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The Foreign Corrupt Practices Act and the Price, Volume, and Termination Rate of Cross-Border Mergers and Acquisitions

Abstract

Congress enacted the Foreign Corrupt Practices Act (FCPA) in 1977. It has since become an important factor in American firms decision-making in acquiring foreign targets, but its economic impact has gone largely unexamined. I analyze the influence of the risk of an enforcement action under the FCPA on the prices of cross-border mergers and acquisitions (CBMA). In a sample of 13,002 CBMA deals by American acquirers from 1996-2010, I find statistically significant results, suggesting that firms pay on average 3.9 – 5.1% less to acquire targets in countries with higher risk of attention from the FCPA.

Keywords

cross-border mergers and acquisitions, Foreign Corrupt Practices Act, transnational law, international capital flows

Cover Page Footnote

I would like to thank Professor Bradley Graham for supervising my research, helping to develop my ideas, and his critiques.

1. Introduction

In 1977, Congress enacted the Foreign Corrupt Practices Act (FCPA) in response to the discovery of the widespread use of bribes by US businesses to foreign government officials (Koehler 2012). Under the FCPA, when a firm acquires another firm, the acquiring company can be held responsible for any of its acquisition's violations of the FCPA since 1977.

In my research, I analyze the possible presence of a "risk premium" in cross-border mergers and acquisitions (CBMA) deals where the target firm is located in a country that may face closer scrutiny under the FCPA. If the risk of an FCPA action, and the financial and reputational costs associated with it are high, an acquiring firm may be willing to pay less for a target firm than if the target was located in a country that is unlikely to trigger an FCPA enforcement action. Despite the FCPA's relevance to acquiring firms, this area of interest has yet to become a significant area of economic academic research. To my knowledge, no work exists that specifically evaluates the possible monetary impact of the FCPA on CBMA, although a working paper presents initial results that suggest that FCPA enforcement actions are followed by a reduction in the volume of CBMA activity in the target country (Graham & Stroup, 2014). This paper attempts to further fill that gap.

I test the hypothesis that the threat of FCPA enforcement leads to lower prices in CBMA deals by using data on 13,002 cross-border and domestic mergers and acquisitions deals from 1996-2010 by American acquirers as well as a data set including information on all FCPA actions since 1977. The results of the model estimations support the hypothesis that the risk of an FCPA action negatively affects the price of CBMA deals, implying the presence of a risk premium.

The paper is organized as follows. Section II discusses background on the FCPA and CBMA. Section III presents my empirical methodology, and section IV presents the data used to test my hypothesis. Section V analyzes the results of the model estimations. Section VI describes additional robustness examinations. Finally, Section VII contains my conclusions and points for further analysis.

2. Background & Literature Review

2.1 Foreign Corrupt Practices Act

In the wake of investigations after the Watergate scandal, the American public discovered that American firms routinely participated in bribery while doing business abroad. In response to the outcry from this discovery, Congress enacted the FCPA in 1977 to promote a higher ethical standard in global business (Koehler, 2012). The FCPA contains both anti-bribery and record keeping requirements, therefore the Department of Justice (DOJ) and the Securities Exchange Commission (SEC) both take responsibility for enforcing the FCPA. The anti-bribery provision of the FCPA "prohibits the corrupt payment of money or 'anything of value' to a 'foreign official' in order to 'obtain or retain business'" (Koehler, 2012). Although the law is now over 35 years old, in recent years, the

FCPA has seen a significant increase in the number of cases prosecuted. In fact, more than 64% of the total number of anti-bribery enforcement actions against publicly traded companies since 1977 has occurred within the last 10 years (Karpoff et al., 2014).

Early research on the FCPA focused on its impact on the competitiveness of American businesses (Hines, 1995). However, recently, research surrounding the FCPA has focused on the determinants and magnitude of FCPA enforcement actions pursued by the DOJ and SEC. Researchers have identified variables such as the involvement of foreign actors, defendant's country of origin, conditions in the bribe-recipient country, corruption levels, and amount of foreign direct investment to be influential in the final judgment of an FCPA action beyond solely the egregiousness of the infraction (Choi & Davis, 2012; McLean, 2012).

2.2 The Foreign Corrupt Practices Act and Cross-Border Mergers & Acquisitions

For firms, the FCPA has the potential to be an important consideration in their cross-border mergers and acquisitions (CBMA) decisions. Under the law, when a firm acquires another firm, the acquiring company can be held responsible for any of its acquisition's violations of the FCPA since 1977. Thus, more rigorous due diligence in vetting a potential acquisition has become commonplace for firms looking to avoid the heavy financial and reputational costs of an FCPA action (Karkoff et al., 2009). CBMA activity has been increasing since the 1990s and in 2007 was valued at USD 4.4 trillion.¹ With significant capital at stake, the impact of FCPA actions deserves consideration in the evaluation of CBMA deals.

Legal researchers have studied how FCPA violations relate to CBMA, although without attempting to estimate economic relationships. For instance, Lindsey (2009) provides a summary of FCPA cases. In the Lockheed Martin and Titan merger case, the revelation of violations of the FCPA during pre-merger due-diligence eventually led to the termination of the deal. In the case of Latin Node and eLandia, Latin Node discovered violations of the FCPA by their acquisition post-merger. They self-reported the case to the DOJ and paid a criminal fine of \$2 million. The high financial and reputational burdens to an acquiring firm from an inadvertent violation of the FCPA further support the possible presence of a risk premium in acquiring high risk targets.

3. Methodology

To model the impact of the risk of an FCPA action on CBMA prices, my main theoretical model is a relationship of the form:

$$P_{ijt} = \alpha + \beta FR_{jt} + \varepsilon_{ijt} \quad (1)$$

where P_{ijt} is the price of a CBMA deal of the target firm i headquartered in country j in year t and FR_{jt} represents the perceived risk of an FCPA action in

¹ Hall, J., 2007, U.S. Mergers Hit New Record, but Lag Europe, INTLHERALDTRIB., www.iht.com/articles/reuters/2007/12/20/business/OUKBSUK-MERGERS-US.php.

country j in year t . I expect that in countries with a higher risk of a FCPA action, the price of the deals will be lower to account for the added risk.

Since perceived risk is unobservable, I measure it using a set of related variables. The main estimating equation is an OLS regression of the form:

$$P_{ijt} = \alpha + \beta_1 FA_{jt} + \beta_2 C_{jt} + \beta_3 X_{jt} + \varepsilon_{ijt} \quad (2)$$

where FA_{jt} is a measure of FCPA actions in country j by year t . C_{jt} is a measure of corruption in country j in year t , and I account for additional factors that may influence CBMA deal prices with the inclusion of variable X_{jt} , a vector of macro-country controls for country j in year t .

The risk of FCPA action is comprised of two components: risk of prosecution by the DOJ or SEC and actual risk of violating the FCPA. Countries where the cases of FCPA violations have previously been prosecuted will be under closer scrutiny by the DOJ and SEC, therefore I include FA_{jt} to account for this added focus. Target firms in countries with higher corruption are at higher risk of actually violating the FCPA. The addition of the corruption variable thus accounts for the chance of actually violating the FCPA. Furthermore, economic research on corruption finds a negative relationship between CBMA prices and corruption (Weitzel & Burns, 2006).

I first account for variables that influence the decision to pursue FCPA actions. An FCPA action represents the decision of the DOJ and/or SEC to pursue an action against a firm, and thus may include decision-making factors beyond whether a violation occurred. As demonstrated in the research of Choi et al. (2012) and McClean (2012) the punishment from the DOJ and/or SEC involves other possible political and economic factors beyond simply the egregiousness of a crime. For instance, the United States might have political motivations in discouraging American businesses from moving to China, and thus be more likely to prosecute FCPA violations by target firms in that country.² Or, as Choi et al (2012) suggests, the presence of a Mutual Legal Assistance Treaty (MLAT) can lead to higher prosecution rates and fines because the foreign country is willing to reveal more information to the United States' DOJ or SEC during the investigation. I account for this endogeneity issue in prosecution choice by including control variables in my equations that cover potential economic and political factors.

To further control for endogeneity, I control for factors that influence CBMA decisions. Two main motivations for CBMA are 1) efficiency gains from attaining economies of scale and 2) strategic gains from improving competitive positioning (Coerdacier et al., 2009). Addressing this second point, acquiring firms may look to emerging markets that offer untapped consumer markets and high economic growth rates; these same emerging markets may be more corrupt and more likely to violate the FCPA. I thus include controls that account for economic market factors.

² China leads all other nations in number of in FCPA violations within their borders with 30.

Additionally, trade costs associated with CBMA can impact prices (Hijzen et al., 2006; Shimizu et al., 2004). Cultural and geographic differences make successful CBMAs more difficult because firms must overcome language, cultural, and physical barriers in addition to the already difficult process of merging the personnel and functions of two unique firms. I thus include trade cost factors in my controls.

4. Data

Table I reports descriptions, units, and source of all data. CBMA data comes from Bloomberg and includes 13,002 domestic and cross-border mergers and acquisition deals announced between January 1, 1996 and December 31, 2010 with a U.S. based acquirer to 133 target countries. The deal prices will be represented by the listed announced total deal values. In my regressions, I use log of announced total deal values. I index announced total values into current US dollars using the consumer price index from the Bureau of Labor Statistics.

A review of the CBMA data reveals several deals that involve multiple target countries, and in order to isolate the impact of the FCPA risk and country factors, I remove these 63 deals from the data set. Additionally, I drop deals with announced total deal values of zero. When investigated, some of these deals possess actual deal values not equal to zero and others' actual deal values remain undisclosed. In order to remain consistent, I remove these deals. Finally, I drop deals with missing announced deal values. I also drop deals that occurred in territories and dependencies such as the British Virgin Islands and Guernsey. This leaves me with a sample of 6902 deals for my estimations.

To measure FCPA risk, I use data on FCPA actions since 1977 used in Graham and Stroup (2014) and assembled from the DOJ/SEC case releases. It includes 256 actions in 69 countries. The FCPA variable was added as a count variable totaling all FCPA actions in the country up to the year of the deal.

To measure corruption, I employ the Control of Corruption Indicator (CCI) compiled by the World Bank. The index covers the years 1996-2010 and includes indicators for 214 countries. The CCI index is scaled from -2.5 to 2.5 with 2.5 being the strongest control of corruption and -2.5 the lowest.

As described in the previous section, to control for country-level variations that may impact FCPA enforcement and CBMA prices, I include variables to cover economic conditions and trade costs. Economic indicators tested include Growth Rate per year from the World Bank and Gross Domestic Product (GDP), GDP per capita, and population from the gravity data set of the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII). I account for possible trade costs with geographic, cultural, and political closeness measures. Geographic distance is measured by time difference between the US and the target country from the CEPII gravity data set. I approximate cultural closeness with the common legal structure and common language gravity variables from CEPII.

Finally, I use proxies for degree of political alignment including membership in the General Agreement on Tariffs and Trade (GATT) from the gravity dataset from CEPII, Mutual Legal Assistant Treaties (MLAT) with the

United States, which I compile by hand from lists of treaties on the Library of Congress' THOMAS website, and a presence of a Regional Trade Agreements (RTA) with the United States, which I also compile by hand from the World Trade Organization's list of regional trade agreements. In line with Choi et al. (2012), I predict that the presence of a MLAT will result in an increase in the risk premium for firms. The presence of a GATT or an RTA should result in increased prices because they reduce other trade barriers making targets in member countries more attraction.

5. Empirical Results

Table II presents the results from the estimation of equation (2). Column (1) reports estimations of the equation without additional controls and Column (2) adds year fixed-effects. The coefficient of interest for FCPA is negative and significant as hypothesized. Column (3) and (4) add the controls described in Section III. Column (3) uses Common Official Language to proxy for the trade cost of cultural closeness and Column (4) uses Common Legal Origin. The coefficient of FCPA remains negative and significant. Based on the regressions including controls, the magnitude of the coefficient suggests that for each added action in a target country, and thus added risk of prosecution, the announced price of the deal will be on average 3.9 - 5.1% less. The reported prices are only for deals that were completed. Deals that did not go through because they were deemed too risky are not represented in the data. The omission of these data points bias the results downward because they would have represented deals with higher risk premiums and thus lower prices. The coefficient on the Control of Corruption Indicator is positive and significant, confirming the results of Weizel & Burns (2006). Countries with a better Control of Corruption see higher deal prices on average.

Consistent with the proposed motivations for strategic gains through CBMA described by Coeurdacier et al., (2009), GDP has a significant positive coefficient; consistent with the theory the firms use CBMA to gain market share in thriving markets. The coefficient of GDP Growth Rate is negative but insignificant possibly suggesting that firms will pay less to acquire firms in emerging markets with high growth but also high investment risk.

Time Difference, which accounts for trade costs associated with geographic distance, has a significant positive coefficient. This is in contrast to the trade cost theory presented by Hijzen et al. (2006) and Shimizu et al. (2004). When taking the log of time difference to account for this possible distribution, the coefficient of time difference remains positive but is no longer significant. This regression is not shown.

Also contrary to trade cost theory, the proxies for cultural closeness, common legal origin and common official language are both negative although only having a common legal origin is significant. Finally, none of the proxies for political closeness, MLAT, RTA, or GATT membership, are significant. These variables are also highly correlated, so I only include the MLAT variable. This variable coefficient has a negative sign, corresponding with the research in Choi et al. (2012).

I use clustered errors grouped by country in my estimation. I have a clustering issue in my regression estimation since I examine CBMA using data at the firm level and my explanatory variables only use country level data. Target firms may display within country correlations that would not be accounted for in my current model. By adding clustered errors, I account for the group-level error component.

6. Additional Examinations

6.1 Termination Rate

6.1.1 Background and Model

In 2003, Lockheed Martin & Titan announced that they would merge, however, revelation of violations of the FCPA by Titan during post-announcement due diligence resulted in the termination of the merger. Based on the case of Lockheed Martin & Titan, I investigate whether a higher risk of FCPA action impacts the likelihood of an announced deal terminating before its completion.

To test the effect of FCPA action risk on termination rate, I use a Probit model:

$$P(T)_{ijt} = \alpha + \beta_1 FA_{jt} + \beta_2 C_{jt} + \beta_3 X_{jt} + \varepsilon_{ijt} \quad (3)$$

where T_{ijt} takes on a unit value if the deal of target firm i located in country j in year t is terminated after the announcement, FA_{jt} is a measure FPCA action risk in country j in year t . C_{jt} is a measure of actual corruption in country j in year t , and X_{jt} is a vector of macro-country controls for country j in year t . FCPA risk factors should positively correlate with terminated deals.

With a Probit model, clustered errors are not possible, so to add validation I also run an OLS regression of the form:

$$T_{ijt} = \alpha + \beta_1 FA_{jt} + \beta_2 C_{jt} + \beta_3 X_{jt} + \varepsilon_{ijt} \quad (4)$$

where T_{ijt} is the termination rate of deals in country j in year t .

6.1.2 Results

Table III shows results for equations (3) and (4). Column (1) reports the Probit estimation without controls, and Column (2) adds controls. Column (3) reports the OLS estimation without controls, and Column (4) adds controls. Examining the Probit regression, when controls are added, the estimated FCPA coefficient is negative. This is in contrast to my expectations that an increased risk of FCPA violation will lead to a higher chance of termination. However, the estimated coefficient is insignificant. The Control of Corruption estimated coefficient is positive as hypothesized although it is also insignificant. The OLS estimation showcases similar relationships in the coefficients.

GDP Growth Rate has a significant positive estimated coefficient suggesting that deals in target countries with higher growth, usually more volatile

markets, are more likely to be terminated after the announcement. This estimated coefficient becomes insignificant in OLS, but holds the same relationship.

In support of trade cost theory, common official language has a positive estimated coefficient in both the Probit and OLS estimations although it is only significant with OLS. Contrary to trade cost theory, geographic distance, as measured by time difference, has a significant negative estimated coefficient suggesting that deals between firms that are further apart are less likely to be terminated. OLS shows a similar relationship between distance and termination. In these cases more rigorous pre-merger diligence may be done to address compatibility. Or, geographic closeness could mean that the acquirer discovers more information about the target firm post-announcement that results in a termination of the deal. The MLAT variable is insignificant in both models.

6.2 Industry Impacts

6.2.1 Background and Model

Hijzen et al. (2006) distinguish empirically between horizontal (firms in the same industries) and vertical (firms in different industries) deal prices. Their research suggests the need to examine the impact of firm and industry characteristics on CBMA prices. To test this theory, my new model specification adopts equation (2) and adds firm characteristics and industry variables:

$$P_{ijt} = \alpha + \beta_1 FA_{jt} + \beta_2 C_{jt} + \beta_3 X_{jt} + \beta_4 F_{ijt} + \beta_5 I_{ijt} + \varepsilon_{ijt} \quad (5)$$

where P_{ijt} is the price of a deal of target firm i located in country j in year t , FA_{jt} is a measure FPCA action risk in country j in year t . C_{jt} is a measure of actual corruption in country j in year t , and X_{jt} is a vector of macro-country controls for country j in year t . F_{ijt} represents firm characteristics of acquirer and target firms in deal i of with the target located in country j in year t . I_{ijt} represents the industry of the target and acquirer firm in deal i with the target located in country j in year t .

To control for firm characteristics, I include a variable of target firm size; larger targets will command higher prices. Data on firm characteristics comes from Bloomberg. I use log of acquirer and target total assets and log of acquirer and target number of employees to control for firm size. I index announced total values, acquirer total assets, and target total assets data into current dollars using the consumer price index from the Bureau of Labor Statistics.

I include industry data in two ways. First, I control for horizontal deals (acquirer and vertical deals as suggested by Hijzen et al. (2006). I expect horizontal deals to correlate with higher prices because more knowledge of the industry leads to less risk and a higher chance of success. Second, I group deals by interaction level of the target firm industry with government. Industries with a high-level of government interaction present a higher risk for FCPA violations than medium and low chance of interaction industries because these businesses may have a higher necessity for bribery to successfully carry out their business. Based on industry data from Bloomberg, I categorize industries with a high

chance of interaction industry sectors to include basic materials, energy, Government, and utilities. Under a medium chance of interaction industry sectors are communications, financial, and funds. Finally, I categorize low chances of government interaction industries as consumer, cyclical and non-cyclical, industrial, and technology sectors.

6.2.2 Results

Table IV shows results for equation (5). Column (1) reports estimates for the controls used in my main regression. Column (2) adds a dummy if the target and acquiring firm are in the same industry. Column (3) adds dummies for level of government interaction. Column (4) includes controls for target size. Column (5) includes all industry controls.

The estimated coefficient for FCPA actions is negative for all regressions although it loses significance with the addition of target size controls. The estimated coefficient of Control of Corruption remains positive but loses significance with the addition of industry variables.

When added to the main regression equation individually, all industry controls have significant estimated coefficients. The estimated coefficient for horizontal deals is positive supporting the research of Hijzen et al. (2006). The estimated coefficients for target firm size controls are both significant and positive supporting the hypothesis that larger firms attract higher prices. These coefficients remain significant when all industry controls are added to the model. The high and medium government interaction dummies both have positive estimated coefficients. This may suggest that acquirers are willing to pay more for firms that already interact with government in order to navigate more complicated bureaucracies, which may also include navigating corruption.

The other controls remain consistent with the main estimated equation; however with the addition of target size controls the sign of GDP's estimated coefficient changes and becomes insignificant.

6.3 Governance

6.3.1 Background and Model

Rossi & Volpin (2004) demonstrate a positive relationship between CBMA and governance factors such as accounting standards. Based on their research, it makes sense to account for governance in my regressions. However, corruption is a component of governance; countries with better governance can also expect lower corruption levels. Therefore, I don't include both variables in my main regression. I thus create a separate model to test influence of governance on the prices of CBMA:

$$P_{ijt} = \alpha + \beta_1 FA_{jt} + \beta_2 G_{jt} + \beta_3 X_{jt} + \varepsilon_{ijt} \quad (6)$$

where P_{ijt} is the price of the deal with target firm i located in country j in year t , FA_{jt} is a measure FPCA action risk in country j in year t . G_{jt} is a measure of

Governance in country j in year t , and X_{jt} is a vector of macro-country controls for country j in year t .

Graham & Stroup (2014) use the World Bank's Government Effectiveness Indicator (GEI) as their proxy for corruption, and based on their research I also use the GEI as a proxy for governance. The index covers the years 1996-2010 and includes indicators for 215 countries. The GEI is on a scale from -2.5 to 2.5 with -2.5 being the poorest governance and 2.5 being the strongest. The CCI and GEI have a very high correlation further demonstrating the necessity of evaluating each component separately.

6.3.2 Results

Table V shows results for the estimation of equation (6). As in the estimation of the main equation (2), Column (1) reports estimations of the equation without controls and Column (2) adds year fixed effects. The coefficient of interest for FCPA is negative and significant as hypothesizes. Column (3) and (4) add the controls described in Section III. Column (3) uses Common Official Language to proxy for the trade cost of cultural closeness and Column (4) uses Common Legal Origin. Examining, Column 4, the coefficient of FCPA actions remains negative and significant. The magnitude of the coefficient suggests that for each added action in a target country, and thus added risk of prosecution, the announced price of the deal will be on average 5.57% less.

The estimated coefficient for governance is positive and significant, matching the result of the control of corruption proxy in the estimation of equation (2). The coefficients also have similar magnitudes although those for governance are slightly lower when controls are added. The sign and significance of the controls also match those in the estimation of equation (2). I again use clustered errors grouped by country in my estimation.

7. Conclusion

This research paper attempted to analyze the impact of the risk of FCPA enforcement on CBMA prices and termination rates. The OLS estimation techniques employed in my main analysis reveal a clear negative impact of FCPA risk on deal value and support my initial hypothesis that firms pay lower prices, up to 5.1% less, in deals with a higher risk of eventual FCPA enforcement action in order to negate this risk.

Legal researchers have focused on the impact of the FCPA on firms in CBMA deals, but this article represents the first attempt to quantify these impacts. The presence of a possible risk premium in CBMA deals with a higher threat of violating the FCPA offers a first step in examining the law's influence on US firms. Further examinations could continue to examine the role of a firm's industry in interactions with the FCPA. This research is limited by its examination deals with a United States based acquirer. FCPA actions have been filed against foreign firms as well, and an expansion of the study could highlight if a risk premium applies to these foreign firms. The FCPA was created to set a standard in global business; so foreign firms would also have to be examined to truly evaluate the success of its mission.

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9. Tables

Table I: List of Data Descriptions and Sources

Variable	Description	Source
Main Regression		
Deal Value	Logged, millions of USD, adjusted for inflation	Bloomberg
FCPA Actions	Count for every FCPA action in country up to and including that year	Graham et al.

Control of Corruption	Scale from -2.5 (low control) to 2.5 (high control)	World Bank [1]
Population	Of target country, in millions	Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) [2]
Gross Domestic Product (GDP)	Of target country, in current million USD	CEPII [2]
GDP per capita	Of target country, in current USD	CEPII [2]
GDP Growth Rate	Of target country, percentage	World Bank [3]
Time Difference	Time in target – time in acquirer	CEPII [2]
General Agreement on Trade and Tariffs (GATT) Membership	1=GATT/WTO membership	CEPII [2]
Regional Trade Agreement w/US	1=membership	World Trade Organization (WTO) [4]
Mutual Legal Assistance Treaty	1=presence of treaty	Library of Congress THOMAS [5]
Common Official Language	1=common official or primary language	CEPII [2]
Common Legal Origins	1=common legal origins	CEPII [2]
Alternative Regressions		
Termination Rate	= Terminated deals in target country over total deals in target country (%)	Bloomberg
Government Effectiveness	1=lowest quartile of Government Effectiveness	World Bank [1]
Acquirer Number of Employees	Standard units	Bloomberg
Target Number of Employees	Standard units	Bloomberg
Acquirer Total Assets	Millions of USD, adjusted for CPI	Bloomberg
Target Total Assets	Millions of USD, adjusted for CPI	Bloomberg
High Interaction with Government Industry	Target Firm in basic materials, government, utilities, or energy sectors	Bloomberg
Medium Interaction with Government Industry	Target Firm in communications, financial, or funds sectors	Bloomberg
Low Interaction with Government Industry	Target Firm in consumer, cyclical and non-cyclical, industrial, or technology sectors	Bloomberg
Same Industry	1 = Target and Acquirer firms in same industry sector	Bloomberg
Footnotes: [1] http://info.worldbank.org/governance/wgi/index.aspx#home [2] http://www.cepii.fr/CEPII/en/bdd_modele/presentation.asp?id=8 [3] http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG [5] http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx [6] http://thomas.loc.gov/home/thomas.php		

Table II: OLS of CBMA Deal Price on FCPA Risk with Corruption Proxy

The table reports estimates of OLS regressions where the dependent variable is the Log of Price of CBMA deal of target firm i in country j in year t . The variable of interest is FCPA risk measured by FCPA actions in country j 's by year t and Control of Corruption (CCI) in country j in year t (Column (1)). In Column (2), I add year fixed effects. In Column (3) and (4) I add the control variables described in Section III, I control for Corruption, Target Country Market Potential, and Trade Costs. Clustered standard errors appear in parentheses beneath the coefficient estimates. *, **, and *** denote statistical significance at the 10%, 5%, and 1%

levels, respectively.				
VARIABLES	(1)	(2)	(3)	(4)
FCPA	-0.0431*** (0.00826)	-0.0385*** (0.00807)	-0.0391** (0.0186)	-0.0507*** (0.0185)
CCI	0.211* (0.114)	0.230** (0.116)	0.277*** (0.0953)	0.285*** (0.0902)
GDP Growth Rate			-0.0397 (0.0465)	-0.0159 (0.0436)
Log GDP			0.100* (0.0541)	0.131** (0.0533)
Time Difference			0.0693** (0.0306)	0.0548 (0.0348)
Common Official Language			-0.175 (0.137)	
Mutual Legal Assistance Treaty			-0.00218 (0.136)	-0.0398 (0.158)
Common legal Origin				-0.307* (0.170)
Observations	5,941	5,941	3,693	3,693
R-squared	0.034	0.056	0.074	0.075
Year FE	no	yes	yes	yes
Adj R2	0.0333	0.0541	0.0705	0.0715

Table III: Probit Model of Termination on FCPA Risk

The table reports estimates of Probit regressions where the dependent variable is an indicator variable for the termination of CBMA deal of firm i in country j in year t taking a value of one if a deal was terminated after the announcement and zero otherwise. The variable of interest is FCPA risk measured by FCPA actions in country j 's by year t and Control of Corruption in country j in year t (Column (1)). In Column (2), I add the control variables described in Section III, I control for FCPA action factors, Target Country Market Potential, and Trade Costs. In Column (3) and (4), I run the same regressions listed above using an OLS estimation technique

with year fixed effects. Robust standard errors appear in parentheses beneath the coefficient estimates for Column (1) and (2) and clustered standard errors for (3) and (4). *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

VARIABLES	(1)	(2)	(3)	(4)
FCPA	0.00449 (0.00600)	-0.00367 (0.0116)	0.000260 (0.000459)	0.000672 (0.000886)
Corruption	0.0141 (0.0476)	0.0710 (0.0756)	0.00207 (0.00568)	0.00488 (0.00589)
GDP Growth Rate		0.0421* (0.0218)		0.00204 (0.00204)
Log GDP		-0.0625 (0.0442)		-0.00435 (0.00272)
Time Difference		-0.0404** (0.0188)		-0.00385*** (0.000962)
Common Official Language		0.0427 (0.187)		0.0130** (0.00628)
Mutual Legal Assistance Treaty		-0.154 (0.147)		0.00206 (0.00683)
Observations	11,576	6,815	11,576	6,815
R-squared			0.007	0.013
Year FE	no	no	yes	yes
Adj R2			0.00539	0.0107

Table IV: OLS Regression CBMA Price on FCPA with Industry Controls

The table reports estimates of OLS regressions where the dependent variable is the Log of Price of CBMA deal of target firm i in country j in year t . The variable of interest is FCPA risk measured by FCPA actions in country j 's by year t and Corruption in country j in year t . In Column (1), I add the control variables described in Section III, I control for Target Country Market Potential, and Trade Costs. In Column (2), I add a dummy for horizontal deals. In Column (3), I add Industry Risk dummies. In Column (4), I add Target Size controls. In Column (5), I include all Industry controls. I add year fixed effects in all regressions. Robust standard

errors appear in parentheses beneath the coefficient estimates. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

VARIABLES	(1)	(2)	(3)	(4)	(5)
FCPA	-0.0391** (0.0186)	-0.0490*** (0.0162)	-0.0491*** (0.0166)	-0.0696 (0.0624)	-0.0535 (0.0669)
Corruption	0.277*** (0.0953)	0.142 (0.0927)	0.154 (0.0978)	0.113 (0.184)	0.00403 (0.229)
GDP Growth Rate	-0.0397 (0.0465)	-0.0335 (0.0383)	-0.0412 (0.0402)	-0.0507 (0.0793)	-0.0920 (0.106)
Log GDP	0.100* (0.0541)	0.107** (0.0504)	0.108** (0.0522)	-0.121 (0.0881)	-0.153 (0.125)
Time Difference	0.0693** (0.0306)	0.0585*** (0.0192)	0.0683*** (0.0201)	0.0137 (0.0414)	-0.0253 (0.0532)
Common Official Language	-0.175 (0.137)	-0.00578 (0.134)	-0.0576 (0.137)	0.327 (0.231)	0.339 (0.304)
Mutual Legal Assistance Treaty	-0.00218 (0.136)	-0.0329 (0.135)	-0.0523 (0.140)	0.148 (0.247)	0.337 (0.288)
High Risk Industry			0.746*** (0.154)		0.424 (0.380)
Medium Risk Industry			0.227* (0.124)		-0.0525 (0.256)
Horizontal Deal		0.545*** (0.104)			0.198 (0.223)
Log Target Total Assets				0.542*** (0.0783)	0.469*** (0.0847)
Log Target No. of Employees				0.118* (0.0693)	0.142* (0.0800)
Observations	3,693	2,046	1,979	372	274
R-squared	0.074	0.099	0.100	0.470	0.483
Year FE	yes	yes	yes	yes	yes
Adj R2	0.0705	0.0923	0.0931	0.446	0.445

Table V: OLS of Price on FCPA Risk with Governance Proxy

The table reports estimates of OLS regressions where the dependent variable is the Log of Price of CBMA deal of target firm i in country j in year t . The variable of interest is FCPA risk measured by FCPA actions in country j 's by year t and Governance in country j in year t (Column (1)). In Column (2), I add year fixed effects. In Column (3) and (4) I add the control variables described in Section III, I control for Target Country Market Potential, and Trade Costs. Clustered standard errors appear in parentheses beneath the coefficient estimates. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

VARIABLES	(1)	(2)	(3)	(4)
FCPA	-0.0443*** (0.00680)	-0.0423*** (0.00666)	-0.0462** (0.0178)	-0.0557*** (0.0175)
Governance	0.271** (0.136)	0.254* (0.132)	0.218* (0.116)	0.232** (0.111)
GDP Growth Rate			-0.0491 (0.0421)	-0.0281 (0.0404)
Log GDP			0.113* (0.0578)	0.133** (0.0540)
Time Difference			0.0718** (0.0299)	0.0602* (0.0343)
Common Official Language			-0.101 (0.147)	
Common legal Origin				-0.236 (0.189)
Mutual Legal Assistance Treaty			-0.0167 (0.132)	-0.0300 (0.151)
Observations	5,941	5,941	3,693	3,693
R-squared	0.034	0.055	0.072	0.072
Year FE	no	yes	yes	yes
Adj R2	0.0335	0.0533	0.0682	0.0689