatizations, have increased target shareholder wealth by over USD 50 billion. But market participants differentiate among government entities as target shareholders lose over USD 14 billion, when the investment is announced by the political arms of government rather than the industrial or the financial arms. The apparent intent of government agency is considered by private investors. Post-investment performance tests, institutional environment analysis, and access to credit tests corroborate this.

Keywords: Government Investment, Government Ownership, Government-Controlled Corporations, State-Owned Enterprises, Sovereign Wealth Funds

JEL Classification: G32, G38, L33

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* I thank Louis Ederington,William Megginson, John McConnell, Mara Faccio, Huseyin Gulen, Veljko Fotak, Yeejin Jang, Nandini Gupta, Val Sibilkov, Stefano Rossi, Deniz Yavuz, Ron Masulis, Elvira Sojli, Jared Stanfield, Tina Yang, Chitru Fernando, Scott Linn, Pradeep Yadav, Evgenia Golubeva, Tor-Erik Bakke, Nicole Boyson, Malcom Wardlaw, Brett Myers, Dan French, John Howe, Lucy Chernykh, Donald Chance, Joseph Mason, Rajesh Narayanan, Wei-Ling Song, Murray Frank, Tracy Wang, and Andrew Winton. I also thank the anonymous referees and the participants from the Indiana Conference and the UNSW for the helpful comments. Steven Sibley and Nathan Holland provided excellent editorial assistance. All errors are my own.

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I. Introduction

Between the late 1980s and 2013, governments around the world received USD 3.1 trillion from the sales of business assets through privatizations.[1] That phenomenon has been well studied in the economics literature.[2] Less well studied is that over that same time period governments have invested nearly equal amounts, USD 2.9 trillion, in acquiring ownership stakes in privately held firms.[3] This study takes up that issue. In particular, using an event study of announcement period stock prices, I examine shareholder wealth effects associated with government investments in private sector publicly traded firms in domestic and international markets. This study also examines wealth effects associated with different types of government investors, which is important, as past research documents significant differences in shareholder value effects among non-government investors (Chen, Harford, and Li, 2007; Ferreira and Matos, 2008; Woidke, 2002). This research highlights the importance of paying particular attention to the mix of investor groups instead of evaluating them as homogeneous. Yet, prior research on government ownership, focusing largely on privatizations, was unable to disentangle such differences.

One of the prominent findings of the government privatization literature is that, subsequent to state divestments, most company performance metrics, including profitability and efficiency, improve significantly. A general explanation is that governments pursue political goals--including employment maximization, domestic investment, and even the personal financial goals of public

[1] Government investment and divestment totals are from the Thomson Reuters SDC Platinum M&A database.

[2] Summaries are provided by Megginson and Netter (2001) and Megginson (2017).

[3] To the extent such studies have been undertaken, their focus has been on investments by Sovereign Wealth Funds (SWF) which account for less than 15% of the total amount invested in publicly traded firms and are generally foreign investments. This study examines both foreign and domestic government investments and is not limited to SWFs.

officials (Shleifer, 1998)--which conflict with wealth-maximization. Taken at face value, the apparent unconditional prediction that follows from these studies is that investment by governments will be associated with a negative stock price reaction. That unconditional prediction ignores the fact that most government investments occur by means of block share purchases at a premium to the prevailing market price. I find that, contrary to this prediction, the average target share price reaction at the announcement of government investment is positive and increasing in the stake purchased.[4] Specifically, in my sample of over 70 countries between 1987 and 2013, target firm shareholders' overall wealth increases by USD 50.91 billion at the announcement of government investment.[5] This result is consistent with the conjecture by Pastor and Veronesi (2012 and 2013) and Boubakri, El Ghoul, Guedhami, and Megginson (2018) that at least some government entities seek to increase value in ways similar to other large investors.

However, the change in the market value of target firms differs significantly depending on the type of government acquirer involved. Consistent with the predictions of privatization research, government investors that are most likely to have political motivations have negative value effects on target firms, while other government investors have positive effects. Specifically, target shareholder wealth declines by USD 14.11 billion at the announcement of investment by the political arms of government.[6] Astonishingly, firms suffer announcement losses even when

[4] Prior research examining government investments also documents positive target announcement responses to SWF investments (Dewenter, Han, and Malatesta, 2010; Kotter and Lel, 2011; Bortolotti, Fotak, and Megginson, 2015) and government cross-border investments (Karolyi and Liao, 2017). Average target shareholder reactions to government investment in the sample utilized in this paper remain significantly positive even after government SWF and cross-border investments are excluded.

[5] 2013 was chosen as a cutoff date to ensure data availability for the post-investment performance analysis. Also, the sample used in this paper examines mostly secondary offerings, where shares are purchased either on the open market or in privately negotiated deals. To the extent that the sample contains capital infusions, it also contains primary offerings, but all regression analysis either controls for or excludes capital infusions.

[6] This study includes all government investments and is not limited to 100% acquisitions. Also, while it is possible that the negative announcement reaction is associated with government investment signaling negative information about the firms' financial condition, several points are worth noting in this regard. First, government investment targets are not, on average, distressed and exhibit positive excess returns six and twelve month prior to the announcement.

average premiums paid are positive when they are subject to investment from government entities most likely to pursue a political agenda. This finding highlights the importance of disaggregating the influence of investors on their target firms according to their objectives, similar to research involving non-government shareholders (institutional investors in Chen, Harford, and Li, 2007; Ferreira and Matos, 2008; hedge funds in Brav, Jiang, Partnoy, and Thomas, 2008; Aragon, Liang, and Park, 2014; pension funds in Woidtke, 2002). This paper reports evidence consistent with investor differentiation across different government entities depending on whether they are more likely to pursue economic or non-economic objectives. It is also consistent with Tirole (1994) and Dixit (1997) who point out different objectives of different government agencies.

To examine whether investors differentiate between different government acquirers according to the perceived objective of the government entity undertaking the investment, I first classify government entities based on their distinctive type. I differentiate among political (national and local governments); industrial (state owned enterprises involved in variety of industries ranging from airlines to energy); and financial (government financial institutions, including banks and sovereign wealth funds) government entities. Testing for the possibility of selection bias shows that target firm characteristics do not differ significantly among government entity subgroups. I develop predictions as to why these groups of government entities are expected to have a different effect on the targets of their investments.

To further explore the question, I examine various proxies, including institutional factors and access to credit measures, for the likelihood of government interference and pursuit of political

Second, I find that in a subsample of firms where government investment is unlikely to signal such information--since it is already known to the market due to the firms' declining returns over the prior year--the announcement reaction continues to be negative, on average. Further, the negative target announcement reaction to investment by the political arms of government is robust to controlling for and removing capital injections (the political subsample is manually checked for such injections), bailouts, and the 2008 U.S. Troubled Assets Rescue Program (TARP) deals. TARP has been examined by Bayazitova and Shivdasani (2012) who document an insignificant reaction to TARP approvals and Veronesi and Zingales (2010) who show a negative valuation effect for the largest 10 banks that received TARP.

goals. I find that the impact of government ownership is conditioned by the size of the ownership stake and entities that plan to impose political goals are in a stronger position to do so at higher ownership stakes.[7] Further, I find that targets react more negatively to investments by the political arms of governments when the political interference is more likely: in domestic deals and in more regulated industries. This suggests that institutional environment could influence political interference.[8] Following Dyck and Zingales (2004), Ben-Nasr, Boubakri, and Cosset (2012), Boubakri, Cosset, and Saffar (2013), and D'Souza and Nash (2017), I examine whether the pernicious effects of state ownership are more pronounced when legal, political, and regulatory environments are less likely to curb political interference. Consistent with this notion, I find that stake purchases by government's political arms earn lower target announcement returns when the investor institutional environment is weak. Next, I examine access to credit, as firms that can easily raise funds from a variety of sources would benefit less from government financing. I document that indeed the lower announcement reaction to investment from the political arms of government is more prevalent in environments where target firms' ease of credit access is high and the possible financing benefits of state ownership are likely mitigated. My findings are consistent with the imposition of political goals by the political arms of government.

To test whether this notion is justified, I next examine changes in target performance, profitability, efficiency, investment, growth, size, and valuation from before to after the investment by different types of government entities. Long-term performance and efficiency of firms targeted by political government entities are significantly worse than those targeted by financial, and

[7] Bortolotti and Faccio (2009) show that while in civil law countries governments retain large ownership in privatized firms, in common law countries they use golden shares in privatized firms. The sample used in the current paper is different, as it examines government equity purchases in firms that generally did not have prior government ownership. Also, a manual check of 100 random deals from common law countries reveals no presence of the golden shares.

[8] I thank the anonymous referee for pointing out the institutional environment and the ease of credit access channels.

especially industrial, arms of government. My findings are consistent with the notion political arms of government are more likely to pursue political agendas that harm firm performance.

Next, I test the robustness of my findings regarding investor differentiation among government investors and further disentangle investor perceptions by comparing target announcement reaction to government and non-government investments, similar to Karolyi and Liao (2017).[9] I find that target announcement reaction to government investment from the political arms of government is lower than to non-government investment, on average. However, the reaction to investments by government industrial and financial arms and that to investment by foreign governments is roughly similar to the reaction to non-government investments. Further, my findings are robust to a variety of additional checks which examine periods inside and outside of economy-wide distress; use substitute proxies for offer premiums; include additional controls for prior news leakage; exclude U.S. TARP investments, Chinese acquisitions, and later-withdrawn deals; and control for the non-linear effects of government ownership.

This paper contributes to the literature in several ways. First, it extends the literature on the effects of different owners and investor classes on their target firms, as it provides evidence consistent with investor differentiation among different government entities according to their implied extent of political interference. Second, this paper adds to the literature that examines the role of institutional factors, legal environment, property rights, and access to credit by considering the interaction of these factors and the likelihood of political interference. Third, it adds to the extensive literature on state involvement in economic activity by supplementing the findings of privatization studies regarding government ownership. A broader description of the contributions of this paper to the literature along with the literature review is presented next.

[9] Boubakri, El Ghoul, Guedhami, and Megginson (2018) examine market-to-book ratios of East Asian firms and show that government-owned firms have higher ratios that non government-owned firms.

II. Literature Review

Prior research on government ownership focuses largely on privatizations and is unable to disentangle the differences between government entities, as privatizations are mainly directed by central governments.[10] One exception is Borisova and Cowan (2014) who study the acquirer wealth effects around their purchase of stakes in privatized firms and examine several categories of government sellers, specifically state owned enterprises (SOEs), local governments, sovereign wealth funds (SWFs), government banks, and central government. Further, the privatization literature suffers from the inherent disadvantage of studying wealth effects at peculiar times, since privatizations often occur concurrently with the restructuring of a country's legal system, thus obfuscating the impact of a simple ownership change. Moreover, state-owned firms are often reorganized before privatization and Dewenter and Malatesta (2001) find little evidence of later profitability enhancements when controlling for pre-privatization reorganizations. This paper extends the government involvement research by examining government investments.

Pastor and Veronesi (2012 and 2013) and Boubakri, El Ghoul, Guedhami, and Megginson (2018) note that governments are motivated by two sets of objectives: economic objectives, such as maximizing investors' welfare, and noneconomic objectives, such as maximizing political benefits. Noneconomic objectives are likely to reduce profitability and should lead to a negative market reaction to announcements of government investment. Alternatively, some government entities, can act in ways similar to other large investors seeking to maximize return on their investment. Further, government owners can provide benefits, such as preferential access to financing (Sapienza, 2004; Faccio, Masulis, and McConnell, 2006; Duchin and Sosyura, 2012;

[10] See Eckel, Eckel, and Singal (1997), D'Souza and Megginson (1999), Megginson and Netter (2001), Gupta (2005), Estrin, Hanousek, Kocenda, and Svejnar (2009), Brown, Earle, and Telegdy (2010), Dinc and Gupta (2011), Boubakri, Cosset, Guedhami, and Saffar (2011).

Houston, Jiang, Lin, and Ma, 2014; Borisova, Fotak, Holland, and Megginson, 2015). These effects should be associated with an increase in target shareholder wealth. Between the negative impact of political interference and the positive effect of preferential access, the net impact of government ownership on shareholder value is a matter of empirical investigation addressed by this paper.

In other words, the relation between state ownership and valuation can be nuanced by costs and benefits of government ownership. On one hand, strong institutions could curb the likelihood of political interference by influencing the political costs of state ownership. On the other hand, the ease of access to credit would reduce some of the possible financial benefits generally associated with state ownership. LaPorta, Lopez-de-Silanes, and Shleifer (2002) examine the relation between financial development and government involvement in the banking system and show that government entities emphasize political objectives when providing financing. If firms can easily obtain financing from non-government sources, they would be less dependent on financing from their government owners and government's financing benefits would be less valuable.

While the benefits of government ownership can be affected by credit access, costs of political interference associated with government ownership could be influenced by the country's institutional environment. Borisova, Brockman, Salas, and Zagorchev (2012), Ben-Nasr, Boubakri, and Cosset (2012), and Boubakri, Cosset, and Saffar (2013) document that state ownership's influence on firm governance, cost of equity, and risk taking, respectively, can be influenced by the nation's institutional environment. Also, Borisova and Cowan (2014) show that legal origin should be considered when examining privatization sales' impact on the acquiring firms. Furthermore, Dyck and Zingales (2004) and D'Souza and Nash (2017) highlight the

importance of legal and extra-legal institutions in curbing the benefits of private control. They examine legal environment measures from the seminal work by La Porta, Lopez-de-Silanes, Schleifer, and Vishny (1998), including shareholder protection, property rights, rule of law, and also extra-legal factors, such as the nation's political and regulatory environment, and show that the extraction of private benefits of control can be mitigated by strong legal and extra-legal mechanisms. This suggest that that political interference is more likely when institutions are weak.

More broadly, this paper contributes to the literature examining the influence of different investors and outside owners on the firm and highlights the importance of understanding the difference between various investor classes. Attig, Guedhami, and Mishra (2008) do not find support for the general assumption that blockholders are a homogeneous group. Research has identified several investors and owners that differ in their influence on firm value: institutional investors (Chen, Harford, and Li, 2007; Ferreira and Matos, 2008), various funds (hedge funds in Brav, Jiang, Partnoy, and Thomas, 2008, Aragon, Liang, and Park, 2014; and pension funds in Woidke, 2002). For example, Chen, Harford, and Li (2007) show that mainly independent and long-term institutions influence firms' performance. Similarly, Ferreira and Matos (2008) document that firms with higher ownership by independent institutions, but also foreign owners, have higher firm valuations and better operating performance. This paper examines whether different types of government owners differ in their influence on target firms.

Further, this paper extends the international M&A literature that examines politically motivated mergers. Karolyi and Liao (2017) examine factors that influence government decisions to invest abroad by comparing government cross-border investments to corporate cross-border investments. They find that government acquirers are more likely to come from autocratic countries and tend to invest in targets located in countries with rich natural resources. This paper

identifies the characteristics of different government agencies to proxy for the implicit motivation and political interference. Additionally, it extends the scope of government investment to include not only cross-border but also domestic government investment. Most importantly, this study unifies and puts into perspective the findings of the segmented literature on government investment. Boardman, Freedman, and Eckel (1986) is one of first studies of government investment and examines the 1981 government takeover of Domtar, a private Canadian corporation. The authors document a 25% loss in shareholder value due to the anticipated pursuit of non-profit objectives. Conversely, Karolyi and Liao (2017) show that targets react positively to the news of government acquisitions in the sample of cross-border government investments. Other studies examining government investment are specific to SWF stock purchases. While Dewenter, Han, and Malatesta (2010) document significant positive short-term target share price reactions to SWF investments and claim SWFs are active owners, Kotter and Lel (2011) conclude that SWF are passive owners and Bortolotti, Fotak, and Megginson (2015) show that the reaction to SWF investment is lower than to comparable private investment. These conflicting results highlight a need, addressed by this paper, to separately consider the effects of government investments involving different types of government investors.

III. Investment by Political, Financial, and Industrial Government Entities

I differentiate among political, industrial, and financial government entities. If government entities are a homogeneous group, target announcement reactions should not be systematically significantly different across different government entities. However, if different government entities influence targets of their investment in different ways due to variations in their likelihood of political interference, then target announcement reactions would differ for investments by different government entities. Woidtke (2002) shows that relation between fund ownership and

firm value varies according to fund objectives and highlights the importance of disaggregating investors into categories when evaluating their underlying influence on their investment targets. Several theoretical papers, including Tirole (1994) and Dixit (1997), study government organization and show that objectives of different government agencies may differ given the multiplicity of goals that different government groups follow. Tirole (1994) shows that government agencies should not be designed to behave as a coherent entity in order to maximize incentives. However, prior research has done little to disaggregate various government entities and has mainly examined the influence of government divestments on firms in the privatization literature. This paper takes the first steps to create a taxonomy of government entities.

I disaggregate government investors into three broad groups. Detailed descriptions for each group are in Appendix 1 (and for their subcategories in Online Appendix 2). The first, the political group, includes national entities (governments, the Treasury, industrial and finance ministries, the central bank, regulatory boards), local governments (regional, city and municipal branches of government), and national funds. National funds are large, national level funds--similar to the U.S. Social Security system, but allowed to make equity investments.[11] Such funds are likely to follow government objectives, as Woidtke (2002) shows that public pension funds often do not follow goals of maximizing shareholder value but pursue political objectives. I expect political government entities to be the ones most likely to impose a political agenda. As political agendas conflict with value maximization goals, I expect investments by the political government entities to be more detrimental to shareholder wealth.

[11] National funds represent 4% of the political group and 0.04% of overall government investments. Exclusion of national funds from the political group provides similar results.

A political agenda can be most easily, perhaps exclusively, forced onto domestic firms. For example, Fan, Wong, and Zhang (2007) show that government agencies with direct jurisdiction over a firm are more likely to politically intervene. In this case, political government entities would tend to have very few foreign investments. In my sample, only 7.5% (24 out of 322) of political government entity investments are foreign, compared to over 50% by the industrial government group and around 40% by the financial government group. The low number of foreign investments by the political subgroup of government investors is consistent with these entities following political agendas rather than pursuing value maximization. Other proxies for political interference are considered and include investment in regulated industries as well as various proxies for institutional environment and property rights.

The second group of government investors – the industrial group – contains SOE, which are enterprises with industry specializations in energy, materials, industrial, telecom and technology, media, and consumer goods. Unlike the political group that contains fully government owned and operated agencies, the industrial group contains firms with government ownership in excess of 51%. For example, investments by Telstra, Australia's largest telecommunication company, are included up to 2006, which is the year in which government ownership fell from 51% to 17%. Other examples of a government investors classified into the industrial group include Air New Zealand with 53% government ownership, Electricite de France and Japan Tobacco both of which are majority owned by their respective governments.

The privatization literature presents SOEs as a major source of political interference, but it examines these entities from a perspective of government divestment. Even then, Borisova and Cowan (2014) document higher acquirer announcements returns to sales from central governments than from SOE and propose that "the lower acquirer returns to purchasers of assets from SEOs

suggest more purely economic motives of these government-owned sellers." Also in contrast with the findings of the privatization literature, Ang and Boyer (2007) and Bogart and Chaudharty (2013) document superior performance of state-owned railways systems in the U.S. (Conrail) and in India, respectively, after these railroads were nationalized.

Futhermore, Kole and Mulherin (1997) study a special case of government ownership of U.S. firms around World War II and document no significant differences in performance under government- and private-ownership.[12] Accordingly, the findings from the privatization literature might not apply to situations where government entities are investing and expanding. In my sample, SOEs undertake equity investments and might be different from other SOEs that do not invest. Furthermore, these SOEs are subject to industry competition, and in instances of partial privatization, subject to their own stakeholder scrutiny, unlike various government ministries that belong to the political group. One way to test the relation between SOE ownership and performance is to examine the subsequent performance of their investment targets, with an expectation that targets of industrial arms of government are likely to experience larger performance improvements than those of the political arms. This analysis is presented and the claim is supported in section 8 of the paper. Overall, I expect industrial government entities to be the least likely to enforce political agendas and the most likely to pursue value maximization goals when they expand. Therefore, I expect investments made by industrial government investors to be more likely to benefit target shareholders.

[12] SOEs can also extend benefits in the form of extra contracts, new markets, and favorable regulation. Examples of such actions (with no changes to firms' infrastructure, management or even head office locations) can be illustrated by two Chinese SOEs. China's Bright Foods Group, after its acquisition of the U.K. cereal maker Weetabix, began offering Weetabix products in China, thus providing access to a large and difficult-to-enter market ("Chinese Food Company Eats English Breakfast." Wall Street Journal, May 3, 2012). Similarly, after being acquired by CNOOC, the Canadian energy firm Nexen was allowed access to China's untouched shale reserves ("Canucks, meet CNOOC," The Economist, July 28, 2012).

Finally, the financial government subcategory includes government commercial and development banks, SWFs, supranationals, and other government financial institutions, such as local-level pension funds. Investments by financial government entities can be motivated by economic or political goals, depending on the investment. For example, Megginson (2005) discusses the politically-focused activities of state-owned banks, yet many state-owned banks deny political objectives for their investments in media or press releases. As such, it is difficult to predict a dominating hypothesis for the financial group without individually labeling each investment. Accordingly, I expect mixed target announcement responses to investment by government financial entities.

IV. Empirical Design

A. Dataset

I collect all announcements of government purchases from the Thomson Reuters Securities Data Company (SDC) Platinum Mergers and Acquisitions (M&A) database with buyside government involvement over the 1987-2013 period. This includes transactions where either the 'acquirer,' 'acquirer immediate parent,' or the 'acquirer ultimate parent' are identified with a 'government' status. According to SDC, 'government' status identifies all firms and institutions in which a government owns, directly or indirectly, at least a 50% stake. 'Parents' and 'ultimate parents' are shareholders who own 50% or more in a firm. I exclude transactions where a government entity is a part of an investor group. I restrict the sample to completed and withdrawn deals in secondary markets, excluding rumors, and only to publicly traded targets. These filters lead to a sample of 3,939 government acquisitions worth about USD 1.04 trillion. I use SDC to collect additional information, such as the announcement date, the proportion of shares acquired, payment method, company name, nationality, and industry.

Daily USD total return indices, adjusted for dividends and splits, along with related local market indices, are obtained from Datastream. I exclude securities with a large number of missing, zero, or extreme returns around the time windows of interest. Lexis-Nexis searches are performed to confirm announcement dates and remove any events with contemporaneous news announcements involving the target. Accounting data are collected from Worldscope. Institutional and legal environment proxies are collected from Beck et al. (2001) Database of Political Institutions, La Porta et al. (1998), PRS Group's International Country Risk Guide (ICRG), Kaufmann et al. (2010) Worldwide Governance Indicators dataset. Access to credit proxies are collected from Barth et al. (2010) Capital Access Index, Cihák et al. (2012) Global Financial Development Database, Beck et al. (2000) Financial Development and Structure Database, and La Port et al. (2002). All data are winsorized at the top and bottom 1%. The final sample used for event study analysis consists of 2,118 transactions (152 of which are eventually withdrawn) in which a government acquirer purchases an equity stake in 1,670 unique target firms from 71 countries between 1987 and 2013. All variables are described in Appendix 1.

B. Descriptive Statistics

The description of the sample is provided in multiple panels of Table 1, which presents the overall number and value of deals. The sample of 2,118 government purchases has a total value of over USD 934.3 billion. Cross-border deals account for 39% of the sample (835 transactions), but while cross-border and domestic investments are pretty evenly split for industrial and financial government entities, very few cross-border deals are done by political government entities. Different types of government acquirers are well represented, with 322 observations (15%) by political, 879 observations (42%) by financial, and 917 observations (43%) by industrial arms of governments. Panel A classifies government purchases by year buckets. About 607 transactions

(28% of total count) cover the crisis years of 2008-2010. A large fraction of political investment occurs in 2008 and 2009 because U.S. TARP investments are present in the sample only to the extent that the U.S. Treasury later exercised warrants convertible into voting common stock. It is widely known that TARP program firms were pushed to follow objectives that were detrimental to shareholder wealth, such as delayed dividend payout and lower executive pay.[13] While 144 out of 322 government political investments are related to TARP, still over 178 government political investments are not TARP related and 146 of those occur outside of the United States.

[Insert Table 1 about here]

Panel B reports government purchases by *ex post* ownership stake. Governments purchase minority stake (<10%) ownership in 741 observations (35% of total count). Their large representation in this category hints at the changing nature of government investment, as they switch from ownership block purchases to smaller stakes. The most common government ownership stake in the sample is between 10% and 50%. The proportion of both foreign and domestic government investment is similar regardless of the stake ownership. There are 305 observations worth about USD 398 billion in which governments attain majority ownership of 51% or higher. Within that group, 100% ownership is achieved in 180 deals, out of which 126 had no prior government ownership. Government industrial acquirers are most active in deals involving majority control (178 observations; 58% of majority purchases), followed by government financial and political acquirers.

[13] "Executive compensation above a certain level will have to be paid in restricted stock or another instrument that couldn't be sold until the government's investment was repaid. Similarly, all firms would have to get dividends approved by their primary federal regulator. Firms receiving 'exceptional assistance' would have to limit their quarterly dividend payments to one cent a share until the government is repaid." (Solomon, Deborah and Greg, Hitt, "TARP Funds' Second Half Set for Release as Senate Signs Off on Request." *Wall Street Journal*, January 16, 2009.)

Panel C presents target firms' industry classifications by 1-digit SIC code. The largest number of government acquisitions is in the financial sector (SIC 6), with 636 observations (30% of total count) worth over USD 377 billion (40% of total value). A closer look at the 4-digit SIC level (available on request) shows that the largest investments in this sector occur in depository institutions, commercial banks, land developers, investment advice and personal credit institutions. The second largest 1-digit SIC category for government investment is transportation and utilities (SIC 4), with 413 deals worth over USD 227 billion (24% of total value); these investments are largest for electric services and telephone communications. The next largest industry category for government investment is mining (SIC 1), predominantly in crude oil and natural gas, followed by manufacturing (SIC 2 and SIC 3), mainly production of aluminum.[14]

C. Variables

Table 2 provides descriptive statistics for continuous variables in Panel A; for pre-event target firm performance in Panel B; for differences in continuous variables for targets of government political, financial, and industrial arms in Panel C (binary variables are described in Appendix 1). Panel A describes government ownership and target firm characteristics and lists means, standard deviations, medians, and 25th and 75th percentiles.

[Insert Table 2 about here]

Panel A of Table 2 shows that government investors purchase a 27% stake, on average (15% median), and hold on average a 33% stake (20% median) in a firm after the acquisition. Further, Panel A provides summary statistics for target firm variables, which are measured using annual data prior to the announcement of the investment. Measures of firm performance using

[14] Online Appendix 1 describes government investment by nation. Government acquirers in this sample tend to be from China, U.K., France, U.A.E, and Russian Federation and they tend to target U.K., U.S., and German firms.

market adjusted buy-and-hold return for six-month and one-year periods preceding the government's investment are presented in Panel B. Prior performance should proxy for firm-specific distress, a situation in which governments are likely to step in and provide bailouts. Market adjusted buy-and-hold returns of firms in the sample are on average positive, with 8% over the six months before and 15% over the year before the date of government stock acquisitions. This positive average return seems to indicate that governments are not, in the majority of cases, investing to rescue distressed firms.

Panel C presents means and mean differences in target firm continuous variables subject to investment by political, financial, and industrial government entities. Country-clustered standard error estimates are used to compute two-sided t-tests for mean differences between subsets. Panel C results suggest that political, financial, and industrial arms of government tend to invest into similar targets, for no significant differences exist in size, leverage, ROA, market value, or liquidity. However, several significant differences exist; political government entities invest in firms with a higher employment and industrial government entities pay a higher premium for their targets than financial government entities. Panel C indicates that, on average, all government entities pay a premium.

Overall, Tables 2 indicates that there are no significant differences among the targets of investment by different government entities, that government entities pay a premium for the equity stakes they acquire, and that government investment targets, on average, exhibit positive pre-investment performance.

V. Event Study Results

I use a standard event-study methodology to calculate targets' cumulative abnormal returns (CARs) around the announcement of government acquisitions. It should also be mentioned that

while privatization announcements are generally not a surprise to markets given long regulatory approval processes, government investments examined in this study are unexpected. They involve announcements of share purchases from secondary markets and in privately negotiated deals. Yet to address the possibility of news leakage, later section robustness tests also include longer event windows. To estimate returns, I use the Datastream daily country specific U.S. dollar denominated total return index, which is adjusted for dividends and stock splits. Market model parameters are estimated over days (-230,-30), in which day (0) is the day of announcement of government investment. Only firms with trading data for a minimum of 100 days are included.

Table 3 presents targets' stock reaction for the (-2,+2) event window around the announcement of government investment in Panels A (B), and using market adjusted returns (market model returns). Panel C provides results using the (-5,+5) event window.[15] Table 3 provides mean and median abnormal target returns around the announcement of government investment. To enhance the understanding of the frequency distribution associated with these returns the number of positive and negative returns and the 25^{th} and 75^{th} percentile abnormal returns are listed. These percentile estimates along with the median reaction uncover the frequency distribution to overall government investment and by ownership sub-groups. Moreover, mean abnormal returns are presented for privately negotiated deals. Further, dollar changes in market value as well as the average % premium are presented for the (-2,+2) window. Next, the mean abnormal target returns are presented for premium and non-premium offers.

[Insert Table 3 about here]

[15] Other windows, such as (0,+1), (-10, +10), (-20,+20), and (-30,+30) around the announcement of government investment have been examined and show similar results.

Table 3 shows targets' stock price reactions to government investment and further presents target stock price reaction to investment from government political, financial, and industrial arms. In general, targets exhibit a significant positive reaction with a mean (median) of 4.38% (1.22%) for the (-2,+2) window. However, this result differs significantly among investments by political, financial, and industrial government entities. For the (-2,+2) window, target reaction is significantly negative for government investors from the political group, at -1.81% (-0.62%); significantly positive for those from the financial group, at 3.05% (-0.97%); and overwhelmingly positive for those from the industrial group, at 7.83% (2.22%). The differences in target announcement reaction between government investor groups are all statistically significant. These differences remain in a sample of privately negotiated deals and for all other deals that are not privately negotiated.

Since government investors pay an average premium of 11.86%, the overall market value of target firms increases by USD 50.91 billion around the announcement of government investment. However, similar to the variation in target announcement returns uncovered for different types of government investors, the variation in the market value of firms targeted by government investors depends on the investor type. Specifically, target shareholders of firms subject to investment by the political arms of government lose USD 14.11 billion, even though the average premium paid by the political arms of government is a positive 8.51%. Target firm market values increase by USD 23.58 billion and USD 41.43 billion at the announcement of investment by the financial and industrial arms of government, respectively.

Next the target announcement reaction is presented for premium and non-premium (including missing premium) offers. Market reaction depends on the price the government pays for the shares and, as expected, target shareholders exhibit a higher market reaction for premium

offers as compared to the non-premium offers. Yet, about 48% of targets have a negative reaction to the announcement of investment by the political arms of government even when such investments are done at a premium. This is consistent with the idea that investors react negatively to government investments when governments are more likely to interfere by following their pursuit of political goals. Furthermore, the negative target excess returns to investments by the political arms of government is not driven by TARP deals. Overall, the differences in target announcement reactions to investments by the political, financial, and industrial arms of government remain for both premium and non-premium offers.

Market model excess returns presented in Panel B, and the results for the (-5,+5) window presented in Panels C affirm the market adjusted returns in Panel A. Overall, the results in Table 3 clearly document that targets exhibit a stock price reaction to government investment. This reaction is positive overall, but the results uncover diversity among government investors. These results also reveal that government investments that are less likely to enforce political agenda are met with more favorable reactions. However, event study results must be interpreted with caution as they could result from the premium or discount paid by the government entities for their stake in the firm. The panel regressions in the next section allow for a closer examination of government investor attributes and their perceived political goal imposition by examining target stock reaction around acquisition announcements while controlling for offer, firm, and deal characteristics.

VI. Regression Results

A. Government Acquirers

I further examine the relationship between government investment and target stock price announcement reaction in multivariate ordinary least squares (OLS) regression analysis, in which

I control for target- and deal-specific characteristics and include year, target industry, and target and acquirer nation fixed effects.

$$y_{it} = \beta X_{it} + n_j + v_t + i_x + \varepsilon_{it}, \quad (1)$$

where y_{it} is the market adjusted target stock reaction over a five-day window (-2,+2) around the government investment announcement, β is a set of coefficients, and X_{it} is a matrix of variables of interest (related to different types of government investors, such as political, industrial, and financial) and control variables (*Gov. Own (%), Foreign Deal, Premium Paid, Gov.-to-Gov. Deal, Withdrawn Deal, Last Year Performance, Cash Deal, Stock Deal, Banking Crisis, Capital Inflow, Size, Leverage, ROA, Tobins' Q).* n_j represents the nation fixed effects, v_t represents the year fixed effects, i_x represents the industry fixed effects, and ε_{it} is a classic error term. The indices *i, t, j,* and *x* refer, respectively, to firms, years, nations, and industries. Because the dependent variable is the cumulative abnormal return around the announcement of government investment, there is a potential concern that regression results could be driven by the premium offered and not by the effects of government investors. The inclusion of the offer premium in all regression specifications helps address this 'overpayment' concern. I proxy for firm-specific distress using firm's performance in the prior year. I employ robust standard errors adjusted for heteroskedasticity and autocorrelation and cluster errors at year and target nation levels.[16]

An analysis of target shareholder reactions given different types of government investors is presented in Table 4.[17] In Model 1, binary variables for political and financial government investors are included in the main regressions while the left out group consists of industrial

[16] Clustering at the target nation level is important as it addresses the correlation errors related to national factors, as government investments tend to concentrate in several nations. Standard error clustering was also performed only at the target nation level, and the results remain robust.

[17] More detailed results for target announcement reaction to various subgroups within each government investor category are presented in Online Appendix 2.

government investments. Accordingly, the coefficients for political and financial government investors measure the difference between the market reaction to investment by that arm of government and by the industrial arm of government. Additionally, results for the difference between the political and financial group are presented at the bottom of the table. Model 1, by design, forces the slope coefficient estimates for other characteristics to be equal across the three sets of government investors. Model 2 addresses the concerns associated with such limitations of Model 1 by performing the seemingly unrelated regressions (SUR). Models 3-8 examine instances where political interference is more or less likely by examining large control block investments of 50% or more (Model 3), smaller purchases of below 50% (Model 4), and investments by foreign (Model 5) and domestic governments (Model 6), as well as investments in less regulated (Model 7) and more regulated (Model 8) industries. Higher likelihood of political interference is expected for control block investments, in domestic firms, and in more regulated industries.

[Insert Table 4 about here]

Results in Model 1 reveal that target shareholders differentiate between government investors. Specifically, target announcement reaction is significantly lower to investments by the political arms of government; it is 3.4% (2.9%) less than the reaction to investment by the industrial (financial) arms of government. Model 1 also reveals other factors that influence target equity reactions to government investment. As expected, there is a positive significant relation between announcement returns and premium paid, as well as cash deals. Further, the coefficient on *Capital Inflow* suggests that target shareholders have a lower reaction when governments infuse funds into the firm. Deals that are later withdrawn earn more positive target returns at the announcement. Further, larger and more valuable (in terms of Tobin's Q) firms react more negatively to the news of government investment. Also, Model 1 results show that targets react positively to larger

government stake purchases, but slope coefficients on the explanatory variables may differ across the three sets of government investors. Model 2 confirms significant differences between the political group of government investors and the financial and industrial arms of government, while differences between the financial and the industrial group are insignificant. Overall, the results in Models 1 and 2 of Table 4 indicate that government entities are not a homogeneous group.

Next, in order to understand whether the difference in target shareholder reaction to different government investor groups is linked to political pressure, Models 3-8 examine various proxies for the likelihood of government interference. Models 3 and 4 show that the impact of government ownership is conditioned by the size of investment. The more negative reaction to the investment by the political arms of government is more prevalent at larger stakes as Model 3 shows that target firm shareholders have an 8.9% (8.6%) lower announcement reaction to majority purchases of over 50% by the political arms of government than to those by the industrial (financial) arms of government. While the reaction to investments below 50% is also negative, it is much smaller in magnitude and significance, at 2.3% as shown in Model 4. These results are consistent with the view that political government investors are more likely to impose political agenda when they purchase a controlling stake in the firm, yet even minority stakes matter.

Results in Model 5 shows that target shareholders do not tend to differentiate among government entities investing abroad, while Model 6 documents significant differences among the target shareholder reactions to announcements of domestic investment by different government entities. Specifically, target shareholder reaction is 3.3% (3.7%) lower to domestic investment by the political arms of government as compared to that by the industrial (financial) arms of government. Foreign deals appear to enhance target shareholder wealth more than domestic deals, which is likely due to higher political interference in domestic firms. The evidence presented in

Table 4 is consistent with the view that political government investors are more likely to pursue a political agenda in their target firms than either industrial or financial government investors.

Results in Models 7 and 8 are consistent with the view that political government entities are more likely to pursue political goals in more regulated industries, as target shareholders exhibit a 16% (18%) lower announcement period reaction to investments in regulated industries from the political subgroup than to those from the industrial (financial) group. In less regulated industries, target announcement reaction to investments from the political arms of government is not significantly different that of other government investors. This is interesting, as it suggests that more regulated industries are more prone to political interference. In contrast, country-level regulatory environment and legal rights should strive to provide "checks and balances" that reduce political interference. The next section examines the influence of country-level institutional characteristics, such as regulatory quality and legal protection of shareholder rights on the relation between government ownership and corporate valuation.

VII. Institutional Environment and Access to Credit

Pargendler, Musacchio, and Lazzarini (2013) suggest that regulatory quality is higher when there is greater reliance on guidelines instead of direct government supervision and regulation. Such guidelines often include various property and shareholder rights which provide a foundation for the country's institutional setting. Institutional environment is shown to be important in curbing the benefits of private control and is also shown to be important in the analysis of government ownership (Dyck and Zingales, 2004; Borisova, Brockman, Salas, and Zagorchev, 2012; Attig, Guedhami, and Mishra, 2008). For example, D'Souza and Nash (2017) show that national extra-legal institutions influence private benefits of state control. Overall, extant literature suggests that political interference is less likely when institutions are strong. Accordingly, I expect the target

shareholders' reaction to government investment from the political arms of government to be lower than to other government investment predominantly when the institutional environment where these government entities operate is weak.

Similar to strong institutions affecting the costs of political interference, environments with easier access to credit could reduce the likely financial benefits associated with government ownership. If preferential access to credit is one of the benefits valued by shareholders, this benefit would become less attractive if easier access to credit if available from other sources. I expect target shareholders to have a lower reaction to the announcements of investment by the political arms of government when the implicit financial benefit is reduced. In other words, in nations where target firms can already easily access credit I expect a lower or more negative reaction to investment announcements by government entities more likely to interfere politically. I use several proxies for the ease of credit access and for institutional environment strength and examine the interaction between government investment, valuation, and these factors. Institutional environment proxies are described directly below and their results are presented in Table 5. Access to credit proxies are described later in this section and their results are presented in Table 6.

I utilize several proxies for the quality of institutional environment and national legal and extra-legal institutions. First, I examine the left-wing orientation of investing governments, as Bortolotti, Fantini and Siniscalco (2003) show that left-wing governments are more likely to impose a political agenda. Second, following Borisova, Brockman, Salas, and Zagorchev (2012), who say that state is more likely to assert control in civil law systems, I examine the legal origin of the investor nation. I expect political interference to be greater for governments from civil law countries. Third, I employ two other widely used measures of legal environment: the anti-director index from La Porta et al. (1998) and the anti self-dealing index from Djankov et al. (2008). Both

measures gauge shareholder protection against expropriation using minority shareholders' ease and ability to sue or use legal enforcement to protect themselves. Next, I also use the rule of law index from La Porta et al. (1998) as a measure of legal enforcement.

Finally, I use several proxies for extra-legal institutions previously utilized by Dyck and Zingales (2004) and D'Souza and Nash (2017). Both papers show that extra-legal institutions play an important role in curbing private benefits of control. Specifically, I use voice and accountability index from Kaufmann et al. (2010), which reflects the freedom of elections and media. I also use the regulatory quality index from Kaufmann et al. (2010) which "reflects perceptions of the ability of the government to formulate and implement sound policies." I expect the likelihood of political interference to be lower when regulatory quality and voice and accountability are high. Overall, I expect the reaction to the political government investment to be more negative when the institutional environment where these government entities operate is weak.[18]

Table 5 present results examining target shareholder reaction to the announcement of investment by different types of government entities given different institutional factors. To allow for an easier interpretation of the results, institutional environment indicator variables are used to denote above average index values, suggesting stronger institutional environments. One can then interpret the interaction term between the political arms of government and proxies for institutional environment as the target shareholders' reaction to political government investment when the institutions are strong, while the political investor variable as those when institutions are weak. Unreported regressions show that results are similar when using index values instead of indicator

[18] Other proxies for legal and extra-legal institutional quality were examined: product market competition (using both the IMD country competitiveness rank and 2-digit SIC industry Herfindahl index), newspaper circulation, tax evasion, government stability, corruption, voice and accountability, and executive competitiveness. Results are robust and the lower reaction to investment announcements by the political arms of government prevails when competition is lower and institutions are weak.

variables. Also, following Dyck and Zingales (2004) and D'Souza and Nash (2017) institutional environment variables are introduced one at a time. Dyck and Zingales (2004) caution against a setting with multiple institutional factors due to the noisiness of these proxies and the difficulty in establishing which factors are more important.

[Insert Table 5 about here]

Table 5 results show that the more negative target shareholders' reaction to the announcement of investment from the political arms of government is specific to weaker institutional climates. Model 1 differentiates between right- and left-wing government investments as proxies for government political interference. It documents a 7.1% lower announcement reaction to investments from left-wing government political arms versus a smaller 2.1% lower reaction to investments from non-left-wing government political arms as compared to investments from government industrial arms. This is consistent with the findings of Bortolotti, Fantini, and Siniscalco (2003) that left-wing governments are often associated with more state intervention.

Unlike Model 2, proxies for institutional environment in Models 2-9 suggest a stronger institutional environment. These models show that the more negative reaction to the announcement of investment from the political arms of government investment is specific to environments with weak institutions. The interaction variable coefficients suggest that stronger institutions mitigate lower reactions to government investments from the political arms. Specifically, Model 2 shows the more negative reaction to the announcements of investments by the political arms of government is specific to civil law countries, consistent with the higher likelihood of political interference from those countries. Model 3 shows that when accounting standards are weak, the announcement reaction is 13% lower for investments by the political arms of government than to those by the industrial arms. Yet if accounting standards are strong, proxying for strong

institutions, target shareholders actually exhibit an 8.9% higher reaction to the announcement of investment by the political arms of government than to those by the industrial arms. This is consistent with the view that strong accounting standards curb the likelihood of political interference by government investors.

Models 4-6 present results using proxies for national legal institutions, in particular indexes of shareholder protection and law enforcement. These models show that the lower reaction to investment announcements by the political arms of government is more severe when legal institutions are weak and that strong legal environments mitigate this reaction. Models 7-8 confirm these results using proxies for extra-legal institutions and document that the lower reaction to government investment from the political arms is specific to investors originating from countries with low freedom of expressions and low regulatory quality. In general, the results in Table 5 suggest that target shareholders differentiate among government investing entities mostly when legal institutions are weak and these investors are more likely to elevate political goals over shareholder wealth maximization.

Next, I examine how the ease of credit access influences the relation between valuation and government investment. The benefit of preferential access to financing from government owners would be less valuable if target firms can easily access credit from private markets. Therefore, I expect lower or more negative reactions to announcements of government investment with higher likelihood of political interference in target nations with easier access to credit. I use several proxies to examine the ease of access to credit in target nation, which include the general access to credit and capital markets development, bond market development, and private credit and banking development. First, to proxy for the general access to credit, I use the Capital Access Index (CAI), which measures the ease of access to capital for entrepreneurs. It reflects a country's

macroeconomic environment, as well as the development of financial and banking institutions, equity market, bond market, alternative capital, and international access. Next, to proxy for capital markets development, I follow Scharfstein (2018), who shows that nations that instill policies which promote pension savings also promote the development of capital markets, and use a measure of pension fund assets to GDP.

Second, to proxy for the bond market development, I utilize a bond market development index which accounts for the "importance of bond financing for businesses." Moreover, following Beck et al. (2000), I look at one of the components of the bond market development index, specifically the private bond market capitalization (as opposed to the public or government bond market) as a proportion of GDP. Third, I examine the availability of private credit and the overall banking system development. Following Beck et al. (2000) and LaPorta, Lopez-de-Silanes, and Shleifer (2002) I use a measure of private, as opposed to overall, financial development and examine the credit by financial intermediaries to the private sector as a proportion of GDP, *Priv. Credit/GDP*. LaPorta, Lopez-de-Silanes, and Shleifer (2002) use the earliest available measures of banking development to reduce simultaneity among variables and following their approach, in addition to concurrent *Priv. Credit/GDP,* I utilize their *Priv. Credit/GDP* from 1960. The final measure of banking system development used in my analysis is also from LaPorta, Lopez-de-Silanes, and Shleifer (2002) and it measures the soundness of bank balance sheets.[19]

Table 6 present results examining target shareholder reaction to the announcement of investment by different types of government entities given variations in access to credit in the target nation. Similar to Table 5, to allow for an easier interpretation of the results, ease of credit

[19] Results are similar when other proxies for access to credit are examined. They include bank z-score, bank concentration, ease of international financing, deposit money/GDP, deposit money bank assets/GDP, syndicated loans/GDP, stock market capitalization/GDP, and stock market volatility.

access indicator variables are used to denote above average index values, suggesting easier access to credit. One can then interpret the interaction between the political arms of government and proxies for access to credit, as the target shareholders' reaction to political government investment when access to credit is ample, while the political investor variable as those when access to credit is constrained. Unreported regressions show that results are similar when using index values in place of indicator variables. Models 1-2 use proxies for overall capital markets development and access to credit, Models 3-4 examine bond market development, and Models 5-7 use proxies for the size and strength of the banking system.

[Insert Table 6 about here]

The interaction variable is all models in Table 6 shows that the lower reaction to the announcement of investment by the political arms of government than to that by the industrial arms of government happens when target firms can easily access credit from other sources. But the announcement reaction to investments by the political arms of government is not significantly different from that by other government entities when access to credit is scarce. Model 1 shows that target shareholders have a 7.3% lower announcement reaction to investment from the political arms of government when the Capital Access Index ranks nations as those with above average development of the nation's financial system and ease of credit access. Results in Model 2 concur that shareholders of firms in countries with better capital markets development, proxied by the percentage of pension assets to GDP, have a 9.2% lower reaction to government political investment. Models 3 and 4 show that bond market development influences the relation between state ownership and valuation – target shareholders exhibit a 4.7% and a 4% lower reaction to politically motivated government investment when their national bond market are more developed and non-government debt markets have greater capacity, respectively. Further, Models 5-7 show

that shareholders of firms in countries with more developed banking system have a lower reaction to announcements of investment from government political arms. Specifically, Model 5 shows that firms in nations with higher concurrent availability of private credit have a 7.5% lower reaction and Model 6 confirms that this result remains when using a historical measure of private credit from 1960. Finally, Model 7 documents a 5.6% lower reaction for firms in target nations with stronger banks.

Table 6 results are consistent with the notion that when firms can easily access credit from various sources, the preferential financing *benefit* they could derive from government ownership is less valuable. While Table 6 looks at implicit benefits, Table 5 examines political *costs* and Table 5 results are consistent with the higher likelihood of political interference by the political arms of government when legal institutions are weak and therefore costs of political interference are lower. Overall, Tables 5 and 6 results suggest that the costs and benefits of government ownership are considered by target shareholders.

VIII. Ex-Post Performance Tests

Overall, results show that government investors associated with higher levels of political interference, specifically those from the political arms of government, have a negative influence on target shareholder wealth. The next natural question to ask is whether this short-term announcement reaction is indeed linked to weaker future performance, profitability, and efficiency in firms where more politically oriented investments occur, such as those by the political arms of the government. To address this question, I compare changes in measures of performance among targets of non-withdrawn deals by different government entities three years around the announcement of government investment.

Table 7 presents means and medians for various operating and financial performance measures before and after government investment by different arms of the government. Following Megginson and Netter (2001) I also present pre- and post-government investment differences, as well as differences for changes in performance between different government investor groups. Table 8 expands the analysis by presenting performance mean and median percentage differences between different government investors after adjusting for year, industry and nation effects, which help address unobserved heterogeneity as suggested by Gormley and Matsa (2014).[20] All variables are winsorized at 1% and 99% and natural logarithms are taken for non-ratio variables.

[Insert Table 7 about here]

Table 7 shows that targets of investment by the political arm of government have significantly lower post-investment performance as compared to targets of investment by industrial or financial arms of government. The table also presents performance measures' means and medians for pre- and post-government investment for firms targeted by political, industrial, and financial arms of government. Targets of investment by the political arms of government have significantly lower profitability and growth post investment. For example, profitability, as measured by ROE, declines from the mean (median) of 12% (13%) prior to government investment to 4% (6%) after government investment. Targets of investment by the political arms of government increase employment but the increase is not statistically different from that of firms targeted by government industrial or financial investors. However, the difference in efficiency is

[20] Additionally, changes in performance are evaluated over different timeframes, including the one- and five-years and also with different standard errors clustering in unreported regression. Results remain similar. Further, alternative specifications include the target announcement return on the right hand side and show a positive relation between the returns to announcements of investment by the political arms of government and the change in performance measures. While most coefficients for these announcement returns remain insignificant, the positive relation suggests that investors foresee changes in various measures of performance. These regressions are available upon request.

significant both in means and medians – firms with government political investors have significantly lower earnings and sales per employee as compared to firms with government industrial and political investors. While the efficiency of firms with government political investors drops, pay in these firms increases relative to pre-investment levels and also relative to pay changes in firms with government industrial and financial investors. Specifically, Table 7 shows that targets of investment by the political arms of government have 5% lower profitability, 15% lower growth, $39.59 lower earnings per employee, and $418.3 lower sales per employee, at the same time with pay being 4% more of sales, also significantly lower sales, investment, market value, size, and leverage as compared to targets of investment by the industrial arms of government. Similarly, targets of investment by the political arms of government significantly underperform targets of investment by the financial arms of government. However, the differences in performance between the industrial and financial arms of government are not generally significant. Table 7 provides evidence consistent with the view that politically motivated government investors pursue goals that diverge from shareholder wealth maximization. Yet the results in this table should be interpreted with caution as it provides simple means and medians and does not control for time, industry, or country factors.

In addition to simple differences presented in Table 7, Table 8 presents percentage differences and controls for time, industry, and country factors. Table 8 is formatted similar to Table 4; binary variables for political and financial government investors are included in the main regressions while the left-out group consists of industrial government investments. Accordingly, the coefficients for political and financial government investors measure the difference between the market reaction to investment by that arm of government and by the industrial arm.

[Insert Table 8 about here]

Table 8 provides further support to results presented in Table 7 and shows that firms targeted by government political arms exhibit significantly lower performance than those targeted by government industrial or financial arms. Across a range of categories involving profitability, growth, efficiency, sales, investment, market value, and size, firms subject to investment by the political arms of government perform significantly worse on average in the three years after the acquisitions as compared to three years prior to the acquisition than those subject to investment by financial--and even more so--industrial arms of government.

Specifically, firms targeted by the political arms of government have on average (median) over 100% (15%) lower profitability, over 200% (22%) lower efficiency as measured by earnings per employee, and 33% (17%) lower efficiency as measured by sales per employee, 5% (2%) lower sales, 7% (3%) lower investment, 5% (4%) lower market value, and are 2% (2%) smaller than firms targeted by the industrial arms of government, with all these differences being significant. Similar pattern are documented when comparing the performance of firms targeted by the political arms of government versus those targeted by the financial arms of government: the former have 93% (15%) lower profitability, 32% (17%) lower efficiency as measured by sales per employee, 4% (2%) lower sales, 3% (4%) lower market value and are 2% (2%) smaller. Several measures do not differ significantly when comparing the performance of firms targeted by the political arms of government to firm targeted by either industrial or financial arms of government - leverage, dividend yield, and liquidity.

Efficiency, measured as either by earnings or sales per employee is significantly lower for targets of investment by the political arms for government than for targets of investment by the financial or industrial arms of government, while employment does not significantly differ. Overall, Tables 7 and 8 suggest that firms subject to investment by the political arms of

government perform significantly worse post-investment than do firms targeted by either government industrial or financial investors.

IX. Robustness Checks

In this section, I examine the robustness of the reported results to alternative specifications. These alternatives include examining target reactions to government and non-government investment in Table 9, estimating models over periods of economic distress and outside of such periods in Table 10, and in Table 11 controlling for news leakage prior to the acquisition announcement, using various definitions of offer premium, controlling for Chinese investments and eventually withdrawn deals. Results involving these alternative specifications confirm the negative target reactions to the investment announcement by the political arms of government regardless of the time frame, additional variables, or ownership measures.

Table 9 examines target reactions to government acquisitions along with target reactions to non-government acquisitions.[21] The sample of non-government investments provides a useful benchmark against which target shareholder reactions can be gauged. I collect all completed investments and acquisitions in publicly traded firms by non-government acquirers from the SDC Platinum M&A database and gather the same set of variables, and over the same time-frame, as for the sample that involves government acquirers. Coefficients on the government dummies now measure the difference in target shareholder reactions to the announcement of investment by a certain government subgroup relative to non-government investment.

[Insert Table 9 about here]

[21] In unreported regressions I confirm that findings are robust to using propensity score matched firms. Further, I confirm the findings are robust to controlling for potential endogeneity in target selection in government cross-border and non-government private investment, as in Karolyi and Liao (2017).

Table 9 Model 1 examines target announcement reactions to investment by different government entities against a sub-sample of non-government institutional investments. While Models 2-4 use all non-government investments, not limited to institutional investors (regressions using only institutional investors are available on request and provide similar results). To allow for a better comparison deals where 100% ownership was achieved after the acquisition are excluded from the analysis but results are robust to their inclusion.

Models 1 and 2 show that, *ceteris paribus*, the target announcement reaction is 4.7%-5.8% lower for investments by the political arms of governments as compared to non-government investments. However, target announcement reactions to investments by the financial or industrial arms of government are not significantly different from those of non-government investments. As shown by Model 3, the lower reaction to investment from the political arms of government is specific to their domestic investments. This echoes results in Table 5 Model 2 and is consistent with the view that political government entities are more likely to pursue political goals in their domestic investments. Table 9 confirms significant differences among government investors and shows that, regardless of the sample, target announcement reactions are negative for government politically motivated investment.

In Table 10, target announcement reaction to investment by the political, industrial, and financial arms of government is examined during and outside of periods of financial distress and also on subsamples where bailouts are less likely. This examination is important, since the results might be specific to periods of economic distress, as Pastor and Veronesi (2012 and 2013) show that stock price reaction to government policy changes may be different in weak economic climates. Target firm shareholders may expect the negative or the beneficial effects associated with government ownership to occur only in periods of economic distress. For example, Faccio et al.

(2006) and Duchin and Sosyura (2012) show that politically connected firms are more likely to get bailouts in periods of distress. Also, Johnson and Mitton (2003) highlight that the Malaysian government altered certain regulations during the Asian financial crisis to benefit politically connected firms. In Table 10, Models 1 and 2 present results outside of and during the banking crises defined by Laeven and Valencia (2010); Models 3 and 4 for banking crises defined by Reinhart and Rogoff (2010); and Models 5 and 6 for the recent 2008-2010 financial crisis. In this sample, due to the inclusion of U.S. TARP investments, 30% of deals happen from 2008 to 2010, which raises the concern that results could be driven by bailouts. To address this concern, Model 7 estimation ends prior to 2008 accordingly excluding TARP bailouts.[22]

[Insert Table 10 about here]

The results in Table 10 echo the findings from prior tables. In all periods inside and outside of economy-wide financial distress, target stock price reaction is negative to the announcement of investment by the political arms of the government. To address concerns that bailouts are driving the results, Model 7 examines only the pre-2008 period. Additionally, all the investments by the political arm of government in Model 7 are manually checked to ensure that this group does not include additional bailouts. The finding of the more negative announcement reaction to the investment by the political arms of government remain. In general, the finding that government investment influences shareholder wealth, and that investors differentiate among different government investment entities based on their perceived level of political interference, is robust to the estimation of models during and outside of periods of financial distress.

[22] In unreported (but available upon request) regressions I also include a TARP control variable in the full sample and results remain similar with the announcement reaction to the investment by the political arms of government being significantly more negative.

Next, I verify that reported findings are not specific to certain subsamples and remain when other proxies for offer premium, government ownership, and inclusion of the possible pre-announcement share price changes are considered. Table 11 presents these results.

[Insert Table 11 about here]

Table 11 results corroborate the lower target shareholder reaction to the announcement of investment by the political arms of government in all specifications. Specifically, Model 1 shows that the announcement reaction to investment by the political arms of government is 3.1% lower than to that by the industrial arms of government, when using an alternative definition of government investment. Models 2 uses a different measure of offer premium and again confirms the lower reaction.[23] I show that this lower reaction is not due to certain deal types--Model 3 excludes subsequently withdrawn deals; Model 4 excludes 100% acquisitions; Model 5 controls for initial, not repeat, government investments; and Model 6 excludes Chinese acquisitions. Further, Models 7-8 confirm that the lower reaction to investments from the political arms of government remains after addressing concerns regarding news leakage prior to the event. Finally, Model 9 controls for the possible non-linear effects of government ownership, as Borisova and Megginson (2011) show a non-monotonic relationship between the size of the stake owned by governments and the cost of debt, by including the ownership squared term. Overall, Table 11 shows that the lower target announcement reaction to investments by the political arms of government is robust to a variety of specifications. These results are consistent with investors considering the different political intent of government investors.

[23] Model 2 uses price 4-weeks prior to the announcement to calculate premium. Similar regressions were performed using 1-week and 1-day prices to calculate the premium and the results are similar. Another specification, which could address the payment related concerns, besides the inclusion of various offer premium measures, would also control for acquirer announcement returns. As most government investors are not publicly traded, government investor announcement reactions can be calculated for 46 of 2,118 deals, but the returns are not significant and their inclusion does not alter results.

X. Conclusion

Despite common misperceptions, governments are a large and growing class of investors. To improve our understanding of government investors, I develop a taxonomy of government investor types and examine government domestic and cross-border secondary market purchases of equity in publicly traded companies and analyze the shareholder wealth effects surrounding announcements of government investment. I find that the average investor reaction to government investment is positive and shareholder wealth increases. However, investors differentiate their expectations of investment target value changes depending on the type of government investor.

Consistent with the predictions from the privatization literature, target shareholders react negatively to investment announcements by government entities most likely to pursue political motivations, and lose over USD 14 billion even when premium is offered. Negative wealth effects for investments from the political arms of government dominate in situations where political interference is more likely and when the implicit financial benefits of government ownership are less important. This is especially so for majority stake purchases, for domestic deals, for regulated industries, when investor legal institutions and property rights are weak, and when target firms have easier access to credit. Furthermore, post-investment performance, including efficiency, is significantly lower for firms subject to investment from government's political arms versus its industrial or financial arms.

This paper presents strong evidence that government investors are a heterogeneous group, and their impact on the target firm differs depending on the government investor type. The paper provides not only short-term, but also longer-term operational consequences of investment by different government entities. It also leaves many questions for future research on government investment, including rival and industry-wide spill-overs and overall welfare effects.

Appendix 1. Variable Definitions

Variable	Definition
Dependent Variable	
(-2,+2) MAR	Market adjusted abnormal 5 day (-2, +2) return, in which 0 is government investment announcement day
Government Investor Types	
Political Govt. Investor	Dummy=1 if the acquirer is a local government, a national government, or a government pension fund, and is likely to have political objectives
Financial Govt. Investor	Dummy=1 if the acquirer is a SWF, government owned bank, development bank, government real estate investor, supranational, or other financial government entity, and is likely to have financial objectives
Industrial Govt. Investor	Dummy=1 if the acquirer is an SOE, including energy, consumer, industrial, materials, media, and telecom-technology SOEs, and is likely to have economic objectives
Ownership Variables	
Govt. Prior Own (%)	Government percentage ownership, if any, before the investment
Govt. Acquired (%)	Percentage government investment into a target firm
Govt. Own (%)	Percentage government ownership after the investment into a target firm
Own (%)	Percentage ownership after the investment into a target firm
>50% Own.	Dummy=1 if the acquirer purchases 51% or more of a firm
Deal Variables	
Foreign Deal	Dummy=1 if the target and acquirer parent nations are not the same
Domestic Deal	Dummy=1 if the target and acquirer parent nations are the same
Premium Paid (0/1)	Dummy=1 if premium was paid for the target. Identified from the SDC database and Factiva news.
Gov.-to-Gov. Deal	Dummy=1 when a 'government' flagged entity is involved on the acquirer and target side. The acquirer side includes acquirers and acquirer parents; the target side includes targets and target parents.
Withdrawn Deal	Dummy=1 for eventually withdrawn deals
Cash Deal	Dummy=1 if 98% of the payment was in cash
Stock Deal	Dummy=1 if 98% of the payment was in stock
Mixed Deal	Dummy=1 if the deal was paid for with a mix of cash and stock or the payment was unknown
Capital Inflow	Dummy=1 if either new shares were issued for the investment or SDC deal synopsis specified an investment as a 'capital injection.'
Initial Investment	Dummy=1 for the first investment by the investment entity into the target firm
Firm Variables *(annual frequency)*	
Size	The natural logarithm of total assets (# 02999)
Leverage	(Total Assets - Book Value of Equity) / Total Assets (# 02999 and # 03501)
ROA	Net Income / Last Year's Total Asets (# 08326)
Tobin's Q	(Market Value + Total Assets - Book Value of Equity) / Total Assets (# 08001, # 02999 and # 03501)
Total Assets	Total assets of the firm (#02999).
Market Value	Market value of equity of the firm (MV). Shown in USD in descriptive statistics and as a natural logarithm elsewhere.
Liquidity	Cash over total assets (#08111)
Sales	The natural logarithm of sales (#01001)
Profitability	Return on equity (#08301)
Investment	The natural logarithm of capital expenditures (#04601)
Employment	The natural logarithm of employment (#07911). Descriptive statistics also presents the actual number of employees from #07911.
Efficiency 1 (NI/Emp.)	This operational efficiency measure is calculated as Net Income / Employment and sows earnings per employee (#01551 / #07911)

Efficiency 2 (Sales/ Emp.)	This operational efficiency measure is calculated as Sales / Employment and shows sales per employee (#01001 / #07911)
Pay	Pay / Sales (#01084 / #01001)
Dividend Yield	Dividend Yield (#09404)
Other Variables	
Last Year Performance	Target's buy-and-hold abnormal market adjusted return (-250, -26)
Two Months Run-up	target's buy-and-hold abnormal market adjusted return (-60, -7)
Regulated	Dummy=1 if an target firm's industry four digit SIC code is identified as regulated by Al-Ubaydli and McLaughlin (2014)
Banking Crises	Dummy=1 if the deal occurs during banking crises defined by Laeven and Valencia (2010)
2008 Crisis	Dummy=1 if deal occurs during the 2008-2009 financial crisis
TARP	Dummy=1 if deal was a part of TARP (Troubled Asset Repurchase Program) during the 2008-2009 financial crisis
Offer Premium 1	Percentage premium of offer price to target closing price 4 weeks prior to the announcement
Left Wing	Dummy=1 if the acquirer national government is left-winged. Data are obtained from the WorldBank Database of Political Institutions (updated 2017).
Common Law	Dummy=1 if the acquirer parent nation is common law (Djankov *et al*. 2003)
Other Variables: Institutional Environment *(indicator variables are created for all the institutional environment indexes listed below when their value is above their data sample mean and suggest better standard and rights)*	
Accounting Standards	Index created by La Porta *et al.* (1998) "…by examining and ranking companies' 1990 annual reports on their inclusion or omission of 90 items." Higher index values suggest better standards.
Antidirector Rights	Revised antidirector index created by Djankov *et al.* (2008) is the aggregate index of shareholder rights including voting and pre-emptive rights. Ranges 0 to 6, with higher scores for better rights.
Anti Self-Dealing	"Index of strength of minority shareholder protection against self-dealing by the controlling shareholder." The anti self-dealing index is an extension and improvement of the La Porta *et al.* (1998) antidirector rights index; obtained from Djankov *et al.* (2008). Ranges 0 to 1, with higher higher values for better rights.
Rule of Law	Index defined by La Porta *et al.* (1998) as the "assessment of the law and order tradition in the country produced by the country risk agency International Country Risk (ICR)." Collected from PRS group's ICR guide law and order index. Index range 0-10 with higher scores for better order.
Voice and Accountability	Index that "reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media." Ranges -2.5 to 2.5, with higher scores for stronger regulatory quality. Obtained from Worldwide Governance Indicators (WGI) project by Kaufmann et al. (2010), 2018 update..
Regulatory Quality	Index that "reflects perceptions of the ability of the government to formulate and implement sound policies." Ranges -2.5 to 2.5, with higher scores for stronger regulatory quality. Obtained from Worldwide Governance Indicators (WGI) project by Kaufmann et al. (2010), 2018 update.
Other Variables: Access to Credit *(indicator variables are created for all the access to credit indexes listed below when their value is above their data sample mean and suggest easier access to credit)*	
CAI	Capital Access Index (CAI) measures the ease of access to capital in a country based on fifty-six variables that reflects the development of a country's banking system, equity market, bond market, and the availability of alternative sources of financing. See Barth *et al*. (2010), Capital Access Index, 2009.
Pensions/GDP	Ratio of assets of pension funds to GDP. A pension fund is any plan, fund, or scheme that provides retirement income. From the World Bank Financial Development Database 2018 update; created by Cihák *et al.* (2012).
Bond Market Dev.	Bond market development is the index of the "importance of bond financing for businesses, based on variables such as the value of private and public bonds relative

	to GDP and securitized asset issuance." See Barth *et al*. (2010), Capital Access Index, 2009.
Bonds/GDP	Private domestic debt securities issued by financial institutions and corporations as a share of GDP. From the World Bank Financial Development and Structure Database 2018 update; for initial description see Beck *et al.* (2000).
Priv. Credit/GDP	Private credit by deposit money banks and other financial institutions to GDP. From the World Bank Financial Development and Structure Database 2018 update; for initial description see by Beck *et al.* (2000).
Priv. Credit/GDP in 1960	Private credit to GDP measures the "value of credits by deposit money and other financial institutions to the private sector divided by GDP. It excludes credit issues by the central bank, credit to the public sector, and cross-claims of one of the group of intermediaries to another." The data is from LaPorta *et al.* (2002) and is based on the initial level of financial development in 1960.
Soundness of Banks	This index accesses banks in terms of their "general health and sound balance sheets." The data is from LaPorta *et al.* (2002).

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Table 1. Descriptive Statistic of Government Purchases

The table summarizes 2118 government investments. The sample covers the 1987-2013 period and presents the number, value and respective proportion of government investments, as well as the number of investments by foreign, domestic, political, financial and economic government entities. Government investment is broken down by year buckets of transaction announcement in Panel A, by the percentage of government ownership in Panel B, by the target's 1-digit SIC in Panel C. Deal values are expressed in millions USD.

Panel A. Government Investment by Transaction Year (announced)

Years	Deal Count	Deal Value	Total Value (%)	Foreign (%)	Political	Financial	Industrial
1987-1993	224	21,680	2%	51%	31	101	92
1994-1998	258	59,262	6%	45%	21	135	102
1999-2003	380	57,529	6%	38%	33	152	195
2004-2008	624	381,495	41%	33%	132	230	262
2009-2013	632	414,334	44%	40%	105	261	266
Total	**2118**	**934,300**	**100%**	**39%**	**322**	**879**	**917**

Panel B. Government Investment by Percentage Ownership

Stake Acquired	Deal Count	Deal Value	Total Value (%)	Foreign (%)	Political	Financial	Industrial
No data	102	25,248	3%	26%	25	49	28
Withdrawn	152	128,081	14%	62%	2	43	107
<10%	741	151,005	16%	37%	182	339	220
10%-50%	818	232,297	25%	39%	94	340	384
>50%	305	397,669	43%	41%	19	108	178
Total	**2118**	**934,300**	**100%**	**39%**	**322**	**879**	**917**

Panel C. Government Investment by 1-digit SIC

SIC 1-digit code *	Deal Count	Deal Value	Total Value (%)	Foreign (%)	Political	Financial	Industrial
0	19	8,907	1%	26%	2	11	6
1	283	181,249	19%	71%	8	80	195
2	232	45,187	5%	34%	13	111	108
3	327	73,237	8%	29%	31	121	175
4	413	227,741	24%	44%	32	94	287
5	71	4,668	1%	34%	7	36	28
6	636	376,839	40%	30%	213	358	65
7	106	10,685	1%	42%	12	50	44
8	28	5,634	1%	39%	3	18	7
9	3	154	0%	33%	1	0	2
Total	**2118**	**934,300**	**100%**	**39%**	**322**	**879**	**917**

*0-Agriculture, forestry, and fishing; 1-Mining, construction; 2-Manufacturing (food, fabric, wood, chemical); 3-Manufacturing (rubber, plastic, glass, metal; boat, rail, air equipment); 4-Transport, communications, electric, gas, and sanitary; 5-Trade (wholesale, retail); 6-Finance, insurance, and real estate; 7-Services (hotel, beauty, funeral, computer, car, movie); 8-Services (doctors, legal, acct., schools, religious); 9-Public Admin.

Table 2. Descriptive Statistics

This table presents descriptive statistics for variables used in the evaluation of government investment. Variables are defined in Appendix 1. Panel A describes continuous variables and provides the number of observation, mean, standard deviation, median, and 25th and 75th percentiles. Panel B shows target firms' performance prior to the investment by presenting buy-and-hold returns using country specific market indices. Panel C presents differences in target continuous variables for different government investing entities and standard errors are clustered at the target country level. The sample consists of 2,118 government investments in publically traded firm form 1987 through 2013. Variables are winsorized at the top and bottom 1%.

Panel A. Continuous variables

	Count	Mean	Std. Dev.	Median	25%	75%
Government Variables						
Govt. Prior Own (%)	2,107	0.09	19.49	0.00	0.00	0.05
Govt. Acquired (%)	1,983	0.27	28.79	0.15	0.07	0.34
Govt. Own (%)	1,992	0.33	32.57	0.20	0.08	0.52
Firm Variables						
Total Assets	1,874	28,826	215,202	758	171	3,747
Size	1,874	13.74	2.436	13.76	12.06	15.26
Leverage	1,874	0.62	0.28	0.64	0.42	0.86
ROA	1,777	0.01	0.16	0.03	0.00	0.07
Growth (Tobin's Q)	1,817	1.60	1.43	1.14	0.99	1.62
Market Value	2,112	40,462	538,841	950	173	4,246
Liquidity	1,366	0.14	0.16	0.09	0.03	0.19
Offer Premium 1	881	11.86	45.69	7.25	-7.14	25.81
Employment	1,507	10,455	33,176	1,702	376	6,652

Panel B. Pre-Announcement Performance – Buy-and-Hold Returns (6 and 12 months back)

	N	Positive : Negative	Mean Excess Return	Patell Z p-value	Median Excess Return	Signed Rank p-value
BHAR (-150,-26)	2,046	1040:1006	7.8%	<.0001	0.7%	0.035
BHAR (-250,-26)	1,989	956:1033	15.2%	<.0001	-1.5%	0.682

Panel C. Continuous Variables for Targets of Investment by Different Government Entities

	Pol. Mean	Fin. Mean	Ind. Mean	Pol.-Fin. p-value	Pol.-Ind. p-value	Ind.-Fin. p-value
Size	13.2	14.01	13.67	(0.19)	(0.43)	(0.11)
Leverage	0.8	0.62	0.55	(0.14)	(0.46)	(0.32)
ROA	1.6	0.91	0.000	(0.66)	(0.40)	(0.40)
Growth (Tobin's Q)	1.24	1.56	1.76	(0.07)	(0.07)	(0.38)
Market Value	20,605	39,256	48,603	(0.47)	(0.33)	(0.32)
Liquidity	0.12	0.15	0.15	(0.12)	(0.26)	(0.77)
Offer Premium 1	8.51	4.4	18.69	(0.55)	(0.31)	(0.00)
Employment	17,659	10,371	7,453	(0.27)	(0.06)	(0.12)

Table 3. Event Study Results for Government Acquisitions

This table presents target stock price changes at the announcement of government investment. Variables are defined in Appendix 1. Market adjusted target returns are calculated as the difference between the firm's total return index and the corresponding local country specific total return index, as defined by Datastream. For market model returns parameters are estimated over days (-230,-30). Day 0 is the day of the announcement. Firms with a minimum of 100 daily returns are included in the study. Panel A (B) presents market adjusted (market model) returns for the (-2,+2) window; Panel C shows market adjusted returns for the (-5,+5) window; Mean and median returns are presented. *** denotes significance at the 1% level, ** at the 5% level and * at the 10% level.

Panel A. Market Adjusted Results for the (-2,+2) window				
	All	Pol.	Fin.	Ind.
N	2,118	322	879	917
Mean CAR	0.0438***	-0.0181***	0.0305***	0.0783***
Mean CAR difference		Pol.-Fin.	Pol.-Ind.	Ind.-Fin.
		-0.049***	-0.096***	0.048***
Median CAR	0.0122***	-0.0062**	0.0097***	0.0222***
% Negative	41%	53%	42%	36%
25% CAR	-0.0233	-0.0581	-0.0249	-0.0140
75% CAR	0.0771	0.0424	0.0560	0.1174
Overall market value change of target ($ bln.)	$50.91	$-14.11	$23.58	$41.43
Mean CAR for privately negotiated deals	0.0257***	-0.0099**	0.017***	0.0550***
Mean CAR for all other, non-privately negotiated deals	0.0719***	-0.0293***	0.0540***	0.1048***
Average Offer Premium 1 (%)	11.86	8.51	4.40	18.69
Offer Premium 1 (N)	881	187	288	406
Mean CAR for premium offers (excluding TARP)	0.0946***	0.0046 0.0216	0.0974***	0.1310***
% Negative for premium offers	29%	48%	25%	23%
Mean CAR for non-premium offers (excluding TARP)	0.0271***	-0.0296*** -0.0267***	0.0156***	0.0577***
% Negative for non-premium offers	45%	56%	47%	40%
Panel B. Market Model Results for the (-2,+2) window				
Mean CAR	0.0466***	-0.0154***	0.0325***	0.0819***
Mean CAR difference		Pol-Fin.	Pol.-Ind.	Ind.-Fin.
		-0.048***	-0.097***	0.049***
Median CAR	0.0152***	-0.0036	0.0115***	0.0269***
% Negative	41%	52%	41%	34%
Panel C. Market Adjusted Results for the (-5,+5) window				
Mean CAR	0.046***	-0.0127***	0.0321***	0.0799***
Mean CAR difference		Pol.-Fin.	Pol.-Ind.	Ind.-Fin.
		-0.045***	-0.034***	0.048***
Median CAR	0.0137***	-0.096**	0.0104***	0.0277***
% Negative	43%	56%	45%	37%

Table 4. Target Stock Price Reaction to Investment by Different Types of Government Investor

The dependent variable is the market adjusted target cumulative abnormal 5 day (-2, +2) return. Variables are defined in Appendix 1. Models 1 and 2 include all deals Model 2 performs simultaneously unrelated equations (SUR). Model 3 (4) includes deals with majority (minority) ownership after the deal of above (below) 50%. Model 5 (6) includes foreign (domestic) government investments. Model 7 (8) includes deals in less regulated (more regulated) industries. The regression parameters are estimated via OLS (Ordinary Least Squares). Year, SIC, and target and acquirer nation fixed effects are included in all models. Standard errors are heteroskedasticity-robust and clustered at the year and target nation level. Coefficients are listed with t-statistics underneath in parentheses. *** denotes significance at the 1% level, ** at the 5% level, and * at the 10% level.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		SUR	Above 50%	Below 50%	Foreign	Domestic	Less Regulated	Regulated
Political Gov. Investor	-0.034**	-0.031*	-0.089***	-0.023*	-0.045	-0.032**	-0.022	-0.16***
	(-1.99)	(-1.75)	(-2.77)	(-1.73)	(-1.09)	(-1.98)	(-1.22)	(-2.79)
Financial Gov. Investor	-0.0049	0.005	-0.0028	-0.0098	-0.025*	0.0046	-0.012**	0.026
	(-1.27)	(0.58)	(-0.16)	(-1.43)	(-1.66)	(0.50)	(-2.03)	(0.73)
Industrial Gov. Investor		0.013*						
		(1.84)						
Gov. Own. (%)	0.0009***		0.00085	0.00044*	0.0010**	0.00070*	0.00073*	0.0014**
	(4.34)		(1.51)	(1.75)	(4.16)	(3.56)	(3.90)	(5.73)
Foreign Deal	0.040***		-0.0085	0.034			0.039***	0.025
	(4.68)		(-0.17)	(1.19)			(4.28)	(0.79)
Premium Paid (0/1)	0.042***		0.078***	0.025**	0.053***	0.035***	0.040***	0.049***
	(5.23)		(4.33)	(2.47)	(5.98)	(3.24)	(5.58)	(3.64)
Gov.-to-Gov. Deal	0.020		-0.00072	0.026	-0.066	0.034	0.037**	0.013
	(1.47)		(-0.022)	(1.27)	(-1.37)	(1.44)	(2.52)	(0.17)
Withdrawn Deal	0.039*		-0.015	0.053**	0.075***	-0.0043	0.045*	0.031
	(1.89)		(-0.68)	(2.51)	(3.15)	(-0.22)	(1.72)	(1.40)
Last Year Performance	-0.0097		-0.0065	-0.011*	-0.020*	-0.00019	-0.0046	-0.034**
	(-1.14)		(-0.35)	(-1.79)	(-1.92)	(-0.022)	(-0.52)	(-2.00)
Cash Deal	0.010***		-0.016	0.0070	0.011	0.0077	0.0090	-0.0036
	(9.40)		(-1.25)	(1.06)	(1.25)	(0.97)	(1.54)	(-0.16)
Stock Deal	-0.045		-0.060	-0.042**	-0.056	-0.024	-0.042	-0.10
	(-1.33)		(-1.30)	(-2.18)	(-1.39)	(-0.61)	(-1.11)	(-1.64)
Banking Crisis	-0.015		-0.070*	-0.0071	0.010	-0.030	-0.014	-0.040
	(-1.19)		(-1.82)	(-0.44)	(0.57)	(-1.62)	(-1.30)	(-1.12)
Capital Inflow	-0.055**		-0.085*	0.0093	0.011	-0.066**	-0.045*	-0.17*
	(-2.21)		(-1.80)	(0.27)	(0.23)	(-2.47)	(-1.78)	(-1.91)
Size	-0.007***		-0.0060	-0.0076**	-0.010**	-0.005***	-0.007***	-0.0011
	(-3.10)		(-1.08)	(-2.19)	(-1.99)	(-3.37)	(-2.88)	(-0.29)
Leverage	-0.015		0.014	-0.021	-0.0076	-0.011	-0.020	-0.023
	(-0.96)		(0.48)	(-0.86)	(-0.35)	(-0.50)	(-0.96)	(-0.66)
ROA	-0.00027		-0.00062	-0.00041	-4.2e-06	-0.00049	-0.00046	0.00031
	(-0.66)		(-0.60)	(-0.86)	(-0.0087)	(-1.45)	(-0.98)	(1.26)
Tobin's Q	-0.008**		-0.017*	-0.0068*	-0.0076*	-0.008***	-0.009***	-0.0061
	(-2.56)		(-1.81)	(-1.86)	(-1.79)	(-3.51)	(-2.60)	(-1.31)
Constant	-0.22***		-0.038	-0.13*	-0.17**	0.091***	-0.21***	-0.028
	(-4.92)		(-0.46)	(-1.93)	(-2.43)	(2.86)	(-4.44)	(-0.70)
Pol.- Fin	-0.029**		-0.086**	-0.013	-0.019	-0.037***	-0.010	-0.181***
Pol.= Fin.p-value	0.035	0.072	0.027	0.349	0.635	0.003	0.432	0.001
Pol.=Ind. p-value		0.034						
Fin.=Ind p-value		0.516						
Observations	1,556	1.556	400	1,156	618	938	1,323	233
R-squared	0.237		0.432	0.205	0.336	0.179	0.226	0.577

Table 5. Institutional Determinants of Target Stock Price Reaction to Government Investment

The dependent variable is the market adjusted target cumulative abnormal 5 day (-2, +2) return. Variables are defined in Appendix 1 and *Other Control Variables* are the same as those in Tables 4 but are unreported for brevity. In place of country fixed effects, institutional variables for investors are introduced one at a time: (1) left wing government; (2) common law legal origin; (3) accounting standards; (4) antidirector rights; (5) anti self-dealing; (6) rule of law; (7) voice and accountability; (8) regulatory quality. The regression parameters are estimated via OLS (Ordinary Least Squares). Year and SIC fixed effects are included in all models. Standard errors are heteroskedasticity-robust and clustered at the year and target nation level. Coefficients are listed with t-statistics underneath in parentheses. *** denotes significance at the 1% level, ** at the 5% level, and * at the 10% level.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Political Gov. Investor (P)	-0.021*	-0.041***	-0.13***	-0.077***	-0.044**	-0.056*	-0.026***	-0.099*
	(-1.72)	(-3.45)	(-4.72)	(-5.47)	(-2.56)	(-1.77)	(-2.01)	(-1.87)
*P * Left Wing*	-0.071***							
	(-4.10)							
*P * Common Law*		-0.0030						
		(-0.13)						
*P * Accounting Standards*			0.089**					
			(2.55)					
*P * Antidirector Rights*				0.058*				
				(1.82)				
*P * Anti self-dealing*					-0.006			
					(-0.28)			
*P * Rule of Law*						0.012		
						(0.37)		
*P * Voice & Accountability*							-0.033	
							(-1.48)	
*P * Regulatory Quality*								0.050
								(0.82)
Index	0.004	-0.023	0.025	-0.005	-0.004	-0.007	0.006	0.003
	(0.93)	(-2.08)	(1.36)	(-0.49)	(-0.29)	(-0.35)	(0.45)	(0.26)
Financial Gov. Investor	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Financial Gov. Investor Interactions	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Other Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,541	1,397	935	1,435	1,435	1,553	1,366	1,366
R-squared	0.207	0.213	0.252	0.198	0.195	0.195	0.209	0.209

Table 6. Access to Credit and Target Stock Price Reaction to Government Investment

The dependent variable is the market adjusted target cumulative abnormal 5 day (-2, +2) return. Variables are defined in Appendix 1 and Other Control Variables are the same as those in Tables 4 but are unreported for brevity. In place of country fixed effects, access to credit variables for targets of the investment are introduced one at a time. Models 1-2 use proxies for general access to credit and development, specifically (1) Capital Access Index (CAI) and (2) pensions/GDP. Models 3-4 use proxies for bond market development: (3) bond market development and (4) bonds/GDP. Models 5-7 use proxies for private credit and banking system development: (5) private credit/GDP; (6) private credit/GDP in 1960; and (7) soundness of banks. The regression parameters are estimated via OLS (Ordinary Least Squares). Year and SIC fixed effects are included in all models. Standard errors are heteroskedasticity-robust and clustered at the year and target nation level. Coefficients are listed with t-statistics underneath in parentheses. *** denotes significance at the 1% level, ** at the 5% level, and * at the 10% level.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Political Gov. Investor (P)	0.026	-0.0048	0.00042	-0.021	0.017	-0.016	-0.014
	(0.97)	(-0.22)	(0.017)	(-1.05)	(0.59)	(-1.02)	(-0.64)
*P * CAI*	-0.073***						
	(-3.23)						
*P * Pension/GDP*		-0.092***					
		(-2.76)					
*P * Bond Mkt. Dev.*			-0.047**				
			(-2.16)				
*P * Bonds/GDP*				-0.040*			
				(-1.66)			
*P * Priv. Credit/GDP*					-0.075**		
					(-2.06)		
*P * Priv. Credit/GDP 1960*						-0.044*	
						(-1.82)	
*P * Soundness of Banks*							-0.056*
							(-1.82)
Index	0.069***	0.052***	0.085***	0.0049	0.044***	0.018	0.020
	(3.27)	(2.93)	(3.99)	(0.48)	(5.83)	(1.49)	(1.48)
Financial Gov. Investor	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Financial Gov. Investor Interactions	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Other Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,551	1,199	1,551	1,436	1,509	1,554	1,529
R-squared	0.196	0.234	0.197	0.202	0.229	0.197	0.205

Table 7. Firm Performance Before and After Government Investment for Different Types of Government Investors

This table presents operating performance measures for target of government investment 3 years before and 3 years after government investment. Variables are defined in Appendix 1. Means (and medians below in parenthesis) and their differences are provided. *** denotes significance at the 1% level, ** at the 5% level, and * at the 10% level for the mean difference test and Wilcoxon rank sum test for median differences.

Panel A.	*Political (P) Gov. Investor*			*Industrial (I) Gov. Investor*			*Financial (F) Gov. Investor*			*ALL*			P-I	P-F	F-I
Means	Pre	Post	Diff.	Pre	Post	Diff.	Pre	Post	Diff.	Pre	Post	Diff.	Diff.	Diff.	Diff.
Profitability	0.12	0.04	-0.08***	0.06	0.04	-0.02**	0.08	0.05	-0.04***	0.08	0.05	-0.04***	-0.05***	-0.04***	-0.02
Growth	1.31	1.16	-0.15*	1.59	1.60	0.01	1.66	1.44	-0.22**	1.56	1.44	-0.12**	-0.15**	0.07	-0.23**
Employment	7.25	7.42	0.17	7.60	7.84	0.24*	7.68	7.88	0.2	7.55	7.76	0.21**	-0.08	-0.03	-0.05
Efficiency1	66.13	51.49	-14.64	63.50	88.45	24.95**	110.56	147.71	37.14**	82.85	103.49	20.64***	-39.59***	-51.79***	12.19
Efficiency2	630.3	764.3	133.9	1,103.4	1,655.6	552.21***	1,355.9	2,055.1	699.18***	1,093.8	1,607.3	513.5***	-418.3***	-565.3***	147.0
Pay	0.20	0.25	0.05***	0.16	0.16	0.00	0.15	0.16	0.02**	0.17	0.19	0.02***	0.04***	0.03***	0.01*
Sales	13.23	13.50	0.28	13.16	14.00	0.83***	13.76	14.43	0.67***	13.42	14.08	0.66***	-0.56***	-0.39***	-0.16
Investment	9.85	9.61	-0.24	10.81	11.48	0.67***	11.04	11.37	0.33	10.71	11.06	0.35**	-0.91***	-0.56***	-0.35**
Market Val.	13.67	13.30	-0.37	13.79	14.48	0.70***	14.51	14.92	0.41**	14.06	14.41	0.35***	-1.06***	-0.78***	-0.29***
Size	15.10	15.54	0.44*	14.24	14.97	0.74***	15.05	15.76	0.72***	14.73	15.40	0.67***	-0.29***	-0.27***	-0.02
Leverage	0.20	0.19	-0.01	0.25	0.28	0.03**	0.26	0.28	0.02*	0.24	0.26	0.02**	-0.04***	-0.03**	-0.01
Div. Yield	0.02	0.02	-0.01***	0.02	0.02	0.00	0.02	0.02	0.00	0.02	0.02	0.00**	0.00**	0.00	0.00
Liquidity	0.29	0.29	0.00	0.37	0.37	0.00	0.33	0.34	0.02	0.34	0.35	0.01	0.00	-0.01	0.02
Panel B. Medians.															
Profitability	0.13	0.06	-0.07***	0.07	0.07	-0.01	0.09	0.08	-0.01***	0.10	0.07	-0.03***	-0.06***	-0.05***	0.00
Growth	1.08	1.00	-0.09***	1.23	1.23	0.00	1.22	1.10	-0.13***	1.16	1.08	-0.07***	-0.09***	0.04	-0.13***
Employment	6.67	6.93	0.26*	7.76	7.99	0.23*	7.74	7.98	0.24*	7.60	7.82	0.22**	0.02	0.02	0.01
Efficiency1	31.20	17.63	-13.57***	17.54	24.54	7.00	18.68	25.85	7.17	25.15	23.74	-1.41	-20.57***	0.02	0.01
Efficiency2	245.0	245.8	0.83	477.4	774.5	297.1***	383.48	690.62	307.14***	346.0	512.3	166.3***	-296.2***	-306.3***	10.1**
Pay	0.22	0.27	0.06***	0.13	0.13	-0.00**	0.12	0.14	0.02**	0.15	0.17	0.02***	0.06***	0.04***	0.02**
Sales	12.41	12.82	0.41	13.88	14.53	0.64***	14.11	14.60	0.49***	13.84	14.38	0.54***	-0.23***	-0.08***	-0.15
Investment	9.21	9.21	0.00	11.35	11.81	0.45***	11.24	11.55	0.32	10.89	11.31	0.42**	-0.45***	-0.32***	-0.14
Market Val.	13.01	12.95	-0.06	14.06	14.78	0.72***	14.32	14.96	0.64***	14.01	14.58	0.57***	-0.78***	-0.7***	-0.08***
Size	14.42	14.84	0.42	14.46	15.09	0.64***	14.88	15.51	0.64***	14.58	15.25	0.67***	-0.22***	-0.22***	0.00
Leverage	0.15	0.13	-0.02**	0.22	0.25	0.03	0.23	0.26	0.03	0.20	0.23	0.03**	-0.05***	-0.05***	-0.01
Div.Yield	0.02	0.01	-0.01***	0.01	0.01	0.00	0.01	0.01	0.00	0.01	0.01	0.01***	0.00	-0.01	0.00
Liquidity	0.20	0.22	0.01	0.28	0.31	0.03	0.26	0.29	0.03	0.26	0.29	0.03	0.00	-0.02	0.01

Table 8. Firm Performance Percentage Differences for Different Types of Government Investor

This tables examines changes in operating performance for targets of government investment. Variables are defined in Appendix 1. The table shows percentage differences by comparing accounting operating and financial performance and efficiency in 3 years after the investments to those 3 years prior to investment. In Panel A, the regression parameters are estimated via OLS (Ordinary Least Squares). In Panel B, quantile median regression are used. Year, SIC, and nation fixed effects are included in all models. Standard errors are heteroskedasticity-robust. Coefficients are listed with t-statistics underneath in parentheses. *** denotes significance at the 1% level, ** at the 5% level, and * at the 10% level.

Panel A. Mean percentage differences

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	%ΔProf-itability	*%Δ Growth*	*%Δ Emp.*	*%ΔEffi-ciency1*	*%ΔEffi-ciency2*	*%Δ Pay*	*%Δ Sales*	*%ΔIn-vestment*	*%ΔMkt. Val.*	*%Δ Size*	*%Δ Lev.*	*%ΔDiv. Yield*	*%ΔLiq-uidity*
Political Gov. Investor	-1.07**	-0.13*	-0.01	-2.13*	-0.33***	0.03	-0.05***	-0.07**	-0.05***	-0.02**	-1.40	-0.05	-0.17
	(-2.30)	(-1.79)	(-1.46)	(-1.74)	(-3.96)	(0.67)	(-4.13)	(-2.13)	(-5.28)	(-2.08)	(-1.42)	(-0.17)	(-0.21)
Financial Gov. Investor	-0.13	-0.14***	0.00	-0.96	-0.01	-0.02	-0.01	-0.04*	-0.02***	0.00	-0.24	0.34	-0.18
	(-0.32)	(-2.69)	(-0.45)	(-1.21)	(-0.090)	(-0.54)	(-0.49)	(-1.79)	(-3.10)	(-0.36)	(-0.42)	(1.13)	(-0.45)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Nation FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pol.-Fin.	-0.93*	0.00	-0.01	-1.17	-0.32***	0.05	-0.04***	-0.03	-0.03***	-0.02**	-1.16	-0.4	0.01
Pol.=Fin. p-val.	(-1.91)	(0.01)	(-1.23)	(-0.99)	(-5.48)	-1.26	(-4.20)	(-1.11)	(-4.24)	(-2.04)	(-1.50)	(-1.24)	-0.02
Observations	1105	1097	927	922	921	692	1238	1163	1097	1267	1147	707	916
R-squared	0.03	0.11	0.05	0.04	0.16	0.17	0.07	0.07	0.22	0.11	0.04	0.08	0.04
Panel B. Median percentage differences													
Political Gov. Investor	-0.15*	0.00	0.00	-0.22*	-0.17*	0.08	-0.02***	-0.03**	-0.04***	-0.02***	-0.07	0.03	-0.02
	(-1.64)	(0.10)	(0.99)	(-1.64)	(-1.90)	(1.50)	(-5.36)	(-2.44)	(-7.64)	(-4.50)	(-1.32)	(0.20)	(-0.25)
Financial Gov. Investor	-0.14*	-0.08***	0.01	-0.31***	-0.04	0.01	0.00	-0.01	-0.028***	0.00	0.15***	0.19***	0.11***
	(-1.68)	(-3.66)	(1.02)	(-2.68)	(-0.59)	-0.17	(-0.77)	(-0.93)	(-5.41)	(-0.71)	(3.38)	(2.65)	(2.61)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Nation FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pol.-Fin.	-0.15*	0.00	0.00	-0.22*	-0.17*	0.08	-0.02***	-0.03**	-0.04***	-0.02***	-0.07	0.03	-0.02
Pol.=Fin. p-val.	(-1.64)	(0.10)	(0.99)	(-1.64)	(-1.90)	(1.50)	(-5.36)	(-2.44)	(-7.64)	(-4.50)	(-1.32)	(0.20)	(-0.25)
Observations	1105	1097	927	922	921	692	1238	1163	1097	1267	1147	707	916

Table 9. Robustness Checks for Target Stock Price Reaction to Government and Non-Government Investment Announcements

The dependent variable is the market adjusted target cumulative abnormal 5 day (-2, +2) return. The independent variables are defined in Appendix 1. Model 1 examines government investments and non-government investments by institutional investors. Models 2-4 examine government and non-government investments. Model 3(4) examines foreign (domestic) investments. Regression parameters are estimated via OLS (Ordinary Least Squares). Year, SIC, and target and acquirer nation fixed effects are included in all models. Standard errors are heteroskedasticity-robust and clustered at the year and target nation level. Coefficients are listed below with t-statistics underneath in parentheses. *** denotes significance at the 1% level, ** at the 5% level and * at the 10% level.

	(1)	(2)	(3) Foreign	(4) Domestic
Political Gov. Investor	-0.047***	-0.058***	-0.021	-0.061***
	(-3.93)	(-4.10)	(-0.38)	(-4.96)
Financial Gov. Investor	-0.0035	-0.0091**	-0.0062	-0.0085
	(-0.82)	(-2.05)	(-0.38)	(-1.38)
Industrial Gov. Investor	0.0014	-0.0029	0.0044	-0.0066
	(0.16)	(-0.41)	(0.22)	(-1.41)
Own. (%)	0.001***	0.001***	0.001***	0.0001***
	(6.63)	(6.84)	(5.43)	(6.09)
Foreign Deal	-0.019	0.020		
	(-1.40)	(1.04)		
Premium Paid (0/1)	0.040***	0.047***	0.052***	0.044***
	(4.10)	(5.76)	(5.03)	(5.08)
Gov.-to-Gov. Deal	0.018	0.023	-0.031	0.031
	(0.93)	(1.36)	(-0.58)	(1.38)
Withdrawn Deal	0.047**	0.042**	0.071	0.0046
	(2.49)	(2.19)	(1.46)	(0.28)
Last Year Performance	-0.016***	-0.015***	-0.011*	-0.018***
	(-4.29)	(-4.64)	(-1.94)	(-4.42)
Cash Deal	-0.011**	-0.0015	0.0045	-0.0054
	(-2.42)	(-0.52)	(0.70)	(-1.59)
Stock Deal	-0.052**	-0.014	-0.022	-0.0093
	(-2.56)	(-1.00)	(-0.49)	(-0.65)
Banking Crisis	0.0023	0.0064*	0.015	0.0013
	(0.25)	(1.70)	(1.11)	(0.36)
Capital Inflow	-0.027	-0.030***	0.0014	-0.045**
	(-1.22)	(-16.0)	(0.027)	(-2.30)
Size	-0.0078***	-0.0067***	-0.0090***	-0.0053***
	(-6.33)	(-6.69)	(-3.40)	(-5.06)
Leverage	0.015*	0.0093	0.021	0.0029
	(1.75)	(1.46)	(1.26)	(0.75)
ROA	-0.00029	-0.0003***	-0.00019	-0.00035**
	(-1.59)	(-2.60)	(-1.46)	(-2.02)
Tobin's Q	-0.0062***	-0.0037***	-0.0052***	-0.0029
	(-3.98)	(-3.24)	(-3.08)	(-1.62)
Constant	0.063	-0.047**	-0.022	0.086***
	(1.29)	(-1.98)	(-0.24)	(4.54)
Observations	5,891	12,813	4,264	8,549
R-squared	0.114	0.105	0.143	0.089

Table 10. Robustness Checks for Target Stock Price Reaction to Investment by Different Types of Government In and Out of Crises.

The dependent variable is the market adjusted target cumulative abnormal 5 day (-2, +2) return. The independent variables are described in Appendix 1 and *Other Control Variables* are the same as those in Tables 4 but are unreported for brevity. Models 1, 3, 5 and 7 estimate outside of crises; Models 2, 4, and 6 during crises. Models 1, 2 examine banking crises according to Laeven and Valencia (2010); Models 3, 4 examine banking crises according to Reinhart and Rogoff (2010); Models 5, 6 examine the 2008-2009 financial crisis. Model 7 examines the period prior to 2008. The regression parameters are estimated via OLS (Ordinary Least Squares). Year, SIC, and target and acquirer nation fixed effects are included in all models. Standard errors are heteroskedasticity-robust and clustered at the year and target nation level. Coefficients are listed below with t-statistics underneath in parentheses. *** denotes significance at the 1% level, ** at the 5% level, and * at the 10% level

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Outside LV Bank Crises	LV Bank Crises	Outside RR Bank Crises	RR Bank Crises	Outside 2008-2009	2008-2009	Before 2008
Political Gov. Investor	-0.039***	-0.13*	-0.039***	-0.21***	-0.047***	-0.040*	-0.040**
	(-3.18)	(-1.68)	(-3.64)	(-5.02)	(-3.66)	(-1.80)	(-2.04)
Financial Gov. Investor	-0.0046	-0.046	-0.0021	0.13**	-0.017***	0.015*	-0.014*
	(-0.94)	(-1.30)	(-0.30)	(2.27)	(-24.2)	(1.80)	(-1.85)
Other Control Vars.	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pol. – Fin.	-0.034***	-0.080	-0.037***	-0.34***	-0.029***	-0.056***	-0.028
Pol.= Fin. p-value	0.0003	0.340	0.000	0.0003	0.009	0.001	0.110
Observations	1,202	181	1,112	181	1,044	401	817
R-squared	0.248	0.486	0.257	0.574	0.245	0.249	0.283

Table 11. Robustness Checks for Target Stock Price Reaction to Investment by Different Types of Government.

The dependent variable is the market adjusted target cumulative abnormal 5 day (-2, +2) return. The independent variables are described in Appendix 1 and are the same as those in Tables 4 but are unreported for brevity. Model 1 uses Govt. Acquired (%) and Govt. Prior Own (%) instead of Govt. Own (%) and Models 2 uses a different measures of offer premium. Model 5 excludes withdrawn deals, and Model 6 excludes 100% acquisitions. Model 7 adds initial government investment as a control. Model 8 controls for TARP government investments. Model 9 excludes Chinese acquisitions. Model 10 controls for two month run-up in target stock. Model 11 uses the two month stock run-up as the dependent variable. Model 12 controls for non-linear effects of government ownership. The regression parameters are estimated via OLS (Ordinary Least Squares). Year, SIC, and target and acquirer nation fixed effects are included in all models indicated. Standard errors are heteroskedasticity-robust and clustered at the year and target nation level. Coefficients are listed below with t-statistics underneath in parentheses. *** denotes significance at the 1% level, ** at the 5% level, and * at the 10% level.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	% Acquired	Premium 1	No Withdrawn	No 100% Deals	Initial Deal Control	No China	2 Months Run-up	2 Months Run-up Dependent	Ownership Squared
Political Gov. Investor	-0.031*	-0.070***	-0.031*	-0.022*	-0.033*	-0.031*	-0.033*	-0.065*	-0.033*
	(-1.81)	(-4.27)	(-1.79)	(-1.94)	(-1.93)	(-1.87)	(-1.94)	(-1.79)	(-1.95)
Financial Gov. Investor	-0.0058	-0.0071	-0.0015	-0.0051	-0.0051	-0.0058	-0.0047	-0.014	-0.0066
	(-1.32)	(-0.89)	(-0.23)	(-1.45)	(-1.37)	(-1.26)	(-1.30)	(-0.72)	(-1.39)
Premium Paid (0/1)	0.040***		0.040***	0.032***	0.042***	0.046***	0.042***	-0.0066	0.040***
	(5.54)		(5.17)	(4.28)	(5.16)	(5.62)	(5.39)	(-0.36)	(4.88)
Govt. Acquired (%)	0.0011***								
	(4.84)								
Govt. Prior Own (%)	0.00047***								
	(3.02)								
Offer Premium 1		0.0010***							
		(5.08)							
Initial Investment					0.019**				
					(2.41)				
Two Month Run-up							0.019		
							(1.37)		
TARP									
Gov. Own.(%)^2									0.000011*
									(1.88)
Gov. Own. (%)		0.0010***	0.00091***	0.00060***	0.00094***	0.00093***	0.00085***	0.00028	-0.00019
		(5.76)	(4.45)	(3.61)	(4.36)	(3.90)	(4.35)	(0.87)	(-0.36)
Other Control Var.		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pol. – Fin.	-0.025*	-0.063***	-0.030**	-0.017**	-0.028**	-0.026*	-0.028**	-0.050	-0.027
Pol.= Fin. p-value	0.0680	0.0004	0.0210	0.0430	0.0440	0.0530	0.0410	0.2700	0.2700
Observations	1,549	732	1,459	1,456	1,556	1,169	1,556	1,556	1,556
R-squared	0.246	0.381	0.230	0.194	0.241	0.265	0.239	0.198	0.240

For Online Publication. Appendix 1: Government Investments by Country

The table summarizes 2118 government investments. The sample covers the 1987-2013 period and presents the number, value and respective proportion of government investments, as well as the number of investments by foreign, domestic, political, financial and economic government entities. Government investment is broken down b by country of the target in Panel A, by country of acquirer in Panel B. Deal Value is expressed in millions of USD.

Rank	Target Nation	Deal Count	Deal Value	Total Value (%)	Foreign (%)	Pol.	Fin.	Ind.
Panel A. Government Investment by Target Nation (top 15 by value)								
1	United Kingdom	68	200,809	21%	88%	13	25	30
2	United States	253	94,935	10%	31%	176	29	48
3	Germany	74	51,761	6%	55%	12	32	30
4	Russian Fed	119	49,945	5%	3%	10	39	70
5	Canada	103	49,680	5%	61%	3	47	53
6	Australia	133	46,657	5%	79%	0	40	93
7	Greece	17	42,161	5%	18%	1	11	5
8	Norway	37	41,501	4%	32%	2	12	23
9	Spain	55	39,951	4%	47%	4	19	32
10	Hong Kong	145	29,593	3%	87%	0	65	80
11	Switzerland	24	26,240	3%	46%	2	14	8
12	China	252	25,060	3%	2%	3	97	152
13	Italy	15	21,369	2%	33%	1	3	11
14	France	143	20,629	2%	12%	20	76	47
15	Ireland	12	20,250	2%	58%	1	9	2
Total		**1450**	**760,542**	81%	**39%**	**248**	**518**	**684**
Others		**668**	**173,758**	19%	**41%**	**74**	**361**	**233**
Overall		**2118**	**934,300**	**100%**	**39%**	**322**	**879**	**917**
Panel B. Government Investment by Acquirer (parent) Nation (top 15 by value)								
1	China	479	153,567	16%	48%	4	160	315
2	United Kingdom	26	104,907	11%	69%	6	18	2
3	France	229	79,589	9%	45%	20	105	104
4	Utd Arab Em	61	75,251	8%	95%	0	36	25
5	Russian Fed	140	56,408	6%	18%	11	48	81
6	Germany	53	44,401	5%	38%	13	22	18
7	Norway	47	41,147	4%	47%	3	13	31
8	Greece	16	40,817	4%	13%	1	13	2
9	Singapore	103	39,278	4%	86%	7	66	30
10	United States	219	33,112	4%	20%	176	37	6
11	Japan	25	29,480	3%	24%	2	13	10
12	Qatar	26	25,038	3%	81%	1	23	2
13	Malaysia	83	24,293	3%	17%	18	37	28
14	Canada	54	24,104	3%	26%	3	43	8
15	Spain	33	14,656	2%	12%	3	7	23
Total		**1594**	**786,050**	84%	**42%**	**268**	**641**	**685**
Others		**524**	**148,251**	16%	**31%**	**54**	**238**	**232**
Overall		**2118**	**934,300**	**100%**	**39%**	**322**	**879**	**917**

For Online Publication. Appendix 2. Target Stock Price Reaction to Investment by Different Types of Government Investor

This table examines subcategories of government investors. Panel A provides regression results and Panel B provides variable definitions and descriptive statistics. In Panel A the dependent variable is the target market adjusted cumulative abnormal 5 day (-2, +2) return. Variables are defined in Appendix 1 and *Other Control Variables* are the same as those in Tables 4 but are unreported for brevity. Regressions are estimated via OLS. Year, industry, and target and acquirer nation fixed effects are included in all models. Standard errors are heteroskedasticity-robust and clustered at the year and target nation level. Coefficients are listed below with t-statistics underneath in parentheses. *** denotes significance at the 1% level, ** at the 5% level, and * at the 10% level.

Panel A.

	(1)	(2)	(3)
Political Gov Local	-0.0038		-0.00036
	(-0.24)		(-0.022)
Political_Gov_National	-0.051***		-0.050***
	(-2.76)		(-3.83)
Political_National_Fund	-0.041		-0.036
	(-1.16)		(-0.95)
Industrial_Energy		0.033*	0.0092
		(1.75)	(0.91)
Industrial_Industrial		0.025	0.0017
		(1.41)	(0.20)
Industrial_Materials		0.037*	0.012
		(1.74)	(1.52)
Industrial_Telecomtech		0.032	0.0076
		(1.63)	(0.57)
Industrial_Media		0.0090	-0.016
		(0.33)	(-1.04)
Industrial_Consumer		0.034***	0.0087
		(3.27)	(0.54)
Financial_SWF	-0.015**	0.017	
	(-2.40)	(0.90)	
Finacial_Restate	0.029**	0.060***	
	(2.41)	(4.56)	
Financial_Bank	-0.015	0.018	
	(-1.25)	(1.09)	
Financial_Develop_Bank	0.026	0.055**	
	(1.05)	(2.23)	
Financial_Other	-0.010***	0.020	
	(-3.82)	(1.62)	
Financial_Supranational	0.053**	0.089***	
	(2.00)	(3.61)	
Other Control Variables	Yes	Yes	Yes
Joint Test Political_(p-value)	0.0000		0.0084
Joint Test Financial (p-value)	0.0199	0.0000	
Joint Test Industrial (p-value)		0.0343	0.5972
Observations	1,556	1,556	1,556
R-squared	0.242	0.240	0.238

Table continues on the next page

(Appendix 2 continued)

Panel B: Variable Definitions and Descriptive Statistics		N	%
Political Govt. National	Dummy=1 if government acquirer is in SDC macro industry category of 'Government and Agencies' and industry categories for the 'National Agency' or 'National Government.'	322	15%
Political Govt. Local	Dummy=1 if government acquirer is in SDC macro industry category of 'Government and Agencies' and includes city agencies, city governments, public administration, regional agencies, and regional governments..	231	11%
Political National Fund	Dummy=1 if government acquirer is a national level public fund or a social security fund.	75	4%
Industrial_ Energy	Dummy=1 if government acquirer is in SDC macro industry category of 'Energy and Power' and includes alternative energy sources, petrochemicals, pipelines, and oil, gas, power, water and waste management.	328	15%
Industrial_ Industrial	Dummy=1 if government acquirer is in SDC nacre industry category of 'Industrials' and includes aerospace, defense, machinery, transportation, infrastructure, automobile engineering, building construction and other industrials.	174	8%
Industrial_ Materials	Dummy=1 if government acquirer is in SDC macro industry category of 'Materials' and includes chemicals, construction materials, metals and mining, paper and forest products, and other materials.	157	7%
Industrial_ TelecomTech	Dummy=1 is government acquirer is in SDC macro industry category of 'Telecommunications' or 'High Technology' and includes space and satellites, telecommunication equipment and services, computers and peripherals, electronics, internet services, IT consulting, semiconductors, and software.	127	6%
Industrial_ Media	Dummy=1 if government acquirer is in SDC macro industry category of 'Media and Entertainment' and 'Consumer Services' and includes broadcasting, cable, motion pictures, publishing, professional, travel, and education services.	64	3%
Industrial_ Consumer	Dummy=1 if government acquirer is in SDC macro industry category of 'Consumer Staples,' or 'Healthcare,' or 'Retail' and includes household and personal products, textiles and apparel, tobacco, livestock and agriculture products, healthcare services, pharmaceuticals, automotive, and food/beverage retailing.	67	3%
Financial_SWF	Dummy=1 if government acquirer is in SDC macro industry category of 'Financials' and includes Sovereign Wealth Funds	108	5%
Finacial_Restate	Dummy=1 if government acquirer is in SDC macro industry category of 'Financials' and includes real estate investors	50	2%
Financial_Bank	Dummy=1 if government acquirer is in SDC macro industry category of 'Financials' and includes government banks but excludes development banks.	166	8%
Financial_ Development_ Bank	Dummy=1 if government acquirer is in SDC macro industry category of 'Financials' and the acquirer descriptions contains words such as 'development bank,' 'development fund,' 'commonwealth development,' 'de development,' 'development finance' in either the acquirer description or the deal description fields.	32	2%
Financial_Other	Dummy=1 if government acquirer is in SDC macro industry category of 'Financials' and includes other financial investors, such as alternative financial investment firms, asset managers, brokerages, credit institutions, diversified financials, insurance, some government sponsored enterprises, and regional pension funds.	482	23%
Financial_ Supranational	Dummy=1 if government acquirer is in SDC macro industry category of 'Financials' and includes supranationals.	41	2%