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The Effects of Geopolitical Risk on Cross-Border Acquisition Premiums and Bidder Value Creation

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Abstract

The present study examines the effects of geopolitical risk in both target and acquirer countries on acquisition premiums and bidder value creation in cross-border mergers and acquisitions. In a context of increasing geopolitical uncertainty, understanding how geopolitical risk affects cross-border acquisition outcomes has become increasingly relevant. While previous studies have explored the relationship between geopolitical risk and M&A activity, the existing evidence has largely focused on deal frequency and transaction volume, leaving acquisition pricing and bidder value creation relatively underexplored. Using a sample of 74 cross-border acquisitions announced between 2010 and 2025, this study investigates whether geopolitical risk affects the acquisition premium paid by bidders and the cumulative abnormal returns earned by acquiring firms around the announcement date. Geopolitical risk was measured using the Geopolitical Risk (GPR) Index developed by Caldara & Iacoviello (2022). An event study methodology was employed to estimate bidder abnormal returns, while OLS regressions were used to examine the determinants of acquisition premiums and bidder value creation. The results indicate that higher geopolitical risk in the target country is associated with higher acquisition premiums, suggesting that acquirers believe there is more value to be unlocked in companies of those countries. Additionally, higher geopolitical risk in the acquirer's home country is generally associated with less favourable market reactions around acquisition announcements, particularly within the immediate announcement window $[-1; +1]$, suggesting that investors believe that home geopolitical risk can reduce the potential value creation of cross-border acquisitions.

Keywords: Geopolitical Risk, Cross-Border Mergers and Acquisitions, Acquisition Premiums, Cumulative Abnormal Returns.

JEL-Codes: G34, F21, F23.

Resumo

O presente estudo analisa os efeitos do risco geopolítico dos países da empresa adquirente e da empresa-alvo sobre os prêmios de aquisição e a criação de valor para os adquirentes em fusões e aquisições transfronteiriças. Num contexto de crescente incerteza geopolítica, compreender de que forma o risco geopolítico afeta os resultados das aquisições transfronteiriças torna-se cada vez mais relevante. Embora estudos anteriores tenham explorado a relação entre o risco geopolítico e a atividade de fusões e aquisições, a evidência existente concentra-se sobretudo na frequência e no volume das transações, deixando por explorar os seus efeitos sobre os prêmios de aquisição e a criação de valor para os adquirentes. Utilizando uma amostra de 74 aquisições transfronteiriças anunciadas entre 2010 e 2025, este estudo investiga se o risco geopolítico influencia o prémio de aquisição pago pelos adquirentes e os retornos anormais acumulados obtidos pelas empresas adquirentes em torno da data de anúncio da transação. O risco geopolítico foi medido através do Índice de Risco Geopolítico desenvolvido por Caldara e Iacoviello (2022). Para estimar os retornos anormais dos adquirentes foi utilizada a metodologia de estudo de eventos, enquanto regressões OLS foram utilizadas para analisar os determinantes dos prêmios de aquisição e da criação de valor para os adquirentes. Os resultados indicam que níveis mais elevados de risco geopolítico no país da empresa-alvo estão associados a prêmios de aquisição mais elevados, sugerindo que os adquirentes acreditam existir um maior potencial de criação de valor nas empresas desses países. Adicionalmente, um maior risco geopolítico no país de origem do adquirente encontra-se geralmente associado a reações menos favoráveis do mercado em torno do anúncio da aquisição, particularmente na janela de anúncio mais curta $[-1; +1]$, sugerindo que os investidores acreditam que o risco geopolítico doméstico poderá reduzir a potencial criação de valor das aquisições transfronteiriças.

Palavras-chave: Risco Geopolítico, Fusões e Aquisições Transfronteiriças, Prêmios de Aquisição, Retornos Anormais Acumulados.

Classificação JEL: G34, F21, F23.

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1. Introduction

Mergers and acquisitions (M&A) are among the most important strategic tools for firms seeking to accelerate growth, access new markets, and strengthen their competitive position. Within this context, cross-border mergers and acquisitions (CBAs) play a central role as a mode of international expansion (Shimizu et al., 2004). However, CBAs are inherently more complex than domestic transactions, as firms must deal with cultural, institutional, and organizational barriers that may hinder value creation (Zaheer, 1995; Barkema & Vermeulen, 1998).

At the same time, firms currently operate in an international environment characterized by elevated geopolitical uncertainty. Events such as the war between Russia and Ukraine and the intensification of trade tensions between the United States and its trading partners have increased concerns regarding political instability and regulatory changes. Such uncertainty significantly affects firms' strategic decisions, particularly those involving cross-border investments. In this context, geopolitical risk may influence both the likelihood of engaging in CBAs and the way firms assess risks and expected returns associated with international acquisitions. To capture this dimension, recent studies increasingly rely on the Geopolitical Risk (GPR) index developed by Caldara & Iacoviello (2022), which measures geopolitical risk based on news coverage of adverse geopolitical events and threats.

The academic literature has begun to explore the relationship between geopolitical risk, political uncertainty, and M&A activity, with several studies documenting significant effects on cross-border transactions. Prior research shows that geopolitical risk and political uncertainty can affect deal frequency, bargaining power, and investment flows in CBAs (Bonaimea et al., 2018; Lee, 2018; Paudyal et al., 2021; Rao et al., 2023). Nevertheless, existing evidence remains fragmented and largely focused on deal volume or frequency. Relatively little attention has been paid to how geopolitical risk affects acquisition premiums and bidder value creation in cross-border deals. Therefore, this dissertation seeks to address this gap by examining the effects of geopolitical risk on cross-border acquisition premiums and bidder abnormal returns, while accounting for geopolitical conditions in both the acquirer's and the target's home countries.

The relevance of this topic extends beyond the academic literature. From a corporate perspective, acquisition premiums represent a critical component of M&A pricing and can

reflect both manager overconfidence and expected synergies (Roll, 1986; Bradley et al., 1988). Moreover, bidder announcement returns provide insight into how financial markets evaluate cross-border acquisitions under conditions of heightened uncertainty (Eckbo & Thorburn, 2000; Moeller & Schlingemann, 2005). Understanding how geopolitical risk shapes these outcomes can therefore help firms make more informed strategic and valuation decisions in an increasingly unstable global environment.

The remainder of this dissertation is organized as follows. Chapter 2 presents a literature review focusing on M&A as a corporate strategy, value creation in acquisitions, the specific characteristics of cross-border M&A, and the emerging literature on geopolitical risk and its influence on cross-border deal activity. Chapter 3 develops the hypotheses regarding the relationship between geopolitical risk, acquisition premiums, and bidder value creation. Chapter 4 describes the data, the sample selection process, the variables, and the research methodology, including the event-study framework used to estimate bidder abnormal returns. Chapter 5 presents and discusses the empirical results of the OLS regressions and evaluates the proposed hypotheses. Finally, Chapter 6 concludes the dissertation and outlines its main contributions, limitations, and avenues for future research.

2. Literature Review

2.1 Mergers and Acquisitions as a Corporate Strategy

Mergers and acquisitions are among the most important strategic tools available to firms seeking to accelerate growth, access new markets, acquire strategic assets, and strengthen competitive positioning. Unlike organic growth, M&A allows firms to rapidly expand their scale and scope, often across geographical boundaries. As a result, M&A activity has become a central feature of corporate strategy in both developed and emerging markets. Usually, three are the main motives identified by the literature for companies to proceed with acquisitions: first, the creation of synergies so that the combined value of the new entity exceeds the sum of its previously separate companies (Bradley et al., 1988); second, due to agency conflicts between managers and shareholders (Jensen & Ruback, 1983); and third, managerial hubris (Roll, 1986).

From a financial perspective, several motives have been proposed to explain why firms engage in M&A transactions, including the use of excess cash, debt capacity, and managerial discretion (Jensen, 1986; Bruner, 1988). Jensen (1986) introduces the free cash flow hypothesis, arguing that managers of firms with excess cash may have incentives to waste these resources on "empire-building" and value-destroying acquisitions rather than returning the capital to shareholders. In contrast, efficiency-based theories suggest that mergers can create value through operational synergies, economies of scale, market power, and improved management. Trautwein (1990) categorizes these motives into seven distinct frameworks: efficiency, monopoly, valuation, empire-building, process, raider, and disturbance theories, highlighting the multifaceted nature of M&A decisions.

Despite the strategic appeal of mergers and acquisitions, empirical evidence consistently shows that M&A outcomes are uncertain and heterogeneous. While M&A research has grown substantially, value creation is far from guaranteed, and outcomes depend heavily on deal characteristics, firm-specific attributes (for instance, prior acquisition experience and learning capacity), and external environment, like industry waves and regulatory shifts (Datta et al., 1992; Haleblan et al., 2009). Moreover, M&A activity has been widely interpreted as a governance mechanism that disciplines underperforming management and reallocates corporate assets to those who can manage them most efficiently (Jensen & Ruback, 1983).

More recent surveys, such as Hossain (2021), reinforce the view of M&A as a foremost strategic vehicle for business, product, and geographic expansion in the global market, highlighting that while the primary objectives remain market penetration and competitive advantage, the success of these strategies is increasingly tied to a firm's ability to adapt to shifting global contexts. The uncertainty surrounding M&A outcomes motivates a large body of literature focused on measuring value creation and identifying its key drivers.

2.2 Value Creation in Mergers and Acquisitions

2.2.1 Abnormal Returns and Event Study Methodology

One of the most widely used approaches to assessing value creation in M&A is the analysis of abnormal stock returns around acquisition announcements. Event study methodology assumes that capital markets are at least semi-strong-form efficient, so that new information about a merger is rapidly incorporated into stock prices. Consequently, abnormal returns around the announcement date provide a market-based assessment of the expected impact of the transaction on the company value (Brown & Warner, 1980).

Early empirical studies document significant positive abnormal returns around the announcement date for target firms, while acquiring firms experience mixed or modest effects (Dodd, 1980; Asquith & Kim, 1982; Jensen & Ruback, 1983). In contrast to this evidence, Asquith et al. (1983) and Jarrel et al. (1988) report positive abnormal returns around the announcement date for shareholders of bidding firms. Asquith et al. (1983) argue that the divergence between their findings and those of earlier studies may be explained by methodological differences, particularly the omission of relevant control variables, such as target size, bid success, and the period during which the acquisition occurs.

Bradley et al. (1988) extend this analysis by examining the combined value of bidders and targets and find that mergers generate positive aggregate gains, suggesting the existence of synergies. The authors suggest that, while the total synergistic gain is positive, most of this value is captured by target stockholders, especially in competitive bidding “wars” where multiple firms vie for the same target.

Subsequent research confirms that bidder abnormal returns vary substantially across payment methods, competition, and firm characteristics (Travlos, 1987; Franks et al., 1991; Eckbo & Thorburn, 2000; Fuller et al., 2002). Franks et al. (1991) highlight that the method

of payment (cash vs stock) is a significant strategic signal. More specifically, they find that firms that finance acquisitions with cash tend to outperform those that use stock-based deals in the years following the transaction. In contrast, Eckbo & Thorburn (2000) demonstrate that domestic bidder performance is most robust in offers involving stock payment and when the bidder is relatively small compared to the target. Fuller et al. (2002) find that the listing status of the target is a primary determinant of bidder returns. While bidders realise significantly positive abnormal returns when acquiring private firms or subsidiaries, they experience negative returns when acquiring public firms.

2.2.2 Acquisition Premiums and the Distribution of Value

In addition to abnormal returns, acquisition premiums are a central dimension of M&A pricing and value distribution. The acquisition premium reflects the potential acquisition-related benefits as well as the bargaining power of bidders and targets (Walking & Edmister, 1985; Varaiya, 1987; Comment & Schwert, 1995). Roll (1986) hubris hypothesis suggests that managerial overconfidence can lead to overpayment and value destruction for acquirers. Comment and Schwert (1995) find that stronger target protection through antitakeover devices, such as poison pills, is associated with higher takeover premiums, raising the costs to the bidder and the gains to the target. Additionally, the authors find that target shareholders gain even after accounting for deals that are never completed.

Empirical evidence shows that high acquisition premiums tend to benefit target shareholders, often at the expense of bidders (Bradley et al., 1988). One possible explanation is the “winner’s curse” hypothesis proposed by Varaiya and Ferris (1987), which argues that in competitive takeover environments, the successful bidder is likely to be the one that most overestimates the target firm’s value. As a result, post-acquisition returns for bidders may not be significantly positive and may even be negative, as documented by the authors.

Moeller et al. (2004) demonstrate that large or complex deals are more likely to result in bidder losses, highlighting the trade-off between premium size and bidder value creation. Officer (2007) finds no significant relationship between acquisition discounts and bidder size in acquisitions of unlisted firms.

These findings are particularly relevant in environments characterized by uncertainty, where risk considerations may affect both the willingness to pay and the expected post-acquisition performance.

2.3 Cross-Border Mergers and Acquisitions

2.3.1 Motivations for Cross-Border Acquisitions

Cross-border mergers and acquisitions (CBAs) represent a specific category of M&A in which acquirers and targets are from different countries. Such transactions are motivated not only by traditional synergy considerations but also as a mode of entry into foreign markets, as a dynamic learning process regarding foreign cultures, and as a value-creating strategy (Shimizu et al., 2004). For a CBA to be successful, the firm must possess firm-specific advantages, such as superior technology or organizational practices, that are strong enough to offset the “Liability of Foreignness”, which describes the inherent costs and disadvantages faced by firms operating in foreign markets that local firms do not incur (Zaheer, 1995). A usual challenge that firms face when they want to expand internationally is the cultural barrier, being international expansion in these cases a process of organizational learning where firms must adapt to foreign environments (Barkema et al., 1996; Barkema & Vermeulen, 1998).

Rossi and Volpin (2004) provide empirical evidence that cross-border acquisitions are more likely when acquirers originate from countries with stronger investor protection than targets, suggesting that firms use CBAs to improve governance and exploit institutional differences. Erel et al. (2012) further argue that valuation differences across countries and capital market conditions influence cross-border acquisition activity.

Anand et al. (2005) argue that cross-border acquisitions allow firms to access multinational diversity and capabilities unavailable in domestic markets. Resource redeployment and learning effects are also central motivations for CBAs (Capron et al., 1998). A comprehensive review by Erel et al. (2022) highlights that CBAs are shaped by a wide range of country-level factors, including legal systems, financial development, political stability, and cultural distance. These additional layers of complexity distinguish cross-border acquisitions from domestic M&A and make them particularly sensitive to macroeconomic and geopolitical conditions.

2.3.2 Cross-Border versus Domestic M&A

Empirical studies consistently document differences between domestic and cross-border M&A outcomes, especially due to the existence of a “cross-border effect” (Harris & Ravenscraft, 1991; Moeller & Schlingemann, 2004; Danbolt, 2004). Harris & Ravenscraft (1991) examine the wealth effects of Foreign Direct Investment through acquisitions,

documenting a substantial "cross-border effect" where targets of foreign buyers realize significantly higher wealth gains than targets of domestic U.S. firms. Also addressing the cross-border effects on target companies, in this case using UK-listed companies, Danbolt (2004) shows a huge gap between the difference in abnormal returns between cross-border and domestic targets during the actual bid month and the same difference over a broader four-month window surrounding the bid (in both cases, favorably to cross-border targets).

In contrast, introducing the concept of "home field advantage", Eckbo & Thorburn (2000) contribute to the M&A literature by comparing the performance of domestic (Canadian) and foreign (U.S.) bidders acquiring Canadian targets. The authors found that while domestic bidders earn significantly positive average abnormal returns, U.S. bidders' returns are statistically indistinguishable from zero. Campa and Hernando (2002), analyzing European mergers, find that cross-border acquisitions generate lower total value than domestic transactions, largely due to obstacles such as cultural, legal, or transaction barriers. Moeller & Schlingemann (2005) similarly show evidence on the performance gap between cross-border and domestic acquisitions, documenting a significant "cross-border effect" where U.S. acquirers of international targets realize approximately 100 basis points lower announcement returns than those engaging in domestic deals.

Regarding the timing of acquisitions, Xu (2017) shows that, unlike the evidence for domestic merger waves, cross-border deals occurring later in merger waves tend to outperform those undertaken earlier. The author argues that late entrants may benefit from observing the outcomes of earlier transactions, thereby learning from the successes and failures of prior bidders.

These findings suggest that while cross-border acquisitions offer unique strategic opportunities, they also expose firms to additional risks related to regulation, culture, political environment, and information asymmetry. Consequently, the determinants of value creation in CBAs may differ systematically from those in domestic M&A.

2.3.3 Value Creation in Cross-Border Acquisitions

The evidence on value creation in cross-border acquisitions is mixed. While some studies document positive bidder returns under specific conditions, especially when the firm expands into a new geographic market where it does not already operate, or when it expands into less developed countries (Doukas & Travlos, 1988), others emphasize the negative role

of cultural distance, governance differences, and organizational integration challenges (Chatterjee et al., 1992; Campa & Hernando, 2004). Nevertheless, Eun et al. (1996) provide strong empirical support for the synergy hypothesis in a cross-border context, finding that shareholders of paired samples (U.S. targets and foreign acquirers) experienced significant positive combined wealth gains.

Bris & Cabolis (2008) demonstrate that value creation is influenced by differences in corporate governance between the acquirer and target countries, with better shareholder protection and accounting standards in the bidder's country leading to a higher announcement effect for the target firm in cross-border acquisitions relative to a matching domestic acquisition. These findings indicate that value creation in CBAs is highly contingent on external conditions, reinforcing the need to examine macro-level risks, such as geopolitical instability.

2.4 Geopolitical Risk and Its Impact on Cross-Border M&A

To measure Geopolitical Risk, some recent studies have relied on the Geopolitical Risk (GPR) index developed by Caldara & Iacoviello (2022). The GPR index is measured using text from about 25 million news articles published across 10 newspapers from three countries. The authors construct the GPR index by counting, each month, the share of articles discussing adverse geopolitical events and associated threats. According to Caldara & Iacoviello (2022), higher values of the GPR index are associated with a greater likelihood of economic disasters, lower expected GDP growth, and increased downside risks to GDP growth.

Although still relatively nascent, a growing body of literature has begun to examine the impact of geopolitical risk on M&A activity, with specific studies isolating its effects on cross-border transactions. Existing findings are mixed, both in the direction of the results and in the measures used to assess this impact, as some studies rely on deal frequency while others focus on deal size or value. Shen et al. (2021) find that geopolitical risk significantly promotes M&A activity in politically sensitive industries, such as energy. Rao et al. (2023) identify a positive effect of geopolitical risk on M&A deal frequency, but a negative effect on the M&A deal size, highlighting the deadweight cost created by the geopolitical risk. Examining

political uncertainty¹, Bonaime et al. (2018) find that higher regulatory or fiscal uncertainty drastically reduces M&A activity.

Other studies emphasize cross-border dimensions. Lee (2018) shows that political uncertainty affects bargaining dynamics in CBAs, demonstrating evidence that when political uncertainty is high in the host country, *ceteris paribus*, foreign acquirers have greater bargaining power, which leads to more favorable outcomes for acquirers. Paudyal et al. (2021), using a global sample to link country-level economic policy uncertainty (EPU)² to cross-border M&A flows, find evidence that while higher EPU in the target's domicile deters inbound CBAs, higher EPU in the acquirer's nation is positively associated with a higher number and volume of outbound CBA deals.

More recently, Cao et al. (2023), using the presence of military alliances as a proxy for geopolitical risk, provide evidence of a significant increase in cross-border M&A activity between military allies. Zhang et al. (2024) document that Chinese firms respond to increasing geopolitical tensions by undertaking more overseas acquisitions.

Despite these advances, important gaps remain in the literature. Only a limited number of studies explicitly examine the relationship between geopolitical risk and acquisition premiums in cross-border M&A. Moreover, while bidder announcement returns have been extensively analyzed in the broader M&A literature, relatively little is known about bidder value creation in cross-border transactions conducted under heightened geopolitical risk. In addition, existing studies on geopolitical risk and M&A tend to adopt a broad perspective, often focusing on deal volume or frequency, thereby leaving the specific impact of geopolitical risk on bidder value creation largely unexplored.

Therefore, this study aims to address these gaps and contribute to the literature by providing new empirical evidence on how geopolitical risk affects acquisition premiums and bidder value creation in cross-border M&A. Specifically, it seeks to answer the following two research questions:

¹ Due to the scarcity of studies directly linking geopolitical risk to mergers and acquisitions, particularly in a cross-border context, political uncertainty is treated in this literature review as a closely related and informative dimension of geopolitical risk.

² Developed by Baker et al. (2016), the EPU index provides a monthly measure of policy-related uncertainty and is currently available for more than 30 countries (Economic Policy Uncertainty, n.d.). Its construction methodology is closely related to that of the GPR index proposed by Caldara & Iacoviello (2022).

1. How does the Geopolitical Risk in both countries involved in the deal affect the premium paid by the acquirer?
2. How does the Geopolitical Risk affect the potential abnormal return obtained by the acquirer (bidder) company?

To address these research questions, the next section presents the hypotheses to be tested.

3. Hypotheses development

3.1 Geopolitical Risk and Acquisition Premiums

Acquisition premiums reflect the bidder's expectations regarding future synergies, cash flows, and risks associated with the target firm. In cross-border mergers and acquisitions, these expectations are shaped not only by firm-level characteristics but also by country-level conditions, including political stability, institutional quality, and geopolitical risk. Prior research shows that higher uncertainty causes firms to temporarily pause their investment and raises concerns about future cash flow volatility, which can reduce firm valuations (Bloom, 2009; Pástor & Veronesi, 2012).

Geopolitical risk encompasses threats from wars, terrorism, and international tensions, which may adversely affect economic activity and corporate performance (Caldara & Iacoviello, 2022). In the context of cross-border acquisitions, higher geopolitical risk in the target's home country may increase concerns about expropriation, regulatory instability, trade disruptions, and operational uncertainty. As a result, bidders may discount expected synergies and future cash flows, leading to lower willingness to pay and, consequently, lower acquisition premiums. This rationale leads to the first hypothesis related to the target GPR and the premium paid by the acquirer:

Hypothesis 1a (H1a): *Higher (Lower) geopolitical risk in the target's home country leads to lower (higher) acquisition premiums.*

Geopolitical risk in the acquirer's home country may also influence acquisition pricing decisions. Firms operating in environments characterized by heightened geopolitical uncertainty often face greater financing constraints, higher risk premia, and increased pressure to preserve capital (Pástor & Veronesi, 2012). In such contexts, managers may adopt more conservative valuation approaches and be less willing to engage in aggressive bidding behavior, particularly in complex cross-border transactions.

Conversely, when geopolitical risk in the acquirer's home country is low, firms may benefit from more stable macroeconomic conditions, improved access to capital markets, and greater managerial confidence. These factors can increase firms' ability and willingness to pay higher premiums to secure strategic assets abroad. Prior evidence suggests that bidder characteristics and home-country conditions play an important role in shaping acquisition strategies and pricing outcomes (Eckbo & Thorburn, 2000; Rossi & Volpin, 2004). Taken

together, these arguments suggest that geopolitical risk in the acquirer's home country is negatively associated with acquisition premiums in cross-border deals.

Hypothesis 1b (H1b): *Higher (Lower) geopolitical risk in the acquirer's home country leads to lower (higher) acquisition premiums.*

3.2 Geopolitical Risk and Bidder Value Creation

Bidder value creation in mergers and acquisitions is commonly assessed through abnormal stock returns around the announcement date. While the general M&A literature documents mixed evidence regarding bidder returns, cross-border acquisitions introduce additional dimensions of risk, such as restrictive institutional and legal systems, that may influence market reactions (Moeller & Schlingemann, 2005).

Under conditions of elevated geopolitical risk in the acquirer's home country, investors may perceive foreign acquisitions as a strategic response to domestic instability. In fact, prior research on political uncertainty shows that firms' strategic actions during turbulent periods can generate positive market reactions if they are perceived as value-enhancing or risk-mitigating (Julio & Yook, 2016). In this context, cross-border acquisitions announced during periods of high geopolitical risk in the acquirer's home country may signal proactive management and long-term strategic orientation, leading to more favorable abnormal returns. According to this rationale, the following hypothesis is built:

Hypothesis 2 (H2): *Higher geopolitical risk in the acquirer's home country leads to more favorable abnormal returns for the bidder.*

Having developed the hypotheses, the next section presents the data and methodology used to construct the sample and test the proposed relationships.

4. Data Sources, Methodology and Sample Composition

4.1 Sample Selection

The data on cross-border M&A transactions was collected from Orbis M&A. The sample covers transactions completed worldwide between 2010 and 2025 (inclusive), thereby capturing several major geopolitical and economic events, including the aftermath of the global financial crisis, Brexit, and the Russia–Ukraine war.

Several screening criteria were applied to construct the final sample. First, only completed cross-border M&A transactions were considered. In addition, both listed and unlisted firms were included in the initial screening process to maximize sample coverage. This approach was possible because the initial sample was subsequently filtered according to the specific requirements of each hypothesis. For Hypotheses 1a and 1b, only target firms were required to be publicly listed, while acquirers could be either listed or unlisted. For Hypothesis 2, only bidding firms were required to be listed, whereas target firms could be either listed or unlisted.

Furthermore, the sample was restricted to majority-control transactions, meaning that the acquirer held less than 50% of the target's shares before the transaction and more than 50% after completion. Financial firms were excluded due to the specific nature of their accounting standards, regulatory environment, and business operations. Additionally, only transactions with a minimum deal value of USD 50 million were retained to focus on economically significant acquisitions.

After applying these filters, the initial sample consisted of 302 transactions. However, due to missing data for several variables used in the regression analysis and the limited country coverage of the Geopolitical Risk Index, the final sample was reduced to 74 transactions, of which 69 were used for the analysis of Hypotheses 1a and 1b and 68 for the analysis of Hypothesis 2.

4.2 Methodology

4.2.1 Cumulative Abnormal Return

Given that financial markets rapidly incorporate new information into stock prices, event studies are widely used to assess the economic impact of corporate events on firm value (Fama et al., 1969; MacKinlay, 1997). The event study methodology is grounded in the Efficient Market Hypothesis, which holds that stock prices reflect investors' expectations of firms' future cash flows and respond quickly to new information (Fama et al., 1969). As a result, abnormal stock price movements around the announcement date may be interpreted as the market's reaction to the event under analysis.

To assess bidder value creation in a cross-border M&A deal, an event study was conducted using cumulative abnormal returns (CARs) around the announcement date. The event study was carried out through the following steps: (i) determination of the event date that, in this case, is the bid announcement date; (ii) definition of the event window; and (iii) the computation of the CAR.

The Cumulative Abnormal Return (CAR_i) represents the sum of daily abnormal returns ($AR_{i,t}$) of a certain acquiring firm i during an event window, being computed as:

$$CAR_i = \sum_{t=1}^T AR_{i,t} \quad (4.1)$$

The daily abnormal return for the acquiring firm i at day t was computed as follows:

$$AR_{i,t} = R_{i,t} - E(R_{i,t}) \quad (4.2)$$

where $R_{i,t}$ is the actual stock return of firm i at day t and $E(R_{i,t})$ is the expected stock return of firm i at day t . The announcement date corresponds to the first public disclosure of the acquisition bid. Since stock prices may react before the official announcement due to information leakage, or after the announcement due to delayed market adjustment, multiple event windows were considered (MacKinlay, 1997; Bradley et al., 1998; Martynova & Renneboog, 2011). Three event windows were employed: $[-1, +1]$, $[-5, +1]$, and $[-10, +1]$.

The shortest event window, [-1, +1], was selected to capture the most immediate market reaction to the acquisition announcement while minimizing the influence of unrelated events. The wider event windows, [-5, +1] and [-10, +1], were included to account for the possibility of information leakage or market anticipation prior to the official announcement, allowing stock prices to adjust before the event date.

Following Brown & Warner (1985), the Market Model was used to estimate expected returns due to its robustness and ability to effectively detect abnormal performance:

$$E(R_{i,t}) = \alpha_i + \beta_i R_{m,t} + e_{i,t} \quad (4.3)$$

where $E(R_{i,t})$ is the expected return of the shares of the firm i on day t ; $R_{m,t}$ is the return of the market index MSCI World at day t ; β_i is the measure of the sensibility of the volatility of shares of firm i towards the market volatility (given by MSCI World Index); α_i is the intercept, which measures the average return of shares of firm i independent of market return during the moment t ; and, $e_{i,t}$ is the stochastic error ($\sum e_{i,t} = 0$).

The market model assumes a stable linear relationship between the return of a security and the return of the market portfolio (MacKinlay, 1997). In this dissertation, the bid announcement is treated as an event not fully captured by normal market movements estimated by the market model. As a result, abnormal returns are calculated as the difference between the actual realized returns and the expected returns generated by the market model, with this difference being interpreted as the market reaction attributable to the acquisition announcement.

The parameters α and β of the market model were estimated using realized daily stock returns³ and daily market returns, with the MSCI World Index serving as a proxy for market performance. The estimation window extends from 60 months (5 years) to one month before the bid announcement day. Finally, it is assumed that the estimated parameters remain constant throughout both the estimation period and the event window.

³ Although daily stock returns may exhibit non-normality and autocorrelation, Brown and Warner (1985) conclude that conventional event study methodologies remain generally well specified in short-horizon analyses.

The market return, using the MSCI World Index as a proxy, was determined daily by taking the log difference:

$$R_{m,t} = \ln (P_{m,t}) - \ln (P_{m,t-1}) \quad (4.4)$$

where $P_{m,t}$ is the MSCI World index value at day t and $P_{m,t-1}$ is the MSCI World index value at day t-1.

To evaluate whether the announcement generates significant abnormal performance, the statistical significance of the cumulative average abnormal returns (CAAR) is tested using parametric t-tests. Under the null hypothesis, the event does not affect shareholder wealth, and consequently, the CAAR is expected to be zero. Consistent with conventional event study assumptions, the CAAR is assumed to follow a normal distribution, $CAAR \sim N(0, \sigma)$.

$$CAAR = \frac{\sum_{i=1}^N CAR_i}{N} \quad (4.5)$$

where N represents the number of firms included in the sample. Following Brown & Warner (1985), the test statistics are assumed to follow a Student's t-distribution. Hence, the rejection of the null hypothesis ($H_0: CAAR = 0$) suggests that the announcement has a statistically significant effect on bidder shareholders' wealth.

$$t_{stat} = \frac{CAAR}{S(CAR)} \quad (4.6)$$

$$S(CAR) = \sqrt{\frac{1}{N-1} \sum_{i=1}^N (CAR_i - CAAR)^2} \quad (4.7)$$

where t_{stat} is the t-student test statistic with $n-2$ degrees of freedom, $CAAR$ is the cumulative average abnormal returns, CAR_i is the cumulative abnormal return of firm i, N is the total number of firms, and $S(CAR)$ is the standard deviation of CAR , an unbiased estimator of standard deviation of population (σ).

4.2.2 The Models

After describing the methodology used to calculate the dependent variables, namely the CAR, a cross-sectional analysis was conducted to test the hypotheses developed in this dissertation. More specifically, the analysis aims to examine the relationships between the dependent variables (acquisition premium⁴ and CAR) and the variables of interest, namely the geopolitical risks of the acquirer and target countries involved in each transaction.

To isolate the effect of geopolitical risk on the dependent variables, several control variables were included in the regression models, covering firm-, deal-, and macroeconomic-level variables. The estimations were performed using OLS regressions with robust standard errors to mitigate potential heteroskedasticity issues.

The following regression models were estimated to examine the relationship between geopolitical risk and the dependent variables, while controlling for firm-level, deal-level, and macroeconomic characteristics.

$$\begin{aligned}
 \text{PREMIUM}_i = & \beta_0 + \beta_1 \text{GPR}_{\text{target},i} + \beta_2 \text{GPR}_{\text{acquirer},i} + \beta_3 \text{LN}(\text{DealSize}_i) \\
 & + \beta_4 \text{CASH}_i + \beta_5 \text{SAMEIND}_i + \beta_6 \text{SIZE}_{\text{acquirer},i} + \beta_7 \text{SIZE}_{\text{target},i} \\
 & + \beta_8 \text{MB}_{\text{acquirer},i} + \beta_9 \text{MB}_{\text{target},i} + \beta_{10} \text{LEV}_{\text{acquirer},i} + \beta_{11} \text{LEV}_{\text{acquirer},i} \\
 & + \beta_{12} \text{ROA}_{\text{acquirer},i} + \beta_{13} \text{cash}_{\text{acquirer},i} + \beta_{14} \text{SalesGrowth}_{\text{acquirer},i} \\
 & + \beta_{15} \text{Inst_Dist}_i + \beta_{16} \text{FXVOL}_i + \beta_{17} \text{GDPGrowth}_{\text{acquirer},i} \\
 & + \beta_{18} \text{GDPGrowth}_{\text{target},i} \\
 & + \beta_{19} \text{Inflation}_{\text{acquirer},i} + \beta_{20} \text{Inflation}_{\text{target},i} + \varepsilon_i
 \end{aligned} \tag{5.1}$$

⁴ The acquisition premium for each transaction was obtained directly from the Orbis M&A database.

$$\begin{aligned}
CAR_i = & \alpha_0 + \alpha_1 GPR_{target,i} + \alpha_2 GPR_{acquirer,i} + \alpha_3 LN(DealSize_i) + \alpha_4 CASH_i \\
& + \alpha_5 SAMEIND_i + \alpha_6 SIZE_{acquirer,i} + \alpha_7 SIZE_{target,i} \\
& + \alpha_8 MB_{acquirer,i} + \alpha_9 MB_{target,i} + \alpha_{10} LEV_{acquirer,i} + \alpha_{11} LEV_{acquirer,i} \\
& + \alpha_{12} ROA_{acquirer,i} + \alpha_{13} cash_{acquirer,i} + \alpha_{14} cash_{target,i} \\
& + \alpha_{15} SalesGrowth_{acquirer,i} + \alpha_{16} Inst_Dist_i + \alpha_{17} FXVOL_i \\
& + \alpha_{18} GDPGrowth_{acquirer,i} + \alpha_{19} GDPGrowth_{target,i} \\
& + \alpha_{20} Inflation_{acquirer,i} + \alpha_{21} Inflation_{target,i} + \varepsilon_i
\end{aligned} \tag{5.2}$$

Both regression models include the same set of explanatory variables. These variables can be grouped into five main categories. The first category comprises the variables of interest: the geopolitical risks associated with both the target and acquirer countries. The second category includes deal-level variables⁵, such as relative deal size, method of payment, and industry-relatedness. The third category consists of firm-level variables, including firm size, market-to-book ratio, leverage, return on assets, cash holdings, and sales growth. The fourth category includes cross-border characteristics, namely, institutional distance between the countries involved in the transaction. The fifth category includes macroeconomic control variables, such as GDP growth, inflation, and exchange rate volatility.

First, to measure the geopolitical risk, the GPR index developed by Caldara & Iacoviello (2022) was used. The index was collected separately for the acquirer's home country and for the target's home country, meaning that each transaction is associated with two distinct GPR measures. A positive coefficient would indicate that, holding all other variables constant, higher geopolitical risk is associated with higher acquisition premiums and greater bidder value creation, whereas a negative coefficient would suggest the opposite relationship.

Regarding the deal-level variables, $LN(DealSize)$ represents the natural logarithm of the transaction value and is included to control for the relative size of the acquisition. A positive coefficient would indicate that, holding all other variables constant, larger transactions are

⁵ The deal-level variable capturing whether a transaction was hostile or friendly was not included in the analysis. This decision was motivated not only by the lack of consistent information available in the Orbis M&A database, but also by the difficulty in objectively classifying acquisitions as strictly hostile or friendly. In practice, some transactions may begin as hostile bids but later evolve into friendly agreements following negotiations between the parties.

associated with higher acquisition premiums and greater bidder value creation, while a negative coefficient would suggest that larger deals are associated with lower premiums and less favorable market reactions for bidders.

The CASH variable is a dummy variable used to evaluate the impact of the method of payment. As a result, if all-cash deals have a better impact than equity or mixed methods of payment, this variable should have a positive sign. Similarly, the variable SAMEIND is a dummy variable used to measure the degree of industry-relatedness between the acquiring and target firms. A positive coefficient would suggest that transactions between firms belonging to the same industry are associated with higher acquisition premiums and more favorable bidder reactions, potentially reflecting greater strategic fit and operational synergies.

Concerning the firm-level variables, this group includes the standard control variables commonly used in this segment of the M&A literature (Shen et al., 2021; Paudyal et al., 2021; Rao et al., 2023). The variable SIZE captures the size of both the acquiring and target firms. In the case of acquisition premiums, a positive coefficient for the acquirer's size would suggest that larger bidders tend to pay higher premiums, *ceteris paribus*. Similarly, a positive coefficient for the target's size would indicate that larger target firms are associated with higher acquisition premiums. The same reasoning applies to bidders' cumulative abnormal returns. A positive coefficient would imply that acquisitions involving larger firms are associated with more favorable market reactions around the announcement date, whereas a negative coefficient would suggest the opposite relationship.

The remaining firm-level variables include market-to-book ratio (MB), leverage (LEV), profitability (ROA), liquidity (cash), and sales growth (SalesGrowth). These variables are included to control for differences in firms' financial and operational characteristics that may influence acquisition premiums and bidders' market reactions around the announcement date. A positive coefficient for ROA, cash, MB, or SalesGrowth would imply that stronger financial performance, greater liquidity, or stronger sales growth are associated with higher acquisition premiums and more favorable market reactions, *ceteris paribus*. In contrast, a negative coefficient for LEV would suggest that higher leveraged firms are associated with lower acquisition premiums and less favorable bidder reactions, *ceteris paribus*, possibly due to greater financial risk and uncertainty.

To account for cross-country differences between the acquiring and target firms, the regression models also include a cross-border variable capturing institutional distance (Inst_Dist). This variable is measured using the Kogut & Singh (1988) index, based on the six dimensions of the Worldwide Governance Indicators (WGI)⁶. A negative coefficient would suggest that greater institutional differences between the acquirer and target countries are associated with lower acquisition premiums and less favorable bidder market reactions, *ceteris paribus*.

To control for the macroeconomic environment during the transaction period, the regression models include standard macroeconomic variables commonly used in the M&A literature (Shen et al., 2021; Paudyal et al., 2021; Rao et al., 2023). The variable GDPGrowth is included to capture the overall economic conditions of the countries involved in the transaction. A positive coefficient would suggest that stronger economic growth is associated with higher acquisition premiums and more favorable cumulative abnormal returns (CAR), *ceteris paribus*. Conversely, a negative coefficient would indicate that weaker economic conditions are associated with lower premiums and less favorable market reactions.

The variable Inflation is included to control for differences in price stability and macroeconomic conditions across countries. A negative coefficient would suggest that higher inflation levels are associated with lower acquisition premiums and less favorable bidder market reactions, *ceteris paribus*. Additionally, the variable FXVOL measures exchange-rate volatility between the countries involved in the transaction. A negative coefficient would suggest that higher exchange-rate volatility is associated with lower acquisition premiums and less favorable bidder reactions, *ceteris paribus*. Table 1 summarizes all explanatory variables included in the regression models.

Table 1 - Variable Definitions

Variable	Definition	Source
LN(DealSize)	Natural logarithm of the transaction value.	Orbis M&A
CASH	A dummy variable equal 1 if the deal is all-cash, 0 otherwise.	Orbis M&A

⁶ The six dimensions of the WGI are Rule of Law, Regulatory Quality, Control of Corruption, Political Stability, Government Effectiveness, and Voice and Accountability.

SAMEIND	A dummy variable equal 1 if acquirer and target are in the same industry, 0 if unrelated industries.	Orbis M&A
SIZE	Natural logarithm of total assets in the fiscal year preceding the announcement year, calculated for both acquirer and target firms.	Orbis
MB	Market-to-book ratio in the fiscal year preceding the acquisition announcement, calculated for both acquirer and target firms as the ratio of Market Value of Equity to Book Value of Equity.	Orbis
LEV	Leverage ratio in the fiscal year preceding the acquisition announcement, calculated for both acquirer and target firms as long-term debt minus cash and cash equivalents divided by Book Value of Equity.	Orbis
ROA	Return on assets, measured as Net Income divided by Total Assets in the fiscal year preceding the acquisition announcement. Calculated only for acquirer firms.	Orbis
cash	Cash and cash equivalents held by the acquirer and target firms in the fiscal year preceding the acquisition announcement.	Orbis
SalesGrowth	Annual growth rate of operating revenue in the acquisition announcement year relative to the previous fiscal year. Calculated only for acquirer firms.	Orbis
Inst_Dist	Institutional distance between the acquirer and target countries, measured using the Kogut and Singh (1988) index based on the six dimensions of the Worldwide Governance Indicators (WGI).	World Bank (WGI)
FXVOL	Annualized exchange-rate volatility between the currencies of the acquirer and target countries, calculated as the annualized standard deviation of monthly logarithmic exchange-rate returns in the year preceding the acquisition announcement. Currency proxies were used when specific exchange-rate series were unavailable.	Federal Reserve Economic Data (FRED)
GDPGrowth	GDP growth of acquirer and target countries. The inclusion of country-level economic conditions allow to control for systematic risk (for example, Madura et al. (2012) note that macro factors like GDP volatility influence takeover premiums).	World Bank (WGI)

Inflation	Annual inflation rate of both the acquirer and target countries in the year preceding the acquisition announcement.	World Bank (WGI)
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4.3 Sample Composition

4.3.1 Year of Announcement

The temporal distribution of the sample reveals a strong concentration of transactions in the post-2021 period, particularly between 2024 and 2025. These two years alone account for nearly half of the observations, with a substantial increase in deal activity compared to earlier years in the sample. This pattern is consistent with the post-pandemic recovery and the subsequent acceleration of global cross-border M&A activity observed in international markets. The concentration of deals in more recent years suggests that firms resumed strategic expansion initiatives following the period of economic uncertainty associated with the COVID-19 pandemic.

Table 2 - Number of Deals by Year of Announcement

Year	Number of Deals	Percentage (%)
2013	1	1.35
2017	1	1.35
2018	1	1.35
2021	10	13.51
2022	11	14.86
2023	13	17.57
2024	19	25.68
2025	18	24.32
Total	74	100

Source: Own calculations based on data obtained from Orbis M&A.

4.3.2 Geographic Distribution by Country

The sample is largely dominated by firms from Anglo-Saxon economies. On the acquirer side, companies from Anglo-Saxon countries account for approximately 42% of the total sample, with U.S. acquirers representing the largest group (16%), followed by firms from Canada (15%) and the United Kingdom (11%). In addition, the sample also includes a

significant presence of continental European acquirers, particularly from France, Switzerland, Germany and Denmark.

On the target side, a similar pattern emerges, although the concentration is even more pronounced. Approximately 74% of the target companies are from Anglo-Saxon countries, with U.S. targets alone accounting for nearly half of the sample (49%), followed by Canadian (15%) and British firms (11%). This geographical distribution reflects the dominant role of developed Anglo-Saxon economies in global cross-border M&A markets, particularly the United States' central position as both a major acquirer and a target market for international corporate transactions.

Another relevant characteristic of the sample is the limited participation of emerging economies. Countries such as India and Israel appear only marginally, indicating that the dataset is primarily concentrated in developed markets. Overall, the geographical distribution suggests that the sample reflects the dominant structure of global cross-border M&A activity, with transactions largely concentrated among firms in highly developed economies.

Table 3 - Country Distribution of Acquirers and Targets

Country	Acquirers (N)	Acquirers (%)	Targets (N)	Targets (%)
United States	12	16.22	36	48.65
Canada	11	14.86	11	14.86
United Kingdom	8	10.81	8	10.81
France	7	9.46	—	—
Switzerland	6	8.11	—	—
Germany	6	8.11	1	1.35
Denmark	5	6.76	1	1.35
Japan	4	5.41	—	—
Australia	3	4.05	2	2.70
Netherlands	3	4.05	2	2.70
Sweden	2	2.70	3	4.05
India	2	2.70	2	2.70
Israel	—	—	3	4.05
Norway	1	1.35	2	2.70
Belgium	1	1.35	1	1.35
Finland	1	1.35	1	1.35
Italy	1	1.35	1	1.35
Spain	1	1.35	—	—
Total	74	100	74	100

Source: Own calculations based on data obtained from Orbis M&A.

4.3.3 Industry Sector⁷

Regarding the industry composition, the sample is dominated by transactions between firms operating within the same industry (approximately 97%). This suggests that most cross-border acquisitions in the sample are motivated by strategic expansion within the firms' core lines of business rather than by diversification purposes. In terms of sector representation, the Healthcare/Biopharma sector is the most significant, accounting for more than 30% of both target and acquirer firms. Manufacturing and Information and Communication also represent a substantial share of the sample, followed by Mining and Quarrying. Together, these sectors account for most of the transactions analyzed. By contrast, the remaining sectors are only weakly represented, each accounting for a relatively small proportion of the total sample.

Table 4 - Industry Distribution of Acquirers and Targets

Industry Sector	Acquirers (N)	Acquirers (%)	Targets (N)	Targets (%)
Healthcare/Biopharma	25	33.78	26	35.14
Manufacturing	15	20.27	14	18.92
Information and Communication	14	18.92	15	20.27
Mining and Quarrying	10	13.51	10	13.51
Wholesale and Retail Trade	3	4.05	3	4.05
Financial and Insurance Activities	3	4.05	2	2.70
Accommodation and Food Service	1	1.35	1	1.35
Professional, Scientific and Technical	1	1.35	1	1.35
Real Estate	1	1.35	1	1.35
Transportation and Storage	1	1.35	1	1.35
Total	74	100	74	100

Source: Own calculations based on data obtained from Orbis M&A.

⁷ To classify the industry sectors of the firms involved in the transactions, this dissertation uses Level 1 of the NACE classification system. Given the relatively small sample size, a more detailed sector classification was not considered appropriate, as it would substantially increase the number of industry categories.

4.3.4 Deal Value by Target Region

As shown in Table 5, the average deal value across the sample amounts to approximately USD 2.25 billion. Among the different regions, the Middle East reports the highest average transaction value, largely driven by a single USD 25 billion transaction, the largest deal in the entire sample, which significantly inflates the regional mean⁸. Despite this outlier effect, the United States and Canada collectively account for the largest share of total deal value, representing more than USD 97 billion in aggregate transaction value. This result is also explained by the fact that this region contains by far the highest number of observations in the sample (47 out of 74 transactions), substantially exceeding the number of deals observed in the remaining regions. Europe also constitutes a significant portion of the sample, with total deal values exceeding USD 36 billion, whereas Asia/Pacific transactions are comparatively smaller both in terms of average and aggregate deal size.

Table 5 - Deal Value by Target Region

Target Region	N	Total Deal Value (USD million)	Mean Deal Value (USD million)	Std. Dev.	Min	Max
Asia/Pacific	4	6,386	1,597	1,775	57	3,232
Europe	20	36,223	1,811	2,948	55	10,000
Middle East	3	26,856	8,952	13,910	356	25,000
United States and Canada	47	97,032	2,250	2,396	53	12,000
Total	74	166,497	2,250	3,641	53	25,000

Source: Own calculations based on data obtained from Orbis M&A.

⁸ The largest deal in the sample was announced in 2025, when the American company Palo Alto Networks, the global cybersecurity leader, announced the acquisition of the Israeli company CyberArk Software Ltd. for approximately USD 25 billion.

4.3.5 Descriptive Statistics

Table 6 reports the descriptive statistics. Regarding the dependent variables, the average acquisition premium is 42.7%, indicating that, on average, acquirers paid substantially above the pre-announcement market value of target firms. Regarding bidder value creation, the different CAR measures are, on average, slightly negative, ranging from -0.3% to -1.2% across event windows. This result aligns with the existing literature, which indicates that, on average, acquiring firms experience mixed or modest abnormal returns around the announcement date (Dodd, 1980; Asquith & Kim, 1982; Jensen & Ruback, 1983).

Regarding the variables of interest, the average geopolitical risk is higher in target countries than in acquirer countries. This difference suggests that target firms are often located in countries with higher geopolitical risk than those of the acquiring firms.

Table 6 - Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
PREMIUM (%)	69	42.7	48.3	-39.7	244.8
CAR[-10; +1] (%)	68	-0.9	7.4	-21.8	20.3
CAR[-5; +1] (%)	68	-0.3	6.6	-20.9	21.3
CAR[-1; +1] (%)	68	-1.2	6.2	-24.1	16.5
GPR_t	74	1.6	1.3	0.1	3.5
GPR_a	74	0.8	1.0	0.0	3.5
SIZE_a	74	8.9	1.9	4.0	12.6
SIZE_t	74	5.8	1.7	-0.2	9.7
MB_a	74	4.0	5.2	-9.1	22.9
MB_t	74	3.8	13.8	-65.8	84.4
LEV_a	74	-0.5	6.5	-55.2	3.0
LEV_t	74	0.9	6.8	-6.5	58.0
cash_a (USD million)	74	2,338.8	3,572.5	0	13,584.2
cash_t (USD million)	74	104.8	175.4	0	1,203.0
ROA_a (%)	74	0.8	36.9	-299.3	33.4
SalesGrowth_a (%)	74	19.2	33.0	-23.3	138.1
Inst_Dist	74	0.4	0.5	0.0	3.0
GDPGrowth_a (%)	74	1.9	3.4	-10.9	8.5
GDPGrowth_t (%)	74	2.2	3.3	-8.9	8.5
FXVOL (%)	74	4.9	2.6	0	12.1
inflation_a (%)	74	3.5	2.2	-0.3	8.5
inflation_t (%)	74	4.3	2.4	-0.1	10.0

Source: Own calculations.

Regarding the control variables, several differences between acquirers and targets emerge. Acquiring firms are, on average, considerably larger than target firms, consistent with Martynova & Renneboog (2011). Acquirers also exhibit slightly higher market-to-book ratios (Erel et al., 2012) and hold substantially larger cash reserves, which is consistent with the expectation that acquiring firms are generally larger and financially stronger than target companies. The average GDP growth rates of both acquirer and target countries are relatively similar, at approximately 2%, while inflation rates remain moderate across the sample. Finally, the relatively lower average institutional distance between acquirer and target countries suggests a moderate degree of institutional heterogeneity across the transactions analyzed.

Regarding the correlation among the variables, there is no evidence of severe multicollinearity, as shown in Annexes 1 and 2. As expected, the different CAR windows are highly correlated, reflecting the fact that they capture similar market reactions around the announcement date.

5. Results

5.1 Acquisition Premium

Table 7 reports the results of the OLS regressions explaining acquisition premiums. Following an incremental model-building approach, the analysis begins with a parsimonious specification including only the geopolitical risk variables and progressively introduces target, acquirer, deal, and macroeconomic controls. This approach allows the assessment of whether the estimated effect of geopolitical risk remains stable after controlling for additional factors.

Table 7 - OLS Regression Results for Acquisition Premium

Variable	Coefficient				
	(1)	(2)	(3)	(4)	(5)
GPR_t	0.109** (0.050)	0.162*** (0.052)	0.106** (0.042)	0.143*** (0.043)	0.115** (0.052)
GPR_a	-0.024 (0.045)	-0.019 (0.038)	-0.003 (0.037)	0.026 (0.042)	-0.007 (0.042)
SIZE_t		-0.112*** (0.041)	-0.076** (0.036)	-0.003 (0.040)	-0.023 (0.049)
MB_t		0.014*** (0.005)	0.011** (0.006)	0.011** (0.004)	0.013*** (0.003)
LEV_t		-0.028*** (0.007)	-0.022*** (0.008)	-0.022*** (0.006)	-0.022*** (0.005)
SIZE_a			-0.048 (0.044)	-0.055 (0.046)	-0.015 (0.060)
MB_a			0.000 (0.007)	0.002 (0.007)	0.009 (0.009)
LEV_a			-0.026*** (0.004)	-0.029*** (0.003)	-0.029*** (0.004)
ROA_a			0.021 (0.056)	0.056 (0.050)	-0.027 (0.086)
cash_a			0.000 (0.000)	0.000** (0.000)	0.000** (0.000)
SalesGrowth_a			-0.249 (0.196)	-0.340 (0.183)	-0.445** (0.213)
LN(DealSize)				-0.124** (0.059)	-0.131** (0.056)
CASH				0.073 (0.126)	0.103 (0.138)
SAMEIND				-0.631*** (0.139)	-0.344 (0.251)
GDPGrowth_a					0.352 (2.177)
GDPGrowth_t					-0.518

					(2.032)
Inflation_a					1.032
					(3.304)
Inflation_t					1.796
					(2.975)
FXVOL					1.755
					(2.157)
Inst_Dist					-0.206**
					(0.102)
Constant	0.276***	0.816***	1.043***	2.849***	2.376***
	(0.074)	(0.220)	(0.385)	(0.712)	(0.709)
Observations	69	69	69	69	69
R-squared	0.094	0.282	0.445	0.522	0.571
Adjusted R-squared	0.066	0.225	0.338	0.399	0.392
F-statistic	2.700	14.970	336.840	240.430	290.080
Prob(F-statistic)	0.075	0.000	0.000	0.000	0.000

Source: Own calculations. Robust standard errors are reported in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively. This table reports the OLS regression results for acquisition premiums. Model (1) includes only the geopolitical risk variables. Models (2) to (5) progressively incorporate target-firm financial characteristics, acquirer-firm financial characteristics, deal characteristics, and macroeconomic variables, respectively.

The results provide consistent evidence that geopolitical risk in the target country is positively associated with acquisition premiums. In Model 1, the coefficient of GPR_t is positive and statistically significant at the 5% level, while the coefficient of GPR_a is negative but statistically insignificant. As additional controls are introduced in Models 2-5, the coefficient of GPR_t remains positive and statistically significant, reaching the 1% significance level in Model 2 and 4. In economic terms, the estimated coefficients suggest that a one-standard-deviation increase in the target-country geopolitical risk index is associated with an increase of approximately 13.8 to 21.1 percentage points in the acquisition premium, *ceteris paribus*.

The stability of both the sign and the significance of the coefficient across specifications suggests that the relationship is robust and not driven by omitted firm-, deal-, or country-level characteristics. Conversely, the coefficient of GPR_a remains statistically insignificant throughout all specifications, providing no evidence to support Hypothesis 1b.

Regarding the control variables, several determinants of acquisition premiums emerge consistently across specifications. The target market-to-book ratio is positively associated with acquisition premiums, suggesting that bidders are willing to pay higher premiums for

firms with stronger growth prospects. In contrast, target leverage, acquirer leverage, and deal size exhibit negative, statistically significant coefficients, indicating that more leveraged firms and larger transactions tend to be associated with lower premiums, as documented by Alexandridis et al. (2013). Acquirer cash holdings have a positive and significant coefficient, suggesting that financially flexible bidders offer higher premiums.

Among the deal-level variables, industry-relatedness is negatively associated with acquisition premiums. Although this result may reflect lower information asymmetries and integration uncertainty in same-industry acquisitions, it should be interpreted with caution, given the limited number of transactions involving firms from different industries in the sample. Finally, institutional distance exhibits a negative, statistically significant coefficient in the full specification, suggesting that acquirers discount targets in institutionally distant environments. Although cross-border acquisitions may offer governance-related benefits (Bris & Cabolis, 2004; Rossi & Volpin, 2004), greater institutional differences can also increase uncertainty, thereby reducing acquirers' willingness to pay higher premiums.

While the previous specifications consistently indicate that geopolitical risk in the target country is positively associated with acquisition premiums, they do not fully capture the relative geopolitical position of the two parties involved in the transaction. In a cross-border acquisition, the decision to pay a premium may depend not only on the absolute level of geopolitical risk in the target country, but also on how that risk compares with the geopolitical environment faced by the acquiring firm.

To further explore this issue, an alternative measure of geopolitical risk was constructed as the difference between the target-country and acquirer-country GPR indices (GPR_diff). A positive value indicates that the target country is exposed to higher geopolitical risk than the acquirer country, whereas a negative value indicates the opposite. This alternative specification enables the analysis to assess whether relative geopolitical risk differentials shape acquisition premiums.

The results are reported in Table 8. Model 6 presents a simple specification including only GPR_diff. The coefficient is positive and statistically significant at the 5% level, indicating that acquisition premiums increase as the target country's geopolitical risk rises relative to the acquirer countries.

**Table 8 - OLS Regression Results Using the Difference in Geopolitical Risk
between Target and Acquirer Countries**

Variable	Coefficient				
	(6)	(7)	(8)	(9)	(10)
GPR_diff	0.076** (0.033)	0.104*** (0.032)	0.060*** (0.021)	0.066** (0.025)	0.061** (0.027)
SIZE_t		-0.102** (0.041)	-0.066* (0.034)	-0.005 (0.042)	-0.023 (0.048)
MB_t		0.012** (0.005)	0.009* (0.005)	0.008* (0.004)	0.011*** (0.003)
LEV_t		-0.025*** (0.007)	-0.018** (0.007)	-0.016** (0.006)	-0.018*** (0.004)
SIZE_a			-0.044 (0.043)	-0.050 (0.050)	-0.003 (0.058)
MB_a			0.004 (0.005)	0.007 (0.006)	0.013 (0.003)
LEV_a			-0.028*** (0.003)	-0.032*** (0.003)	-0.031*** (0.003)
ROA_a			0.020 (0.064)	0.048 (0.061)	-0.055 (0.089)
cash_a			0.000* (0.000)	0.000** (0.000)	0.000** (0.000)
SalesGrowth_a			-0.182 (0.193)	-0.219 (0.181)	-0.440* (0.219)
LN(DealSize)				-0.093 (0.056)	-0.119** (0.057)
CASH				0.052 (0.134)	0.094 (0.143)
SAMEIND				-0.526*** (0.133)	-0.224 (0.235)
GDPGrowth_a					0.684 (2.090)
GDPGrowth_t					-1.005 (1.810)
Inflation_a					2.913 (3.109)
Inflation_t					1.446 (2.976)
FXVOL					2.516 (2.026)
Inst_Dist					-0.210** -0.103
Constant	0.370*** (0.049)	0.922** (0.246)	1.028*** (0.385)	2.443*** (0.674)	2.016*** (0.641)
Observations	69	69	69	69	69

R-squared	0.078	0.238	0.427	0.479	0.557
Adjusted R-squared	0.064	0.190	0.328	0.356	0.386
F-statistic	5.280	12.840	290.760	192.110	316.020
Prob(F-statistic)	0.025	0.000	0.000	0.000	0.000

Source: Own calculations. Robust standard errors are reported in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively. This table reports the OLS regression results for acquisition premiums using the difference in geopolitical risk between target and acquirer countries (GPR_diff). Model (1) includes only the geopolitical risk variables. Models (2) to (5) progressively incorporate target-firm financial characteristics, acquirer-firm financial characteristics, deal characteristics, and macroeconomic variables, respectively.

The robustness of this finding is further confirmed in Models 7-10. After progressively introducing target-firm controls, acquirer-firm controls, deal-level variables and macroeconomic controls, the coefficient of GPR_diff remains positive and statistically significant across all specifications. Moreover, the estimated coefficient remains relatively stable, suggesting that the observed relationship is not driven by omitted firm, deal or macroeconomic characteristics. From an economic perspective, the estimated coefficients indicate that, holding all other variables constant, a one-unit increase in the difference between the target's and the acquirer's geopolitical risk indices is associated with an approximately 6 to 10.4 percentage-point increase in the acquisition premium.

These findings strengthen the evidence obtained from the previous models. While the initial specifications suggested that geopolitical risk in the target country positively influences acquisition premiums, the results based on GPR_diff indicate that the relative level of geopolitical risk between the target and acquirer countries is also relevant in explaining acquisition premiums. In other words, acquisition premiums tend to be higher when the target country exhibits greater geopolitical risk than the acquiring country, indicating that greater geopolitical risk differentials are associated with higher acquisition premiums and may reflect acquirors' expectations of greater long-term value creation opportunities.

5.2.1 Robustness Analysis

Due to outliers, the main variables (acquisition premium, market-to-book ratio, leverage, return on assets, and sales growth) were winsorized at the 1st and 99th percentiles. However, the Cook's Distance analysis revealed that, even after this procedure, a small number of influential observations persist. Importantly, these observations appeared to be multivariate rather than univariate, as they did not correspond to extreme values in the marginal distributions of the variables.

Rather than excluding observations from the sample, a more conservative winsorization procedure was applied. Specifically, the acquisition premium and the main financial control variables (market-to-book ratio, leverage, return on assets, and sales growth) were winsorized at the 5th and 95th percentiles. This approach reduced the influence of potentially influential observations while preserving the overall sample composition.

Table 9 reports the results after winsorization. Overall, the main conclusions remain unchanged. The coefficient of target-country geopolitical risk remains positive and statistically significant across all specifications, with only a small reduction in magnitude. This finding indicates that the positive relationship between target country geopolitical risk and acquisition premiums is not driven by a small number of influential observations and therefore appears to be robust to alternative treatments of extreme values.

Table 9 - OLS Regression Results for Acquisition Premium after Winsorization

Variable	Coefficient				
	(1)	(2)	(3)	(4)	(5)
GPR_t	0.079** (0.036)	0.112*** (0.033)	0.087** (0.037)	0.129*** (0.037)	0.110** (0.047)
GPR_a	-0.011 (0.039)	-0.030 (0.037)	-0.029 (0.037)	-0.008 (0.035)	-0.035 (0.038)
SIZE_t		-0.066*** (0.024)	-0.065** (0.031)	0.003 (0.038)	0.001 (0.045)
MB_t		-0.001 (0.009)	-0.005 (0.007)	0.000 (0.007)	0.007 (0.009)
LEV_t		-0.084 (0.057)	-0.044 (0.067)	-0.078 (0.064)	-0.071 (0.072)
SIZE_a			0.007 (0.033)	0.002 (0.046)	0.030 (0.058)
MB_a			0.001 (0.008)	0.001 (0.008)	0.009 (0.010)
LEV_a			-0.089	-0.091	-0.073

			(0.066)	(0.072)	(0.090)
ROA_a			-0.207	-0.023	-0.420
			(0.741)	(0.791)	(0.876)
cash_a			0.000	0.000*	0.000
			(0.000)	(0.000)	(0.000)
SalesGrowth_a			-0.051	-0.246	-0.320
			(0.256)	(0.250)	(0.250)
LN(DealSize)				-0.116*	-0.131**
				(0.063)	(0.064)
CASH				0.049	0.071
				(0.097)	(0.100)
SAMEIND				-0.487***	-0.295
				(0.166)	(0.230)
GDPGrowth_a					0.649
					(1.802)
GDPGrowth_t					-0.620
					(1.940)
Inflation_a					0.965
					(3.186)
Inflation_t					0.543
					(2.430)
FXVOL					1.956
					(2.110)
Inst_Dist					-0.143
					(0.087)
Constant	0.291***	0.670**	0.620**	2.213***	1.933***
	(0.067)	(0.154)	(0.247)	(0.547)	(0.588)
Observations	69	69	69	69	69
R-squared	0.078	0.233	0.285	0.368	0.411
Adjusted R-squared	0.050	0.172	0.147	0.204	0.165
F-statistic	2.660	4.040	3.380	5.130	3.470
Prob(F-statistic)	0.078	0.003	0.001	0.000	0.000

Source: Own calculations. Robust standard errors are reported in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively. This table reports the OLS regression results for acquisition premiums using a winsorized sample (5th and 95th percentiles). Model (1) includes only the geopolitical risk variables. Models (2) to (5) progressively incorporate target-firm financial characteristics, acquirer-firm financial characteristics, deal characteristics, and macroeconomic variables, respectively.

The most notable changes concern the control variables. Several firm-level variables that were statistically significant in the baseline regressions lose their significance after winsorization. Similarly, institutional distance is no longer statistically significant in the full specification. These results suggest that part of the explanatory power previously attributed to some control variables may have been influenced by a limited number of influential

observations. Nevertheless, the main finding of the analysis remains unaffected, higher geopolitical risk in the target country continues to be associated with higher acquisition premiums, while acquirer-country geopolitical risk remains statistically insignificant across all specifications.

Similar results were obtained when applying the same winsorization procedure to the regression using the geopolitical risk differential between target and acquirer countries. To avoid repetition, these results are reported in Annex 3.

5.2.2 Hypotheses Assessment

Considering both the baseline and robustness specifications, the evidence does not support Hypothesis 1a. Contrary to the initial expectation, the coefficient on target-country geopolitical risk is positive and statistically significant. This finding suggests that bidders pay higher premiums for targets located in countries characterized by higher geopolitical risk. Such evidence contrasts with the view that uncertainty reduces firms' willingness to invest (Bloom, 2009).

However, a possible explanation for this finding is that geopolitical risk may already be reflected in the market valuation of target firms. Higher levels of geopolitical uncertainty can increase risk perceptions and reduce firm valuations (Pástor & Veronesi, 2012). Consequently, companies operating in countries with greater geopolitical risk may trade at lower market values prior to an acquisition announcement. In this sense, the positive relationship between target-country geopolitical risk and acquisition premiums may reflect the fact that geopolitical risk is already incorporated into the target firm's market price, whereas the bidder's acquisition price does not fully reflect this lower valuation. This interpretation is also consistent with the view that country-level characteristics influence corporate valuations and acquisition outcomes (Rossi & Volpin, 2004).

Regarding Hypothesis 1b, across all specifications, the coefficient associated with acquirer-country geopolitical risk remains statistically insignificant and shows no consistent pattern in sign or magnitude. Therefore, Hypothesis 1b is rejected.

5.3 Cumulative Abnormal Return

Table 10 reports the OLS estimates for bidder cumulative abnormal returns (CAR) using the [-1; +1] event window⁹. Following the incremental model-building approach adopted in the acquisition premium analysis, the specifications progressively introduce controls for geopolitical, firm-level, deal-level, and macroeconomic factors.

Across all specifications, the coefficient on acquirer-country geopolitical risk is consistently negative. While the effect is generally insignificant in the longer event windows, it becomes statistically significant in the shortest window, [-1; +1], and remains significant after the inclusion of the full set of controls. These findings suggest that investors react less favourably to acquisition announcements made by firms operating in more geopolitically uncertain environments. From an economic perspective, the estimated coefficients suggest that, holding all other variables constant, a one-unit increase in the acquirer's home-country geopolitical risk index is associated with a CAR [-1, +1] that is lower by approximately 1.5 to 2.1 percentage points.

Table 10 - OLS Regressions of Announcement Period for Bidders CAR [-1, +1]

Variable	Coefficient				
	(1)	(2)	(3)	(4)	(5)
GPR_a	-0.018** (0.009)	-0.018** (0.009)	-0.015* (0.008)	-0.015 (0.009)	-0.021** (0.009)
GPR_t		0.000 (0.006)	-0.002 (0.007)	-0.006 (0.007)	-0.010 (0.007)
SIZE_a			-0.005 (0.007)	0.000 (0.009)	0.008 (0.009)
MB_a			0.000 (0.001)	0.000 (0.001)	0.002 (0.002)
LEV_a			0.001 (0.001)	0.000 (0.001)	0.000 (0.001)
ROA_a			0.089*** (0.011)	0.087*** (0.010)	0.078*** (0.012)
cash_a			0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
SalesGrowth_a			0.020 (0.027)	0.021 (0.027)	0.016 (0.024)
SIZE_t				0.005 (0.007)	0.000 (0.007)

⁹ The regression was also conducted for [-5; +1] and [-10; +1] windows. However, since the results obtained presented less statistical significance and were similar to the results of the CAR regression over [-1, +1], the results are not purposely reported, but can be found in the Annexes 4 and 5.

MB_t				-0.001	-0.001
				(0.000)	(0.000)
LEV_t				0.003***	0.004***
				(0.001)	(0.001)
cash_t				0.000*	0.000*
				(0.000)	(0.000)
LN(DealSize)				-0.014**	-0.014**
				(0.006)	(0.006)
CASH				0.017	0.019
				(0.016)	(0.013)
SAMEIND				0.011	0.086**
				(0.029)	(0.037)
GDPGrowth_a					-0.303
					(0.332)
GDPGrowth_t					-0.325
					(0.398)
Inflation_a					0.333
					(0.396)
Inflation_t					0.829**
					(0.401)
FXVOL					0.372
					(0.251)
Inst_Dist					-0.036**
					(0.016)
Constant	0.002	0.001	0.038	0.132	2.016***
	(0.009)	(0.015)	(0.066)	(0.109)	(0.108)
Observations	68	68	68	68	68
R-squared	0.079	0.079	0.321	0.458	0.584
Adjusted R-squared	0.065	0.051	0.229	0.302	0.394
F-statistic	4.510	2.220	39.740	53.580	87.130
Prob(F-statistic)	0.038	0.117	0.000	0.000	0.000

Source: Own calculations. Robust standard errors are reported in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively. This table reports the OLS regression results for bidder cumulative abnormal returns (CAR[-1, +1]) around the announcement date. Model (1) includes only the geopolitical risk variables. Models (2) to (5) progressively incorporate target-firm financial characteristics, acquirer-firm financial characteristics, deal characteristics, and macroeconomic variables, respectively.

In contrast, target-country geopolitical risk remains statistically insignificant across all specifications and event windows, suggesting that the target country's geopolitical conditions do not materially influence bidder abnormal returns.

Among the control variables, institutional distance emerges as one of the most robust determinants of bidder value creation, with a negative, statistically significant coefficient

across the full specifications, consistent with the findings of Chatterjee et al. (1992) and Campa & Hernando (2004). Deal size also exhibits a negative effect, suggesting that larger acquisitions are associated with less favourable market reactions, as shown by Moeller et al. (2004). In the shortest event window, bidder profitability is positively associated with abnormal returns, whereas target leverage shows a positive, significant effect.

Overall, the results consistently fail to support the positive relationship predicted by Hypothesis 2. While statistical significance is concentrated in the shorter event windows, the coefficient of acquirer-country geopolitical risk remains negative in all specifications, suggesting that investors tend to view acquisitions undertaken by firms exposed to higher geopolitical risk less favourably.

5.3.1 Robustness Analysis

As in the acquisition premium analysis, a robustness analysis was conducted to evaluate whether the main findings are sensitive to influential observations and omitted industry- or time-specific effects. As a result, a winsorization procedure was applied to the [-1; +1] specification and to the main financial variables potentially affected by extreme values¹⁰. The results are presented in Table 11.

The winsorized regressions provide additional support for the baseline findings. After reducing the influence of potentially influential observations, the coefficient associated with acquirer-country geopolitical risk remains negative and statistically significant in the [-1; +1] specification. Moreover, both the magnitude and significance of the coefficient remain broadly consistent with those obtained in the baseline regressions.

¹⁰ Given that the event window [-1, +1] produced the strongest and most consistent results, the winsorization procedure was applied only to this specification. This approach allows us to assess whether the previously documented effects are driven by a small number of influential observations.

Table 11 - OLS Regressions of Announcement Period for Bidders CAR [-1, +1] after Winsorization

Variable	Coefficient				
	(1)	(2)	(3)	(4)	(5)
GPR_a	-0.018** (0.009)	-0.018** (0.009)	-0.017** (0.008)	-0.017* (0.009)	0.020** (0.008)
GPR_t		0.000 (0.006)	-0.005 (0.005)	-0.003 (0.007)	-0.005 (0.007)
SIZE_a			-0.008 (0.007)	-0.006 (0.009)	-0.002 (0.008)
MB_a			-0.002 (0.002)	-0.002 (0.002)	0.001 (0.002)
LEV_a			0.017* (0.010)	0.010 (0.015)	0.018 (0.015)
ROA_a			0.523*** (0.142)	0.475*** (0.174)	0.408** (0.183)
cash_a			0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
SalesGrowth_a			-0.017 (0.039)	-0.025 (0.044)	-0.036 (0.034)
SIZE_t				0.001 (0.007)	-0.008 (0.008)
MB_t				0.000 (0.002)	0.003 (0.002)
LEV_t				0.003 (0.011)	0.006 (0.010)
cash_t				0.000* (0.000)	0.000* (0.000)
LN(DealSize)				-0.009 (0.009)	-0.005 (0.010)
CASH				0.014 (0.022)	0.020 (0.019)
SAMEIND				-0.006 (0.027)	0.066 (0.041)
GDPGrowth_a					-0.859** (0.413)
GDPGrowth_t					0.524 (0.513)
Inflation_a					0.272 (0.509)
Inflation_t					1.006* (0.567)
FXVOL					0.001 (0.304)
Inst_Dist					-0.048**

					(0.020)
Constant	0.002	0.001	0.061	0.149	0.007
	(0.009)	(0.015)	(0.068)	(0.129)	(0.117)
Observations	68	68	68	68	68
R-squared	0.079	0.079	0.243	0.274	0.463
Adjusted R-squared	0.065	0.051	0.141	0.065	0.217
F-statistic	4.510	2.220	2.520	3.100	2.100
Prob(F-statistic)	0.038	0.117	0.020	0.001	0.018

Source: Own calculations. Robust standard errors are reported in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively. This table reports the OLS regression results for bidder cumulative abnormal returns (CAR[-1, +1]) around the announcement date using a winsorized sample (5th and 95th percentiles). Model (1) includes only the geopolitical risk variables. Models (2) to (5) progressively incorporate target-firm financial characteristics, acquirer-firm financial characteristics, deal characteristics, and macroeconomic variables, respectively.

These results indicate that the negative relationship between acquirer-country geopolitical risk and bidder abnormal returns is not driven by a small number of influential observations. In other words, investors continue to react less favourably to acquisition announcements by firms operating in countries exposed to higher geopolitical risk, even after accounting for extreme observations.

Regarding the control variables, the overall pattern of results remains largely unchanged. Although some coefficients exhibit minor variations in magnitude and significance, the main conclusions are qualitatively identical to those from the baseline models. Therefore, the evidence suggests that the results are robust to alternative treatments of potentially influential observations.

5.3.2 Hypotheses Assessment

Considering both the baseline and robustness specifications, the evidence does not support Hypothesis 2, which predicted that higher geopolitical risk in the acquirer's home country would be associated with higher cumulative abnormal returns for the acquirer. Instead, the results indicate that higher geopolitical risk in the acquirer's home country is generally associated with less favourable market reactions around acquisition announcements for the acquirer, particularly within the immediate announcement window [-1; +1].

The stronger results obtained for the shortest event window may indicate that geopolitical risk primarily affects investors' immediate assessment of acquisition

announcements. As the event window widens, cumulative abnormal returns are increasingly influenced by firm-specific and market-wide factors unrelated to the event itself, making it more difficult to isolate the effect of geopolitical risk. This interpretation is consistent with Brown and Warner (1985), who show that the statistical power of event-study tests decreases substantially as the event window expands and additional noise is incorporated into the return measure.

A possible explanation for the negative relationship between acquirer-country geopolitical risk and bidder abnormal returns is that investors may perceive acquisitions by firms operating in geopolitically riskier environments as more uncertain and difficult to execute successfully, especially cross-border acquisitions. Consequently, rather than viewing the acquisition as a value-creating opportunity, investors may interpret the transaction as an additional source of risk, consistent with evidence that uncertainty tends to discourage investment and increase risk premia (Bloom, 2009; Pástor & Veronesi, 2012).

6. Conclusion

This dissertation examined the effects of geopolitical risk on acquisition premiums and bidder value creation in cross-border mergers and acquisitions. While previous studies have explored the relationship between geopolitical risk and M&A activity, the existing evidence has largely focused on deal frequency and transaction volume. By analysing how geopolitical risk affects acquisition premiums and bidder abnormal returns, this study contributes to a relatively underexplored area of the literature.

The results provide two main findings. First, higher geopolitical risk in the target country is associated with higher acquisition premiums. One possible explanation is that geopolitical risk is already reflected in the market valuation of target firms, leading bidders to offer premiums over a depressed pre-announcement market price. This conclusion is further supported by an analysis of the difference between target- and acquirer-country geopolitical risk, which shows that acquisition premiums tend to increase when the target country's geopolitical risk exceeds that of the acquirer country. This suggests that bidders may expect greater value creation from acquiring targets located in relatively riskier geopolitical environments and are therefore willing to offer higher acquisition premiums.

Second, higher geopolitical risk in the acquirer's home country is generally associated with less favourable market reactions around acquisition announcements, particularly within the immediate announcement window. This finding suggests that investors perceive acquisitions undertaken by firms operating in geopolitically riskier environments as more uncertain and potentially more difficult to execute successfully. Moreover, these findings remain qualitatively unchanged after the winsorization procedure and the inclusion of alternative model specifications, reinforcing the robustness of the results.

Despite these contributions, the study has a few limitations. Most importantly, the relatively small sample size limits the analysis's statistical power and the generalizability of the results. Additionally, the sample is concentrated in developed economies, particularly Anglo-Saxon countries, which may reduce the applicability of the findings to emerging markets.

Given the growing importance of geopolitical developments in international business decisions, further research is warranted. Future studies could employ larger, more geographically diverse samples, include industry- and year-specific effects, or examine other

dimensions of M&A activity, such as deal completion probability, post-acquisition performance, or long-term shareholder value creation. As geopolitical risk continues to shape the global business environment, understanding its implications for corporate strategy and cross-border investment remains a promising avenue for future research.

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Annexes

Annex 1 – Correlation Matrix between the Variables Used to Test H1a and H1b

Correlation	premium	gpr_t	gpr_a	deal_size	size_a	size_t	mb_a	mb_t	lev_a	lev_t	roa_a	cash_a	sales_growth_a	inst_dist	fx_vol	gdp_growth_a	gdp_growth_t	infl_a	infl_t
premium	1																		
gpr_t	0.302	1																	
gpr_a	-0.101	-0.172	1																
deal_size	-0.047	0.390	-0.016	1															
size_a	0.174	0.314	-0.069	0.689	1														
size_t	-0.189	0.277	-0.124	0.723	0.389	1													
mb_a	-0.131	0.195	0.146	0.149	0.028	0.179	1												
mb_t	0.029	0.091	-0.168	0.322	0.151	0.404	0.047	1											
lev_a	-0.449	-0.131	0.052	0.067	-0.058	0.235	0.311	0.020	1										
lev_t	-0.140	0.164	-0.082	0.119	-0.055	0.196	0.035	0.658	0.054	1									
roa_a	0.041	0.139	-0.112	0.273	0.330	0.168	0.146	0.042	0.026	0.028	1								
cash_a	0.335	0.309	-0.021	0.459	0.662	0.133	-0.037	0.083	0.043	-0.098	0.113	1							
sales_growth_a	-0.093	-0.158	0.241	-0.434	-0.480	-0.309	0.082	-0.011	0.030	-0.074	-0.411	-0.239	1						
inst_dist	-0.094	0.038	-0.201	0.003	0.189	-0.006	0.195	0.175	0.041	-0.011	0.041	0.070	-0.059	1					
fx_vol	0.214	0.180	-0.017	0.005	0.093	-0.035	-0.016	0.059	0.015	-0.079	-0.003	0.160	0.073	0.097	1				
gdp_growth_a	0.144	0.191	0.072	-0.074	-0.031	-0.065	0.153	-0.109	0.018	-0.022	0.146	-0.062	0.006	-0.094	0.379	1			
gdp_growth_t	0.130	0.162	-0.095	-0.136	0.043	0.009	-0.026	-0.043	-0.014	0.017	0.263	0.001	0.008	0.040	0.469	0.732	1		
infl_a	0.067	0.195	0.162	-0.122	-0.263	-0.025	0.005	-0.069	0.060	-0.026	0.070	-0.176	0.405	-0.226	-0.076	0.290	0.222	1	
infl_t	0.133	0.131	0.009	0.039	0.024	0.132	-0.016	0.045	0.061	-0.061	0.145	0.003	0.167	0.067	0.126	0.390	0.334	0.651	1

Source: own calculations.

Annex 2 – Correlation Matrix between the Variables Used to Test H2

Correlation	CAR_MM51	CAR_MM11	CAR_MM101	gpr_t	gpr_a	deal_size	size_a	size_t	mb_a	mb_t	lev_a	lev_t	roa_a	cash_a	cash_t	sales_growth_a	inst_dist	fx_vol	gdp_growth_a	gdp_growth_t	infl_a	infl_t
CAR_MM51	1																					
CAR_MM11	0.705	1																				
CAR_MM101	0.665	0.519	1																			
gpr_t	-0.045	0.066	0.054	1																		
gpr_a	-0.124	-0.281	-0.076	-0.216	1																	
deal_size	-0.276	0.005	-0.211	0.384	0.054	1																
size_a	-0.117	0.044	-0.088	0.357	-0.002	0.664	1															
size_t	-0.117	0.108	-0.134	0.261	-0.064	0.723	0.354	1														
mb_a	-0.013	0.069	0.085	0.224	0.063	0.192	0.046	0.237	1													
mb_t	0.019	0.178	-0.022	0.086	-0.169	0.333	0.137	0.413	0.051	1												
lev_a	0.019	0.114	0.002	-0.124	0.056	0.072	-0.054	0.237	0.324	0.019	1											
lev_t	0.063	0.281	0.110	0.161	-0.074	0.111	-0.074	0.197	0.041	0.658	0.053	1										
roa_a	-0.093	0.483	-0.094	0.190	-0.133	0.294	0.338	0.186	0.128	0.041	0.024	0.028	1									
cash_a	-0.007	0.050	0.019	0.330	-0.030	0.427	0.696	0.109	-0.041	0.063	0.048	-0.112	0.124	1								
cash_t	0.003	0.111	0.015	0.259	0.162	0.516	0.229	0.524	0.253	0.162	0.087	0.084	0.120	0.072	1							
sales_growth_a	0.211	-0.098	0.445	-0.132	0.008	-0.376	-0.488	-0.229	-0.035	-0.014	0.043	-0.062	-0.455	-0.277	-0.063	1						
inst_dist	-0.132	-0.064	-0.070	0.098	-0.201	0.118	0.192	0.047	0.273	0.197	0.044	-0.015	0.043	0.118	0.092	-0.019	1					
fx_vol	0.063	0.012	0.141	0.167	-0.028	0.014	0.105	-0.028	-0.021	0.059	0.014	-0.072	0.016	0.120	0.041	-0.003	0.090	1				
gdp_growth_a	-0.173	-0.005	0.169	0.152	0.068	-0.066	0.008	-0.062	0.156	-0.102	0.011	-0.009	0.159	-0.062	-0.035	-0.125	-0.086	0.386	1			
gdp_growth_t	-0.089	0.144	0.159	0.204	-0.133	-0.068	0.094	0.055	-0.041	-0.048	-0.020	0.024	0.272	0.028	0.044	-0.088	-0.099	0.477	0.776	1		
infl_a	0.125	0.201	0.172	0.067	0.057	-0.096	-0.176	0.022	-0.064	-0.061	0.063	-0.012	0.086	-0.165	0.121	0.116	-0.117	-0.149	0.273	0.262	1	
infl_t	0.111	0.244	0.171	0.028	-0.053	0.096	0.075	0.185	-0.042	0.055	0.062	-0.052	0.170	-0.005	0.002	-0.031	0.062	0.107	0.397	0.333	0.636	1

Source: own calculations.

**Annex 3 - OLS Regression Results for Acquisition Premium after Winsorization
Using the Difference in Geopolitical Risk between Target and Acquirer Countries**

Variable	Coefficient				
	(6)	(7)	(8)	(9)	(10)
GPR_diff	0.052** (0.024)	0.079*** (0.022)	0.062** (0.025)	0.072*** (0.024)	0.074*** (0.026)
SIZE_t		-0.063*** (0.022)	-0.063** (0.030)	-0.012 (0.038)	-0.005 (0.044)
MB_t		-0.002 (0.010)	-0.006 (0.007)	-0.002 (0.008)	0.006 (0.009)
LEV_t		-0.085 (0.055)	-0.039 (0.065)	-0.059 (0.062)	-0.065 (0.070)
SIZE_a			0.011 (0.034)	0.008 (0.050)	0.039 (0.058)
MB_a			0.004 (0.008)	0.007 (0.009)	0.013 (0.010)
LEV_a			-0.097 (0.069)	-0.103 (0.078)	-0.075 (0.093)
ROA_a			-0.275 (0.771)	-0.158 (0.839)	-0.551 (0.887)
cash_a			0.000* (0.000)	0.000* (0.000)	0.000 (0.000)
SalesGrowth_a			-0.015 (0.260)	-0.131 (0.249)	-0.311 (0.244)
LN(DealSize)				-0.085 (0.061)	-0.120* (0.064)
CASH				0.028 (0.109)	0.063 (0.105)
SAMEIND				-0.388** (0.166)	-0.199 (0.218)
GDPGrowth_a					0.866 (1.757)
GDPGrowth_t					-0.916 (1.851)
Inflation_a					2.092 (3.016)
Inflation_t					0.336 (2.427)
FXVOL					2.433 (1.982)
Inst_Dist					-0.153* (0.085)
Constant	0.366*** (0.043)	0.741*** (0.149)	0.627** (0.240)	1.846*** (0.521)	1.671*** (0.534)
Observations	69	69	69	69	69

R-squared	0.061	0.209	0.275	0.328	0.399
Adjusted R-squared	0.047	0.159	0.149	0.169	0.188
F-statistic	4.690	4.660	3.630	5.340	3.670
Prob(F-statistic)	0.034	0.002	0.001	0.000	0.000

Source: Own calculations. Robust standard errors are reported in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively. This table reports the OLS regression results for acquisition premiums using the geopolitical risk differential between target and acquirer countries (GPR_diff), after winsorizing the acquisition premium and selected control variables at the 5th and 95th percentiles. Model (1) includes only the geopolitical risk variables. Models (2) to (5) progressively incorporate target-firm financial characteristics, acquirer-firm financial characteristics, deal characteristics, and macroeconomic variables, respectively.

Annex 4 - OLS Regressions of Announcement Period for Bidders CAR [-5, +1]

Variable	Coefficient				
	(1)	(2)	(3)	(4)	(5)
GPR_a	-0.009 (0.009)	-0.010 (0.010)	-0.010 (0.009)	-0.009 (0.011)	-0.018* (0.010)
GPR_t		-0.004 (0.007)	-0.004 (0.008)	-0.002 (0.009)	-0.006 (0.010)
SIZE_a			-0.003 (0.009)	0.007 (0.012)	0.020* (0.011)
MB_a			0.000 (0.002)	0.000 (0.002)	0.003 (0.003)
LEV_a			0.000 (0.001)	0.000 (0.001)	0.000 (0.001)
ROA_a			0.000 (0.016)	-0.004 (0.014)	-0.007 (0.015)
cash_a			0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
SalesGrowth_a			0.043 (0.039)	0.031 (0.039)	0.026 (0.030)
SIZE_t				0.006 (0.008)	0.000 (0.010)
MB_t				0.000 (0.001)	0.000 -0.001
LEV_t				0.001 (0.001)	0.002** (0.001)
cash_t				0.000 (0.000)	0.000* (0.000)
LN(DealSize)				-0.025** (0.009)	-0.029*** (0.010)
CASH				0.028 (0.019)	0.028* (0.015)
SAMEIND				0.037	0.140***

				(0.030)	(0.040)
GDPGrowth_a					-0.468
					(0.509)
GDPGrowth_t					-0.756
					(0.536)
Inflation_a					0.448
					(0.565)
Inflation_t					1.056*
					(0.572)
FXVOL					0.752**
					(0.340)
Inst_Dist					-0.058***
					(0.018)
Constant	0.003	0.011	0.022	0.194	0.023
	(0.011)	(0.020)	(0.091)	(0.145)	(0.137)
Observations	68	68	68	68	68
R-squared	0.015	0.021	0.070	0.218	0.475
Adjusted R-squared	0.000	-0.009	-0.056	-0.007	0.236
F-statistic	0.930	0.530	1.560	3.170	14.210
Prob(F-statistic)	0.338	0.592	0.158	0.001	0.000

Source: Own calculations. Robust standard errors are reported in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively. This table reports the OLS regression results for bidder cumulative abnormal returns (CAR[-5, +1]) around the announcement date. Model (1) includes only the geopolitical risk variables. Models (2) to (5) progressively incorporate target-firm financial characteristics, acquirer-firm financial characteristics, deal characteristics, and macroeconomic variables, respectively.

Annex 5 - OLS Regressions of Announcement Period for Bidders CAR [-10, +1]

Variable	Coefficient				
	(1)	(2)	(3)	(4)	(5)
GPR_a	-0.006	-0.005	-0.005	-0.008	-0.020*
	(0.010)	(0.011)	(0.011)	(0.011)	(0.010)
GPR_t		0.002	0.000	-0.002	-0.012
		(0.007)	(0.008)	(0.009)	(0.010)
SIZE_a			0.002	0.013	0.022**
			(0.009)	(0.011)	(0.010)
MB_a			0.002	0.002	0.003
			(0.002)	(0.002)	(0.003)
LEV_a			-0.001	-0.001	-0.001
			(0.001)	(0.001)	(0.001)
ROA_a			0.021	0.014	0.008
			(0.016)	(0.015)	(0.017)
cash_a			0.000	0.000	0.000
			(0.000)	(0.000)	(0.000)
SalesGrowth_a			0.136***	0.137***	0.150***

			(0.032)	(0.035)	(0.034)
SIZE_t				0.004	0.003
				(0.007)	(0.008)
MB_t				-0.002***	-0.002***
				(0.001)	(0.001)
LEV_t				0.004***	0.005***
				(0.001)	(0.001)
cash_t				0.000	0.000
				(0.000)	(0.000)
LN(DealSize)				-0.016*	-0.017
				(0.008)	(0.010)
CASH				0.040*	0.040**
				(0.022)	(0.019)
SAMEIND				0.039	0.124**
				(0.050)	(0.048)
GDPGrowth_a					0.614
					(0.622)
GDPGrowth_t					-0.868
					(0.606)
Inflation_a					0.564
					(0.467)
Inflation_t					0.582
					(0.549)
FXVOL					0.616*
					(0.308)
Inst_Dist					-0.038**
					(0.017)
Constant	-0.004	-0.008	-0.058	0.003	-0.180
	(0.012)	(0.021)	(0.086)	(0.164)	(0.156)
Observations	68	68	68	68	68
R-squared	0.006	0.007	0.253	0.410	0.556
Adjusted R-squared	-0.009	-0.023	0.152	0.240	0.354
F-statistic	0.320	0.250	2.970	5.980	13.340
Prob(F-statistic)	0.571	0.778	0.007	0.000	0.000

Source: Own calculations. Robust standard errors are reported in parentheses. ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively. This table reports the OLS regression results for bidder cumulative abnormal returns (CAR[-10, +1]) around the announcement date. Model (1) includes only the geopolitical risk variables. Models (2) to (5) progressively incorporate target-firm financial characteristics, acquirer-firm financial characteristics, deal characteristics, and macroeconomic variables, respectively.

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