Political Risk and Purchases of Privatized State Owned Enterprises

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We assess the valuation effects and risk for acquirers of privatized state owned enterprises (SOEs). The valuation effects of purchasers are positive and significant, they increase for purchasers that have recent high performance, better access to capital, and have engaged in larger acquisitions. The acquirer valuation effects are lower when the selling government is more corrupt, more bureaucratic and a weaker financial performer. Acquirer's total and unsystematic risk increases, indicating that purchasers of SOEs realize diversification benefits. Systematic risk increases for purchasers when the government is characterized by high political risk.

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1. Introduction

During the last twenty years, many governments have engaged in privatization programs, where state owned enterprises (SOEs) were turned over to the private sector. Many privatizations in Southeast Asia followed currency crises and were part of an overall program of liberalization as part of IMF conditionality lending. Other developed countries, such as the UK, France and Italy, initiated privatization in order to recognize efficiency gains and improve macroeconomic performance. Finally, the transition economies, such as the former Soviet republics and China, have undergone an extensive and often painful process of moving from state to market ownership. Dunning (1997) suggests that multinational firms have a central role in improving the allocation of assets during the privatization process.

Much research focuses on the privatization of assets in which there is an initial public offering of shares. However, another form of privatization that has not received attention is the sale of assets to a domestic or foreign bidder. Since the acquisitions of state owned enterprises are unique, previous research on other types of acquisitions cannot be used to infer how the market perceives them. Our objective is to examine the feasibility of firms to acquire SOEs and to determine whether the feasibility is conditioned on transactions. As an additional contribution, we investigate the cross-sectional variation in valuation effects among purchasers of state owned enterprises, and determine whether the risk of the purchasers changes after the acquisition. We find that while the market responds positively to news of an acquisition of a privatized enterprise, the magnitude of that market response is conditioned upon its exposure to political risk. In addition, firms making such acquisitions experience an increase in total and unsystematic risk. While the impact on systematic risk is not significant for the sample as a whole, the systematic

risk shifts vary among firms, and are positively and significantly related to the political risk of the corresponding asset purchase.

2. Literature review and hypotheses

2.1 Performance of privatization programs

Existing research assesses the performance of privatized entities, including their operating and financial performance. Overall, privatization improves firm performance, especially when foreign ownership of the asset is allowed. La Porta and Lopez-de-Silanes (1999) find a significant increase in the performance of the privatized assets post privatization. In many cases the privatized asset performs poorly while under state control and improves once privatized. Moreover, Frydman, Gray, Hessel, and Rapaczynsk (1999) and Harper (2002) find that privatized firms outperform the remaining firms.

Megginson, Nash and van Randenborgh (1994) examine firms privatized through public share offerings and find that they experience substantial gains in productivity. Megginson and Netter (2001) show similar findings regarding nonbank post-privatization performance. Black, Kraakman and Tarassova (2000) find that when the firm insiders undertake the privatization, the firm realizes weaker returns more so than if outsiders were allowed to take control. Uhlenbruck and Castro (2000) report that the privatizing entities achieve the highest performance when a foreign firm acquires the SOE.

2.2 International acquisitions

The literature on international acquisitions indicates that wealth gains upon announcement are either insignificant (e.g., Fatemi, 1984; Mitchell, Shaver, and Yeung, 1992) or marginally positive (Markides and Ittner, 1994). Numerous studies also focus on acquisitions of divestitures by publicly traded firms (e.g., John and Ofek, 1995; Sicherman and Pettway, 1987). In contrast, our study focuses on purchases of assets being privatized. Publicly traded firm asset

sales are similar to privatized asset sales in that they also exhibit asymmetric information. There is limited information to the purchaser and/or to the public about the assets that are under consideration. However, there are disclosure requirements for publicly traded firms, so that the units divested by publicly traded firms are more transparent. Given the greater asymmetric information in privatized asset sales, the studies that examine divestitures by publicly traded firms cannot be used to offer many inferences regarding privatized asset sales. The degree of asymmetric information in privatized asset sales is also distinctly different from a privatization process that results in a public offering of shares, where a prospectus discloses financial information about the privatized unit.

Gleason, McNulty and Pennathur (2005) find wealth gains to purchasers of privatized assets. However, they focus only on 92 banks, which are subject to different degrees of government regulation in the host country and by the purchaser's government. Thus, the results of that study do not offer inferences regarding the broader sample of both industrial and financial services firms assessed here.

2.3 Hypothesis regarding valuation effects

There is a high degree of asymmetric information between the government that is selling the enterprise and the purchaser of the enterprise. Since there is less public information available about a privatized unit, this lack of information could increase the likelihood of a purchaser's overpayment. Unlike publicly traded firms that are subject to substantial financial reporting, the financial performance of privatized assets may be difficult to measure. There is a general lack of transparency concerning cash flows and the financial condition of state owned enterprises. Financial information from state owned enterprises is not standardized like publicly traded companies, and may not be easily compared to other publicly valued firms. Consequently, the valuation of the information may be subject to error, resulting in a purchaser's overpayment. Even if the

bidder understands the business, it may not be able to effectively integrate a culture of ex-government employees with its own operations. Based on these arguments, the valuation effects from acquiring a state owned enterprise are expected to be negative.

There are counter arguments that also deserve consideration. Firms that purchase state owned enterprises are able to expand into new markets, obtain complementary business, and capitalize on business opportunities. Additionally, they may be able to put the assets to better use than the government. Also, the market for privatized assets is incomplete. Limited information about the enterprise may also restrict bidding and allow informed purchasers to pay a relatively low price for the enterprise. Based on these arguments, purchasers should experience positive valuation effects.

2.4 Hypotheses regarding the variation in valuation effects

The market response to the acquisition announcement may be influenced by general characteristics of the acquiring firm, the target's host country, or the deal.

Value of the government assets To the extent that the acquisition yields favorable valuation effects for the purchaser, these effects should be more favorable for larger acquisitions. The value of the government assets acquired is measured by dividing transaction value by the market value of the purchaser's assets, VALUE.

Size of purchaser Larger firms may have more resources and be better able to integrate the privatized assets with their own. Therefore, the valuation effects for the purchaser should be positively related to their size. The size of the purchaser is measured as the log of the market value of its equity (MVL), measured the fiscal year prior to the announcement date.

Purchaser's debt Because debt requires interest payments and the threat of bankruptcy court, managers are less likely to engage in behavior symptomatic of agency conflict. Hence, we antic-

ipate a positive relationship between the use of leverage and abnormal bidder returns. Therefore, the valuation effects of the purchaser should be positively related to its debt level, DEBT.

Target country level of development If the target is based in a developed country, the target's valuation may be more transparent. Thus, it may be easier for the purchaser to value the target. This may result in a more competitive takeover market, which could reduce the potential benefits from the purchase. A dummy variable DEVELOPED is assigned a value of 1 if the acquisition is in a developed country and zero otherwise.

Cultural differences If the purchaser is based in the same culture where the government is selling assets, it may have a better understanding of cultural dynamics. Therefore, the valuation effects for the purchaser are expected to be more favorable for acquisitions in which the purchaser and government are in the same cultural cluster. We use a dummy variable, CULTURE, equal to one if the purchaser and target are in the same cultural cluster (as determined through hierarchical cluster analysis, explained in the methods section below).

Purchaser's return on assets The return on assets (ROA) indicates the profitability of total assets. ROA is calculated by dividing after tax earnings by total assets. Firms with a high ROA relative to their industry may have more efficient operations, and therefore may be more capable of integrating acquired assets.

Access to credit in local market If the local market does not provide sufficient credit to domestic firms, it will be difficult for local firms to finance the acquisition of privatized assets. Therefore, foreign bidders that have superior access to credit would be better able to finance the acquisition, and governments may look more favorably on a bidder who has the funds to pay cash up front, minimizing local competition and government interference.

Investment bank quality Having a reputable investment bank may influence the government's perception of the quality of a bid as well as provide advisory services. Hence, bidders with high quality investment banks (INV_BID) should be able to minimize frictions in the bidding process. The government may also employ an investment bank as an advisor. The better the quality of the advisor of the government (INV_TGT), the greater is the expected ability of the government to negotiate a higher price for the assets being sold. The variable is assigned a value of 1 when the investment bank of concern is ranked above the median by Carter, Dark, and Singh (1999).

Purchaser's expertise in international business Firms with larger holdings of foreign assets are more likely to have mastered the complexities inherent in managing foreign operations. To proxy for expertise in international business, we include a control variable equal to the sum of identifiable foreign assets for each purchaser as a percentage of total assets (FATA). We obtained the asset value from Compustat (Identifiable Foreign Assets) for each foreign segment of the bidders and aggregated the foreign asset values for each bidder. We then divide this value by total assets.

Government bureaucracy Asset sales by a government with more bureaucracy are expected to result in less favorable effects for the purchaser. The government's bureaucracy (referred to as BUR) is compiled from the International Country Risk Guide created by the Political Risk Services (PRS) Group.

Government relations Some governments accommodate foreign direct investment to a greater degree than others. Governments that are more willing to accept foreign direct investment may be more accommodating to a purchaser of its privatized assets. These governments are may facilitate the privatization process, and guarantee no new regulatory restrictions that would hamper the performance of the target. Therefore, the valuation effects for the purchaser should be more

favorable when the government's stance toward foreign direct investment is more favorable. The government's stance toward foreign direct investment is measured by an indicator of the risk of expropriation (referred to as EXPROP), or the risk of seizure of property by the government, compiled from the International Country Risk Guide created by the Political Risk Services (PRS) Group.

Government financial condition The valuation effects of the purchaser are expected to be less favorable when acquiring assets of weak governments. A financially weak government may be more desperate to exaggerate the potential value of assets. Moreover, the assets acquired may carry a culture of weak performance consistent with the seller, and difficult to change. However, a counter-argument is also possible. A government in a weak financial position may also be willing to dispose of assets at a low price in order to obtain quick access to liquidity. Hence, bidding firms may recognize additional gains from acquiring assets in countries in unfavorable economic conditions[1].

An index that measures the likelihood of government debt repudiation is used to measure its financial condition. The government's financial condition (referred to as REPUDIATE) is compiled from the International Country Risk Guide created by the Political Risk Services (PRS) Group.

Rule of law Governments that have a higher level of rule of law (clear legal statutes and a court system sufficient enough to enforce claims) are expected to have higher abnormal returns. Purchasers should be less exposed to possible barriers when acquiring assets of governments where the "rules of the game" are clear and fairly applied. Therefore, the valuation effects of purchasers are expected to be less favorable when acquiring assets of governments with higher rule of law scores compiled from the International Country Risk Guide created by the Political Risk Services

[1] We thank an anonymous reviewer for this suggestion.

(PRS) Group. Higher Rule of Law (ROL) scores signify higher risk due to insufficient legal frameworks.

Government corruption According to academic sources, corruption is "any misuse of public or quasi-public office or any other position of trust" (Bardhan, 1997; Goudie and Stasavage, 1997; Shleifer and Vishny, 1993, Windsor and Getz, 1999). Valuation effects of the purchaser are expected to be less favorable when acquiring assets from corrupt governments. A corrupt government might not fully disclose all asset information to the purchaser. Second, the purchaser may not have much recourse against a more corrupt government. The variable we use for corruption is CORRUPT, as measured by the corruption score from compiled from the International Country Risk Guide created by the Political Risk Services (PRS) Group.

National ethnic tension The valuation effects of the purchaser are expected to be less favorable when acquiring assets of governments in countries with ethnic tensions. Ethnic tensions may lead to damage and destruction of property and human capital. The variable we use for the government's ethnic tension (referred to as ETHNIC) is compiled from the International Country Risk Guide and created by the Political Risk Services (PRS) Group.

Counter hypothesis to government characteristics A counter to the hypotheses about the government's bureaucracy, financial condition, corruption, and ethnic tensions is that governments with bad reputations may have difficulty in selling its assets. In such an incomplete market for privatized assets, these governments may need to entice a potential purchaser by offering a better price or more complete information to alleviate any concerns about the deal.

2.5 Hypothesis regarding a shift in risk

Since the purchasers are often able to enter liberalizing markets with a low correlation of returns with the US, they may be able to reduce their risk. Errunza and Rosenberg (1982) show the potential decline in systematic risk from international diversification.

On the other hand, other research suggests that in certain circumstances, systematic risk may actually rise as a result of multinationality because the volatility of the firm's cash flows increases to the point that the effect cancels the impact of lower correlation of cash flows. Reeb, Kwok and Baek (1998) identify factors that increase the volatility of cash flows of the acquiring firm, including its inability to monitor the target operations, and increased exposure to political risk.

We also explore the sources of variation in the risk shifts experienced by acquiring firms, using our proxies for political risk as explanatory variables (in addition to the control variables previously discussed.) Larger, more profitable, more intangibility-oriented firms with greater levels of prior international experience may be in the strongest position to realize risk reduction benefits. Expansion into developing countries that exhibit lower correlations of returns with developed countries should also result in lower risk. However, purchases of targets in countries with high levels of political risk may increase the risk of the acquiring firm, as per Reeb, Kwok and Baek (1998).

3. Data and methods

3.1 Sample

The sample of acquisitions used to construct the analysis is taken from the Securities Data Corporation (SDC) mergers and acquisitions database. The search includes privatization announcements between 1985 and 2002, where the bidder parent company is listed on the New York Stock Exchange, American Stock Exchange, or Nasdaq. The sample is then reduced to 559 announcements where returns data are available from CRSP. After verifying the announcements in Lexis-Nexis, accounting information is obtained from Research Insight, reducing the sample to 509. Political risk data is obtained from PRS Group, which provides data that is widely used in academic studies through its International Country Risk Guide.

[Table 1 About Here]

Descriptive statistics of acquisition anouncements are in Table 1. As indicated in Panel A, the largest number of announcements take place in 1995, with 12.18% of the sample. The second and third most popular years for privatization acquisitions are 1996 (with 10.61%) and 1993 (with 10.41%) of the sample. Panel B indicates that the largest number of acquisitions, comprising 30.04% of the sample are in the transportation sector (SIC Code 4000-4999); machinery (SIC Code 3000-3999) and foods (SIC Code 2000-2999) account for 21.05% and 19.45% of the sample, respectively. Table 2 provides descriptive statistics regarding purchaser characteristics. Acquiring firms are large, with a mean (median) assets of $42.266 ($13.499) billion and mean (median) market value of $25.291 ($8.822) billion. Acquiring firms are profitable, with mean (median) Returns on Assets of 6.77% (11.99%).

[Table 2 About Here]

A sample breakdown by country of acquirer and target shows the largest number of acquiring firms comes from the United States (approximately 64% of the sample), 18 firms are from Canada, and another 82 are from Western Europe. The transition economies, such as Poland, contribute significantly to the target sample. China, also in a process of transition to a market economy, comprises a significant number of acquisition targets. In contrast, many developed western European countries comprise a large part of the sample.[2]

3.2 Methods

3.2.1 Hierarchical cluster analysis

We expect to find that cultural differences between the bidder and target countries are a relevant determinant of returns to purchasers of privatizing enterprises. In order to identify groups of nations with a common culture, we utilize hierarchical cluster analysis, similarly to

[2] The complete sample breakdown is available from the authors.

other studies, e.g., Benou, Madura, and Gleason, 2007. Using Hofstede's (1997) four cultural factors for each country, we use cluster analysis to combine the factors into a cultural difference score and to organize nations into distinct cultural clusters. We conclude with five cultural distance clusters, based on icicle plots and the relevant test-statistic (the Cubic Clustering Criterion). We categorize cultural similarity (CULTURE) as a dummy variable equal to1 if the acquirer and target are proximate in terms of culture (i.e., in the same cluster). For instance, if the acquirer is American and the target is British (or Canadian or Australian), countries located in the same cultural cluster, then CULTURE would be equal to 1. If the acquirer is British and the target is Venezuelan (or French or South Korean), then the CULTURE variable would be equal to 0, because the countries are in different cultural clusters.

3.2.2 Estimating the valuation effects

To estimate the market reaction on bidders of privatized assets, we use event study methods. The event day is the announcement of an acquisition of an enterprise. We verify all announcement dates in Lexis-Nexis to ensure that the sample is informationally clean. The ordinary least squares (OLS) market model is used to calculate the returns. The cumulative abnormal returns (CARs) over the selected event window represent the average abnormal returns over the t day event window. A 110-day estimation period was chosen immediately preceding the 21-day (+10 to -10) event window. Abnormal returns for the (-1, 0), (-1, +1) and (0, 0) windows are estimated and examined; day 0 represents the announcement day. The CRSP equally weighted index is used as the market proxy; the analysis was completed using Eventus (Cowan, 1999).

3.2.3 Explaining the variation in valuation effects

To explain the variation in valuation effects, the following cross-sectional model is applied:

$$CAR = \alpha_0 + \beta_1 VALUE + \beta_2 MVL + \beta_3 DEBT + \beta_4 CULTURE + \beta_5 ROA +$$

β_6DEVELOPED + β_7ACCESS + β_8INV_BID + β_9INV_TGT + β_{10}FATA + β_{11}BUR + β_{12}EXPROP + β_{13} REPUDIATE + β_{14}ROL + β_{15}CORRUPT + β_{16}ETHNIC + ε_i

where

CAR = Cumulative abnormal return over three-day window, (-1, +1)[3]

VALUE = Value of the transaction/assets of the purchaser at the fiscal year end prior to the announcement of the acquisition,

MVL = log of market value of purchaser at the fiscal year end prior to the announcement of the acquisition,

DEBT = ratio of debt to total assets at the fiscal year end prior to the announcement of the acquisition,

CULTURE = dummy variable equal to 1 if the firm is in the same cultural cluster based on hierarchical analysis of Hofstede's dimensions of culture,

ROA = ratio of net income to assets at the fiscal year end prior to the announcement of the acquisition,

DEVELOPED = dummy variable equal to 1 if the acquisition is in a developed country,

ACCESS = average private credit by deposit money banks divided by GNP at the calendar year end prior to the announcement of the acquisition,

INV_BID = rating of bidder investment bank at the fiscal year end prior to the announcement of the acquisition,

INV_TGT = rating of target investment bank at the fiscal year end prior to the announcement of the acquisition,

[3] We also use the (0,0) window as the dependent variable; the results are qualitatively similar.

FATA = the purchaser's sum of identifiable foreign assets as a percentage of total assets at the fiscal year end prior to the announcement of the acquisition,

BUR = PRS Group score for risk of loss of value due to bureaucracy,

EXPROP = PRS Group score for risk of loss of value due to expropriation,

REPUDIATE = PRS Group score for risk of loss of value due to the repudiation of payment or refusal to honor contracts,

ROL = PRS Group score for risk of loss of value due to weaknesses in legal system or fair enforcement of the law,

CORRUPT = PRS Group score for managerial perception of corruption,

ETHNIC = PRS Group score for risk of loss of value due to ethnic tension.

3.2.4 Testing for a shift in risk

To test whether the risk of the purchasers shifted since acquiring the privatized assets, three return-based measures of risk, systematic risk (beta), total risk (variance) and unsystematic risk (standard deviation of market model residuals) are estimated 180 days before and after the acquisition announcement. We construct a benchmark sample of control firms in the same size and book to market deciles that do not engage in privatization acquisitions and compute their risk measures over the same time period. Hence, we investigate whether our sample firms exhibit higher risk relative to their peers following their acquisitions. Finally, we investigate factors that affect the systematic risk shift.

4. Results

4.1 Valuation effects

The valuation effects from the event study are reported in Table 3.For the event day (0,0), the abnormal return to the bidder is 0.19%. These results support the hypothesis that purchasers benefit from entering liberalizing markets through the acquisitions of privatized assets. The valu-

ation effects of the purchaser are positive on average, and significant. Since the average firm in our sample has a market capitalization on average of $25 billion, the mean abnormal return applied to a firm with the average size represents a gain to shareholders of $47.5 million dollars. Thus, the results are both statistically and economically significant. However, the valuation effects are dispersed, and we assess this dispersion in the following section.

[Table 3 About Here]

4.2 Variation in valuation effects

The regression results are in Table 4. Several models are used; since the variables measuring government indicators are collinear they are separated among the models. The ROA variable is positive and significant in all models, which supports the hypothesis that the purchasers with better prior performance experience higher valuation effects. The VALUE variable is positive and significant, which supports the hypothesis that the valuation effects are more favorable for the relatively larger acquisitions. Culture is an insignificant determinant of abnormal returns, indicating that the market does not always favorably view expansion into a familiar cultural environment. However, the access to capital variable is significant and negative in all regression specifications. This result implies that foreign multinational firms are able to extract the highest rents when they acquire assets in markets where local firms lack the ability to finance the acquisitions themselves, due to capital constraints.

[Table 4 About Here]

Our primary interest is in the variables that measure characteristics of the government that is privatizing assets. The corruption variable is negative and significant, which implies that the valuation effects are less favorable for acquisitions of privatized assets by governments perceived to be more corrupt. The bureaucracy variable is negative and significant, which implies that the valuation effects are less favorable for acquisitions of privatized assets from bureaucratic

governments. The financial condition and likelihood of debt repudiation variables are also negative and significant, implying less favorable valuation effects when a government in a weakened financial state sells assets. The results also indicate that the CARs are lower when the firm acquires an asset privatized in a country with high ethnic tensions.

4.3 Estimates of shifts in risk

The results from estimating risk shifts are in Table 5. The change in the beta of purchasers is not significant. The total risk and the unsystematic risk of purchasers increased significantly on average after the acquisition. Overall, the results suggest that the acquisitions do not reduce risk, and may increase risk based on some proxies.

[Table 5 About Here]

4.4 Cross-sectional analysis of shifts in risk

A cross-sectional analysis of risk shifts among firms is conducted, based on the same model used to assess the cross-sectional variation in the valuation effects among purchasers of privatized assets. Our interest is primarily in the country risk variables, since the shareholders of the purchaser could experience an increase in risk in response to the purchase of privatized assets in high-risk countries, which offset diversification gains. The results are in Table 6. Several variables that measure risk of loss are positively related to the risk shift experienced by purchasers of privatized assets. Specifically, the risk shift of the purchaser is positively related to the government's risk of loss due to bureaucracy, expropriation, repudiation of payments, a weak legal system, perceived corruption, and ethnic tensions.

[Table 6 About Here]

5. Summary

In recent years, privatization programs have become very popular. Related research focuses on the privatization of assets in which there is an initial public offering of shares, which

essentially reflects a carve-out of assets by the government. An alternative type of privatization involves the divestment of privatized assets in which the assets are sold directly to one buyer. However, there is less public information about divested privatized assets versus assets sold through an initial public offering. While the purchaser may gain access to information, as it indicates its interest in acquiring assets, this information is normally not disclosed to the public. Thus, the market may be forced to rely on government characteristics when attempting to discern the potential impact of the acquisition on the purchaser.

We find that the valuation effects of purchasers who acquire privatized assets are positive on average, and significant. However, the valuation effects are dispersed, suggesting that the market perception of the value enhancement is not equal among acquisitions. Our cross-sectional analysis finds that the valuation effects are more favorable for purchasers who have experienced high performance recently and have engaged in a relatively large acquisition. We find that when the ability of local firms to access their respective local credit markets is weak, the gains to bidders are higher, indicating that access to capital is a comparative advantage for foreign bidders in acquisitions of state-owned entities. In addition, the valuation effects tend to be less favorable for purchasers of assets sold by perceived weak, corrupt, and bureaucratic governments. Tests of a risk shift offer some evidence of a positive shift in risk on average for firms that purchased privatized assets. The risk shifts among firms are cross-sectionally related to risk of loss due to government bureaucracy, expropriation, repudiation of payments, weak legal system, perceived corruption, and ethnic tensions.

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Table 1. Announcements of privatization acquisitions

Panel A. Number of announcements by year

Year	N	Percent of total
1985	2	0.39%
1986	3	0.59%
1987	6	1.18%
1988	6	1.18%
1989	4	0.79%
1990	13	2.55%
1991	3	6.68%
1992	35	6.88%
1993	53	10.41%
1994	50	9.82%
1995	62	12.18%
1996	54	10.61%
1997	46	9.04%
1998	38	7.47%
1999	44	8.64%
2000	27	5.30%
2001	14	2.75%
2002	10	1.96%
2003	8	1.57%
Total announcements	*509*	100.00%

Panel B. Number of announcements by target primary SIC code

SIC Code	N	Percent of total
200-299	1	0.20%
800-899	1	0.20%
1000-1999	55	10.81%
2000-2999	99	19.45%
3000-3999	107	21.02%
4000-4999	158	31.04%
5000-5999	13	2.55%
6000-6999	26	5.11%
7000-7999	34	6.68%
8000-8999	6	1.18%
9000-9999	1	0.20%
Other	8	1.57%
Total Announcements	509	100.00%

Table 2. Acquirer characteristics

Statistics are for acquiring firms in the year prior to their transactions. Assets represent the book value of assets in the year prior to the acquisition. Market Value is the value of equity in the year prior to the acquisition. ROA, return on assets, is the ratio of net income to the book value of total assets.

Variable	Mean
	(Median)
Assets ($millions)	42,265.76
	(13,449.90)
Market value ($millions)	25,291
	(8,332)
ROA	6.77
	(11.99)

Table 3. Cumulative abnormal returns

This table provides the cumulative abnormal returns upon announcement of the privatization acquisition for the (-1,0), (0,0), and (-1,+1) event windows. Abnormal returns are calculated using the market model estimated from 110 to 11 days prior to the event announcements. CARs represent the cumulative market model-adjusted abnormal returns over the relevant event window. The CRSP equally weighted market index is used. The Z statistics (in parentheses) are based on the standardized cross-sectional method. The number of positive and negative CARs for the (-1,+1) window (+/-) is reported in the last column, with the test statistic for the nonparametric generalized sign test reported in parentheses under +/-.

	N.	(-1,0)	(0, 0)	(-1, +1)	+/-
Total sample	509	0.13	0.19	0.18	261:248
		(0.10)	(0.16)	(0.14)	(1.82)*
		0.85	2.00**	0.93	

Table 4. Cross-sectional regressions of (-1,+1) cumulative abnormal returns

This table provides the results of regressions where CAR, Cumulative abnormal return over three-day window, (-1,+1), is the dependent variable. VALUE = Value of the transaction/assets of the acquirer; MVL = log of market value of acquirer; DEBT = ratio of debt to total assets; CULTURE = dummy variable equal to 1 if the firm is in the same cultural cluster based on hierarchical analysis of Hofstede's dimensions of culture; ROA = Return on assets, the ratio of net income to the book value of total assets; DEVELOPED = dummy variable equal to 1 if the acquisition is in a developed country; ACCESS = average private credit measured by total deposits at banks divided by GNP; INV_BID = rating of bidder investment bank; INV_TGT= rating of target investment bank; FATA = bidder foreign assets divided by total assets; BUR = risk of loss of value due to bureaucracy based on the International Country Risk Guide; EXPROP = risk of loss of value due to expropriation based on the Country Risk Guide; REPUDIATE = risk of loss of value due to the repudiation of payment or refusal to honor contracts based on the country risk guide; ROL = risk of loss of value due to weaknesses in legal system or fair enforcement of the law; CORRUPT = managerial perception of corruption based on the Transparency International score; ETHNIC = risk of loss of value due to ethnic tensions based on the country risk guide.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
CONSTANT	-0.004	0.002	0.005	-0.004	-0.003	-0.003
	(1.19)	(1.46)	(1.09)	(-0.60)	(-0.40)	(-0.43)
VALUE	0.001	0.001	0.002	0.001	0.002	0.001
	(2.12)**	(2.27)**	(2.02)**	(1.92)*	(1.48)	(1.52)
MVL	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
	(-0.22)	(-1.44)	(-0.56)	(-1.30)	(-1.37)	(-1.62)
DEBT	-0.001	-0.001	-0.001	-0.001	-0.001	0.001
	(-0.60)	(-1.38)	(-1.02)	(-1.67)*	(-1.54)	(1.65)*
CULTURE	-0.006	-0.002	-0.004	-0.003	-0.003	-0.003
	(-1.47)	(-1.10)	(-0.82)_	(-0.67)	(-0.51)	(-0.58)
ROA	0.001	0.001	0.001	0.001	0.001	0.001
	(4.08)***	(1.42)	(3.92)***	(4.18)***	(3.92)***	(4.10)***
DEVELOPED	0.009	0.005	0.005	0.006	0.006	0.005
	(1.06)	(1.52)	(0.96)	(1.01)	(1.07)	(0.79)
ACCESS	-0.006	-0.009	-0.004	-0.005	-0.007	-0.005
	(-1.92)*	(-2.53)**	(-2.43)**	(-1.97)*	(-2.07)**	(-2.02)**
INV_BID	0.001	0.001	0.001	0.002	0.001	0.003
	(1.02)	(0.75)	(0.93)	(0.20)	(0.59)	(1.31)
INV_TGT	0.001	0.001	0.002	0.001	0.002	0.002
	(0.32)	(0.64)	(1.08)	(0.78)	(0.59)	(1.12)
FATA	0.002	0.003	0.002	0.001	0.002	0.003
	(1.04)	(0.98)	(1.24)	(1.02)	(0.85)	(1.28)
BUR	-0.001					
	(-4.00)***					
EXPROP		-0.001				
		(-3.07)***				
REPUDIATE			-0.003			
			(-3.92)***			
ROL				-0.001		
				(-4.12)***		
CORRUPT					-0.001	
					(-3.84)***	
ETHNIC						-0.001
						(-4.06)***
Adjusted R^2	12.11%	7.72%	11.81%	12.80%	11.30%	12.43%
F	3.52***	2.59**	3.86***	3.68***	3.34***	3.59***
N	413	413	413	413	413	413

Table 5. Change in risk

This table provides results of the examination of the change in acquirer risk over the 180 trading days following the acquisition of the privatized divestment. Beta is from the market model. Total risk is defined as the variance (volatility) of the firm's stock price. Unsystematic risk is measured as the standard deviation of the error term from the market model regression.

	Sample	Control	t (Z)
Beta	-0.021	0.002	-0.607
	(-0.73)	(0.055)	(-1.08)
Total	0.029	0.014	5.63***
	(2.09)**	(1.00)	(3.82)***
Unsys	0.015	0.013	2.41**
	(1.96)*	(0.99)	(2.98)**

Table 6. Cross-sectional analysis of risk shifts among purchasers of state owned assets

This table reports a cross-sectional analysis of changes in acquirer systematic risk following the purchase of state owned assets. VALUE = Value of the transaction/assets of the acquirer; MVL = log of market value of acquirer; DEBT = ratio of debt to total assets; CULTURE = dummy variable equal to 1 if the firm is in the same cultural cluster based on hierarchical analysis of Hofstede's dimensions of culture; ROA = Return on assets, the ratio of net income to the book value of total assets; DEVELOPED = dummy variable equal to 1 if the acquisition is in a developed country; ACCESS = average private credit measured by total deposits of banks divided by GNP; INV_BID = rating of bidder investment bank; INV_TGT= rating of target investment bank; FATA = bidder foreign assets divided by total assets; CORRUPT = managerial perception of corruption based on the Transparency International score. The following are from the International Country Risk Guide: BUR = risk of loss of value due to bureaucracy; EXPROP = risk of loss of value due to expropriation; REPUDIATE = risk of loss of value due to the repudiation of payment or refusal to honor contracts; ROL = risk of loss of value due to weaknesses in legal system or fair enforcement of the law; ETHNIC = risk of loss of value due to ethnic tensions.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
CONSTANT	-0.128	-0.118	-0.420	-0.285	-0.454	-0.628
	(-0.95)	(-1.33)	(-1.02)	(-0.95)	(-0.33)	(-0.47)
VALUE	0.001	0.001	0.001	0.001	0.001	0.001
	(0.06)	(0.65)	(0.18)	(0.06)	(0.24)	(0.23)
MVL	0.052	0.016	0.021	0.016	0.010	0.022
	(2.01)**	(1.88)*	(1.74)*	(2.15)**	(2.32)**	(2.10)**
DEBT	-0.008	0.004	0.001	-0.008	-0.008	-0.013
	(-0.33)	(0.17)	(0.04)	(0.33)	(-0.36)	(-0.57)
CULTURE	0.067	0.688	0.501	0.673	0.342	0.893
	(0.66)	(0.65)	(0.48)	(0.67)	(0.34)	(0.91)
ROA	0.094	0.157	0.138	0.094	0.077	0.073
	(1.53)	(2.53)**	(2.23)**	(1.53)	(1.25)	(1.22)
DEVELOPED	-1.23	-1.65	-1.98	-1.225	-2.15	-2.52
	(-1.06)	(-1.34)	(-1.65)*	(-1.06)	(-1.87)*	(-2.25)**
ACCESS	0.010	0.011	0.005	0.104	0.004	0.011
	(1.66)*	(1.65)*	(1.31)	(0.66)	(1.69)*	(0.77)
INV_BID	0.001	0.001	0.002	0.003	0.002	0.002
	(1.32)	(1.10)	(1.34)	(1.54)	(1.41)	(1.60)
INV_TGT	-0.002	-0.001	-0.001	-0.001	-0.001	-0.002
	(-1.06)	(-1.31)	(-0.63)	(-0.72)	(-0.23)	(-0.63)
FATA	-0.002	-0.001	-0.002	-0.003	-0.002	-0.001
	(-1.24)	(-1.29)	(-1.05)	(-1.42)	(-1.28)	(-1.02)
BUR	0.125					
	(2.52)**					
EXPROP		0.839				
		(2.32)**				
REPUDIATE			0.861			
			(2.70)***			
ROL				0.914		
				(2.51)**		
CORRUPT					0.932	
					(2.71)***	
ETHNIC						0.94
						(3.11)***
Adjusted R^2	2.26	2.51	3.05	2.17	2.02	2.16
F	2.48**	2.54**	2.81***	2.48**	2.16**	3.30***
N	413	413	413	413	413	413