International Joint Ventures: Do they Enhance Shareholder Value?

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Abstract: Stock market reaction to the announcement of domestic joint ventures (JVs) has consistently elicited significant positive abnormal returns thus enhancing shareholder value upon announcement. However, the evidence relating to that of IJVs is mixed. Whilst some studies report of value enhancing effects, others report of negative abnormal returns (and some no significant effect at all). The reasons for this mixed reaction may be categorised into project-specific (sector), host country characteristics (location) and sponsor-specific factors. The global financial in 2008 (time) may also have a role to play in the magnitude of abnormal returns generated upon announcement.

Using the traditional event study methodology in a 21-day event window (+10,-10), a market model event study is carried out for 394 IJVs announced between 2005 and 2010. This revealed that IJVs on average create value; however, they do not have a lasting effect on the market valuation. Nevertheless, it can be deduced that, JVs: whether domestic or international create value upon announcement. Further analyses suggest that sector and location were relevant in the creation of shareholder value. As expected there was significant difference between pre and post financial crisis abnormal returns with the former associated with significant positive returns. With the ability of event study to effectively measure the degree of disturbance of an event, the above findings are vital for key decision making in the international business context.

Keywords: Joint Ventures, International Joint Ventures, Shareholder Value, Event Study, and Stock Market Reaction.

Word count: 8,938.

1. Background

The concept of shareholder value creation is a vital objective for firms. It has taken precedence over other firm objectives in recent times (Rappaport, 1986; 2001; Mills, 1998). Managers in their bid to achieve this objective adopt strategies such as joint ventures (JVs), mergers and acquisitions, franchising and strategic alliances. In the context of this article, the strategy of joint venture is used for analysis and is generally defined as a legally and economically distinct organisational entity formed by two or more parent organisations who collectively invest financial as well as other resources to pursue a particular objective (Doz and Hamel, 1998; Luo, 2000; Glaister, 2004). International joint ventures (IJVs) have become one of the strategic tools used in achieving shareholder value. A JV is categorised as international when the headquarters are different from at least one of the partner countries of origin (Shenkar and Zeira, 1987; Ren et al., 2009). Factors such as transaction cost reduction, the benefit of complementary technologies; advantages of economies of scale, risk reduction, blocking competition (Williamson, 1975; 1980; Contractor and Lorange, 1988; 2002; Kogut, 1988), have been some of the major motivational factors for the adoption of JV strategies which may subsequently enhance shareholder value.

The concept of shareholder value creation in the context of IJV announcement creates several opportunities to develop testable hypothesis, which have the potential to contribute to international business and finance literature. This paper contributes to the existing body literature of announcement in the context of post 2008 financial crisis and continental analysis (as a proxy for location). The paper is divided into four main parts. A literature review encompassing the concept of shareholder value in the context of announcement of IJVs and the development of testable hypotheses is initially provided. This is followed with a discussion on the methodology. The next part focuses on the analysis of data and concluding with a discussion on the findings.

2. Literature Review

Research has shown that investor reaction to the creation of IJVs differs fundamentally from the way markets react to announcements concerning the creation of domestic JVs. The latter are more or less uniformly viewed as wealth creating (Min and Prather, 2001; Dursun and Kilic, 2008; Merchant, 2012), while there appears to be no consistent pattern with respect to IJVs; that is, empirical studies report market reaction as being either positive, negative or neutral (Koh and Venkatraman, 1991; Borde et al., 1998; Carpentier, et al., 2010; Merchant, 2012; Maine et al., 2012). Among the various influences studied are the importance of free cash flow (a proxy for agency risks), and quality of management (measured by Tobin's Q) (see Min and Prather, 2001). Studies have shown that the latter bears a consistently stronger and significant impact on the relation to market reaction than does the former (Dursun and Kilic, 2008; Merchant, 2012).

Factors such as complexity, culture, victimisation by hostile partners, management of conflict and diffusion of high technologies have been linked to negative abnormal returns of international joint venture announcement. Host country characteristics such as weaknesses in the legal safeguards, sponsor characteristics and project specific factors may play a considerable role in financial market response to such announcements. For example the immovability of real estate properties in foreign countries and its huge initial capital requirements enhance both political and economic risk of IJVs projects.

The traditional factors that have often been attributed to stock market reaction include the size, relatedness, culture and location characteristics of the partners in the venture. For example McConnell and Nantell (1985) report that abnormal returns are higher for smaller partners and that it increased as a function of the initial capital committed to the JV. However, other evidence suggests that there is an inverse relationship between size and value creation (Chen et al., 1991). The literature relating to mergers and acquisition suggests that the abnormal return of the acquired firms (smaller firms) in a merger is larger than that of the acquiring firm (Asquith et al., 1983).

The empirical evidence on degree of partner relatedness (task, institutional, competitive or collaborative) suggests that abnormal returns are affected upon announcement (Wooldridge and Snow, 1990; Koh and Venkatraman, 1991; Merchant and Schendel, 2000). Thus where there is a greater similarity benefits such as economies of scale and subsequent reduction in transactional cost tend to create value for the JV upon announcement (Tsang, 2000; Choi and Beamish, 2004). The high degree of similarity also has a potential of introducing efficiency in the value chain of the venture. On the hand less degree of similarity tends increase transaction cost due the complex administrative protocols that need to be addressed (Zou and Cavusgil, 2002).

The relatedness in the context of culture (national culture) and the level of political risk impact on shareholder value (Merchant and Schendel, 2000). For example where there is a high degree of similarity in the national culture of partners, the evidence suggests that value is enhance because it harmonises the approach towards the JV management thus making it less vulnerable to failure (Hofstede, 2001; Hofstede and Hofstede, 2005) The location (in this context culture) may have role to play in shareholder value analysis. In the case where there is a high degree of dissimilarity in the context of culture, it has been found to be the root cause of most conflicts in JVs (Makimo and Beamish, 1998; Brouthers et al., 2001; Sirmon and Lane, 2004). However, some studies have reported contrary to above, and suggest that difference in national culture is a source of motivation which leads to a high level of communication and a more sustained collaboration (Barkema and Vermeulen, 1997; Park and Ungson, 1997).

All other things being equal, IJVs in general are expected to elicit positive abnormal returns upon announcement when there is a high degree of similarity amongst firms because it has potential to reduce transactional cost and advantages associated with economies of scale and the befit of complementary technologies. The likely influence on market response is classified as project specific factors; country characteristics; sponsor specific factors. A key factor in the project specific set is the sector of the JV (see Veraros et al., 2004), geographical location of the project (Chen et al. 1991; Borde et al., 1998), type of the project which may be natural resource, technology, non-technology and secondary projects; the cost of the project which may be a proxy for size and the level of state involvement in the project. Sponsor specific characteristics may include the number of sponsors or partner characteristics, the assets to turnover ratio of sponsor and percentage of equity returns. These have the potential of sending signals to financial markets upon announcement of IJVs.

Some of the empirical examples of stock market reaction to IJVs in the context of sector include the positive reaction towards electronic and information technology news (Hanvanich and Cavusgil, 2001). An announcement that contains more information of the sector elicits more positive excess abnormal returns. Real estate announcements have also been reported by Ling and Rayngaert, (1997) for generating positive abnormal returns upon announcement.

In the sporting and entertainment sectors, the announcement of the right to host Olympic Games have also demonstrated the unique role sector plays in financial markets response to announcements. For example, in the Athens 2004 Olympic Games announcement, there was significant positive effect on Athens Stock Exchange as a whole and as well as the infrastructure related sector (Veraros et al., 2004). It is however worth noting that the Milan Stock Exchange (MSE) which was the closest contender did not have any significant impact. This reveals the uniqueness of project specific factors' role in stock market response to announcement of IJVs.
The Sydney Olympic Games announcement also confirms the relevance of sector in market response analysis. There was no significant impact on the entire market but the infrastructure sector had a significant impact (Berman et al., 2000). There was a brief rise in Shanghai Stock Exchange upon the announcement of the 2008 Olympic Games in Beijing but this euphoria dissipated very quickly (Mirikitani et al., 2009). However, there was no corresponding impact on the Paris and Toronto Stock Exchanges (Paris and Toronto were the close contenders for the 2008 Olympic Games)

In the context of location as a subject matter for investigation in this research, the host nation characteristics of the JV are used. The degree of variation in factors such as tax policy, strength of legal rights and creditor rights, the state of development and the perceived level of corruption may

all have a role to play in the market reaction (LaPorta et al., 1997, 2000; 2006; Djankov et al., 2003; 2005; 2008; 2010; Subramanian et al., 2009; Kleimeier and Versteeg, 2010). Thus where these factors are perceived not be favourable for investment, there is a greater likelihood for unfavourable abnormal returns upon announcement.

Some empirical evidence relating to wealth effects of IJVs affected by country characteristics include that of the United States and Chinese partners. Chen et al. (1991) report that larger positive abnormal returns are enjoyed by US partners, than their Chinese counterparts upon announcement. There is also evidence to suggest that when US partners are smaller (in size) than their counterparts, they enjoy larger abnormal returns (Finnerty et al., 1986). Another country characteristic is seen in the context of culture. Financial markets tend to favour cross-national joint ventures when two unaffiliated home countries set up a joint venture in a foreign country (Hanvanich et al., 2003).

The country risk which seen from the angle of both political and economic factors such as changes in government, blocked funds and expropriation may have adverse effects on the operation of the venture. The venture is also exposed to potential exchange rate fluctuations thus rendering the venture economically unstable. The 2008 global financial crisis had a significant impact on international investments. International projects for example suffered significantly from the happening of the financial markets. For example the financing of international projects with off-balance sheet finance (project finance) was negatively affected. Data extracted from the Securities Data Company (SDC) database (a division of Thomson Financial), indicated that the 2008 financial downturn had a negative impact on the growth of project financing.

The total global project financing for the year 2008 was $406 billion had dropped to $240 billion in 2009, a decline representing approximately 41%. Analysis of the data suggests that in the United States alone, firms financed approximately $19.2 billion of their capital expenditure using project finance loans and bonds in 2009, down from $39 billion in the year 2008 and $47 billion in 2007 (Esty and Sesia, 2010). This development was triggered by the housing crisis in 2007, which impacted the entire global economy in 2009. As a result, capital markets were frozen, which drastically reduced funding made available to project financing.

3. Methodology

The event study methodology (Fama et al., 1969; Brown and Warner, 1980; 1985; MacKinlay, 1997) is used to derive abnormal return for analysis. Based on the Efficient Market Hypothesis (EMH), event studies analysis measures the magnitude of the effect that event (or anticipated event) has on the expected profitability and risk of a portfolio of firms associated with the event (in this context the announcement of IJVs). The fundamental principle that the price of a security is the present value of future cash flows expected from a firms' asset and, at any given time, reflects the available information about the firm's current and future price earnings, security price changes as the market learns of the event makes it suitable for measuring shareholder value around the event. Notable events that have adopted these measures include: 'change of company's name' (Horsky and Swyngedouw, 1987), 'product recalls' (Jarell and Peltzman, 1985), 'new product introduction' and 'brand leverage' (Lane and Jacobson, 1995). Other examples include the reaction to news from other markets (Dimpfl, 2009).

There are four major stages in event analysis (see appendix 1):

i.   The identification of the event (announcement of the IJV); (time t=0).

ii.   The derivation of abnormal returns:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i \times R_{mt} + \varepsilon_{it}) - - - - - - - - - - - - - (1)$$

iii.   Aggregation of abnormal returns into cumulative abnormal returns:

If $CAR_i(\tau_1, \tau_2)$ is a sample cumulative abnormal return (CAR) from time τ_1 to τ_2, where $T_1 < \tau_1 \leq \tau_2 \leq T_2$, the CAR_i from τ_1 to τ_2 is the sum of the abnormal return. Hence

$$CAR_i(\tau_1, \tau_2) = \sum_{\tau=\tau_1}^{\tau_2} AR_{i\tau} - - - - - - - - - - - - - - - - (2)$$

According to MacKinlay (1997), the distribution of the $AR_{i\tau}$ and CAR under the Null hypothesis (H_0) is normal, that is $AR_{i\tau} \sim N(0, \sigma^2(AR_{i\tau}))$ and $CAR_i(\tau_1, \tau_2) \sim N(0, \sigma^2(\tau_1, \tau_2))$ respectively.

iv.   The statistical test of abnormal returns:

$$t = \frac{CAR_{it}}{\sqrt{T_2 - T_1 + 1}S_{it}} - - - - - - - - - - - - - - - - - (3)$$

Data Collection and Sample
The data collection and final sample involved four major steps:

a. The first step involved the removing of the strategic alliance data that were returned with the query. The query returned approximately 14000 global IJV announcements from 2005-2010 of which eligibility criteria (b to d below) were used for the determination of the final sample.

b. Secondly, for the purposes of the adopted methodology, at least one of the partners in the joint venture should be listed on the Centre for Research into Stock Prices (CRSP) database which is linked to the Eventus software. This facilitates the derivation of abnormal returns.

c. Thirdly, it is worth noting that a listing of CRSP does not necessarily guarantee data. Hence to ensure data availability for the partner, further strict parameters requirements such as having a PERMNO number (an identifier assigned by the CRSP to each security) for the retrieval of stock data. The other measures are summarised in Table 1:

Table 1: Parameters for event analysis

Parameter:	Selected Option:
Identifier	PERMNO
Market Return	CRSP Value Weighted
Estimation Period	End Before Event Date (EBD) = -11
	Maximum Estimation Length = 200
Estimation Method	Ordinary Least Square Method (OLS)
Event Period	Pre = 10 and Post=10
Alternative Windows	[-10,-2]; [-2,+2]; [-1,1]; [0,0]; [0,2]; [+2,+10]

d. Finally, after meeting the above requirements, the dataset was categorised into: location; sector and time of announcement with the objective of examining the role these may have on shareholder value upon the announcement of the joint venture. The final sample was made up of 394 IJV announcements. Using the assumption of a normal distribution, this number is suitable for inferential statistical mechanisms to be employed.

4. Data Analyses and Findings

4.1   Did the announcement of IJVs elicit positive abnormal returns?

Table 2 below represents the mean abnormal returns (MARs) and Cumulative Abnormal Returns (CARs). Using the t-statistic (3.255) of the announcement day abnormal returns, it can be deduced that, the market reacted positively on the day of announcement - with mean abnormal return of

0.41%. This was significant at the 0.1% level. The market started a slight reaction 10 days and 4 days before announcement with respective mean abnormal returns of -0.23% (t=-1.475) and 0.15% (t=1.541). These were both significant at the 10% level. Factors responsible for the reaction before official announcement may be linked to insider information or rumours (Min and Prather, 2001; Hanvanich, et al., 2003; Dursun and Kilic, 2008). The first reaction experienced on the 10th day before official announcement, was a value reducing return (-0.23%). The cause of this may be due to inadequate information for investors to better examine the potential value of the yet to be announced joint venture, or perception towards the survival of the venture based on previous experience of the yet to be partners (Chung et al., 1993; Ren et al., 2009)

Table 2: MARs & CARs for IJV All Announcements

Day	N	MARs	CARs	Z	t
-10	394	-0.23%	-0.23%	-1.688*	-1.475$
-9	394	-0.20%	-0.43%	-1.164	-1.223
-8	394	-0.09%	-0.52%	-0.819	-0.352
-7	394	0.12%	-0.40%	0.085	0.955
-6	394	-0.02%	-0.42%	-0.715	-0.126
-5	394	0.09%	-0.33%	0.155	0.703
-4	394	0.15%	-0.18%	2.469**	1.541$
-3	394	-0.18%	-0.36%	-1.142	-1.11
-2	394	-0.17%	-0.53%	-1.029	-1.308$
-1	394	-0.07%	-0.60%	0.215	0.195
0	394	0.41%	-0.19%	2.473**	3.255***
1	394	-0.03%	-0.22%	0.627	0.419
2	394	0.08%	-0.14%	1.698*	0.837
3	394	-0.03%	-0.17%	0.82	-0.132
4	394	-0.19%	-0.36%	-2.138*	-1.124
5	393	-0.03%	-0.39%	0.698	0.022
6	392	-0.03%	-0.42%	-0.035	-0.191
7	391	-0.08%	-0.50%	0.04	-0.365
8	390	-0.08%	-0.58%	0.842	-0.22
9	389	0.02%	-0.56%	0.981	0.202
10	388	0.36%	-0.20%	2.825**	2.438**

The symbols $,*,**, and *** denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a generic one-tail test.

A closer inspection of the output shows that almost all cumulative abnormal returns for the 21-day period are negative. The positive reaction recorded on announcement day had an impact on the magnitude of the cumulative abnormal returns (CARs). For example, on the day before announcement (d=-1), the mean abnormal return (MAR) was -0.60%. This was impacted on positively on the day of announcement (day=0) (enhancing share value to -0.19%). Observation of the t-statistic or z-statistic shows that the market continued to react until the 10th day. This supports the assertion that IJVs may not have immediate impact on shareholders' value upon announcement (Borde et al., 1998).

Factors accounting for the positive reaction on the day of announcement can be explained using both international joint venture theories and empirical findings. For example Yu and Tang (1992) argue that the advantages gained in creating IJVs overshadow the demerits, thus translating into a value enhancing effect for firms. The perception is that firms may reduce the variability in their earnings because economies of different countries are less correlated or diversified. It is however worth noting that investors do not reward firms for what they can do more cheaply hence these effects may cancel each other.

International expansion may also lead to diversification of shareholders' wealth thus reducing the risk and hence translating into shareholder value creation (Borde et al., 1998). The firms involved may also benefit from economies of scale and also entering markets which hitherto could not have been possible if the government of the host country prohibits a 100% foreign ownership. The stock market assimilates (assuming the market is informationally efficient - efficient market hypothesis) these thoughts and reacts positively to international joint venture announcements.

Table 3: Cumulative Abnormal Returns - CARs

Window	N	CARs	P:N	Z	t
(-10,-2)	394	-0.33%	192:202	-0.799	-0.799
(-1,+1)	394	0.54%	201:193	1.914*	2.234*
(-2,+2)	394	0.47%	199:195	1.782*	1.520$
(0 , 0)	394	0.41%	197:197	2.473**	3.255***
(0, +2)	394	0.63%	205:189	2.770**	2.605**
(+2,+10)	394	0.20%	218:176>>	1.897*	0.476

The symbols $,*,**, and *** denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a generic one-tail test.

Window CARs (-10,-2) has a Z= -0.799 (p>5%) and t statistic of -0.799 hence not statistically different from zero. The implication is that there is no impact on shareholders' value. The explanation for the negative cumulative returns in this window may be due to a lower percentage of positive abnormal returns (192:202); However in the CARs (-1, 1) window, there was a positive impact on shareholders' value with a mean cumulative abnormal return of 0.54%. This may be linked to the higher ratio of positive to negative return of 201:193 (51% positive) and significant at the 95% level of confidence (has a t statistic of 2.344.)

Based on these observations there is shareholder value created upon announcement of IJVs. This is consistent with empirical evidence which suggests that on average, international joint venture announcement adds to shareholder value (McConnell and Nantell, 1985; Wooldridge and Snow, 1990; Crutchley, et al., 1991; Koh and Venkatraman, 1991; Chen et al., 2000; Reuer and Koza, 2000; Hanvanich et al., 2003) The positive CARs (0.41%, t=3.255) which is statistically significant at the 0.1% level is however contrary to the findings of Min and Prather (2001) who report no reaction to IJV announcement. They however report that the market favours domestic joint ventures upon announcement. There is some empirical evidence which suggests that international joint venture announcement on the average elicits negative abnormal returns (Chung et al., 1993).

Given the potential the ratio of positive to negative (P:N) can have on the shareholder value analysis, it is worth probing the behaviour within the 21-day window used for analysis. A value enhancing effect will arise if the abnormal return is a positive one and vice versa (Mackinlay, 1997; Samitas et al., 2004). The investigation into the ratios reveals a linkage with the mean abnormal returns.

Other possible explanations that may be responsible for the positive market reaction on the day of announcement include the sharing of risk; reduction in transactional cost; the sharing of complimentary technology; the potential advantages of efficiencies and economies of scale; the blocking of competition and as a market entry strategy. These are broadly classified as the rationale for the formation of a JV (Contractor and Lorange, 1988; Koh and Venkatraman, 1991; Merchant and Schendel, 2000). Operating in an international environment characterised by enormous uncertainties and unfamiliar business terrain, partners of the joint venture stand to benefit from a reduction in potential external the risk in this context. If the partners have solely invested in a project, the quantum of risk will all things being equal be greater than the adoption of a JV strategy where risk is shared amongst partners.

The increasing of market shares of partners may also be a potential reason for the positive market reaction. This will simultaneously reduce the threat of competition which individual partners may

potentially face from budding firms producing similar goods. Also the JV has the potential to enhance the quality due to the sharing of resources especially in the context of technology and sometimes proprietary information. Sharing of skilled personnel helps achieve this purpose. Thus, the positive response given on the day of announcement suggests that the financial market have taken the size, the resources-technology and personnel and the potential quality into consideration.

4.2   The generated abnormal returns are influenced by the sector of the IJV

Our results show that on the day of announcement the Advertising and Marketing sectors had the largest positive impact with mean abnormal returns of 4.29% and significant at the 1% level. In order of magnitude the manufacturing and technology sectors respectively recorded abnormal returns of 1.07% (p<1%) and 1.04% (p<0.1%). Announcement relating to Mining, Research and Development (R&D), Energy, Transportation and Hospitality sectors did not register any significant impact on announcement day.

The Finance sector had a slight impact on the day of announcement. Its MARs on the day of announcement was -0.5%. This was significant at the 10% level. The 3rd and 4th day after announcement recorded a wealth reducing return of -0.67% and -0.77%. These were both significant at the 5% level. It is interesting to note that, although the Advertising and Marketing sector reported the highest positive abnormal returns on the day of announcement, five (5) days later there was a negative reaction of -2.46%. The Technology sector also experienced a slight negative reaction -0.41% (p<10) on day=7. It is assumed that the information surrounding the announcement is adequately examined before commitment of resources by investors.

Another angle worthy of consideration in the sector analysis is the reaction before the official announcement. For example seven (7) and three (3) days before the event date, Advertising & Marketing and Manufacturing sectors reacted positively with a mean abnormal return of 2.05% (p<10%) and 0.67% (p<5%) respectively. The energy sector is also a classic example. Though there was no reaction on the day of announcement, there was a negative impact on the 9th and 10th days before official announcement. Both reactions were had value reducing effects (-0.49% (p<5%) and -0.52, p<5% respectively).

Still on the Energy sector, days d=-2 and d=-1, experienced slight impacts of -0.04% and -0.08 respectively. These were significant at the 10% level. As discussed before, the reaction before official announcement may be attributed to the concept of information asymmetry. Insiders may leak negotiations of the joint venture before the official announcement is made. This may cause major disturbance to the market (Fama and French, 1969; Brown and Warner, 1980; 1985; Min and Prather, 2001)

It is interesting to note that whilst some sectors received favourable responses on the day of announcement, it dwindled few days after the announcement (see Appendix 1.4). For other sectors, the hint of a potential value creation of the project through the possible leak of information, dissipated when the announcement was formally made. A notable example was the R&D sector (day = -8; +1.65 %**); this impressive figure did not induce any signal for the remaining days in the window. It also worth reporting that majority of the sectors had negative mean abnormal returns before the official announcement (especially the retail sector). It implication is that investors initially perceive the impending announcement as a bad one but change their view within the window days. This assessment may be due to inadequate information concerning the investment since their judgement is based on speculation.

The nature of the sectors in the data may also be the reasons for the positive market reaction on the day of announcement. For example, in the energy sector which is characterised with huge initial capital requirement and a multitude of project specific risk - the teaming up of firms provides a signal to the financial market that sponsor know what they doing. With larger projects, using an IJV strategy tends to reduce the potential risks - political risk in the host country in the sense that it is shared (if it arises) or effective mechanisms are put in place prevent it.

4.3   There are differential wealth effects in abnormal returns due location

The location of joint venture according to Hanvanich et al. (2003); Makino and Beamish (1998); Merchant (2012), has an impact on shareholder wealth effects. Some of the reasons attributed to these differential responses include differences in culture of partners; strength of legal institutions and the distance between the partners. This research however uses the continent of the proposed location of the joint venture as the investigation for location. Location in the context of this research is the continent in which the joint venture is located. Table 6 is a summary of the MARs grouped into continents.

Table 6:   MARs & CARs for IJV Announcements by Continent

Day	Africa	Aus/Oceania	Americas	Asia	Europe
-10	-0.26%	-1.79%**	-0.25%	-0.16%	0.23%
-9	-0.90%*	-0.90%	0.05%	-0.04%	-0.55%*
-8	0.07%	-0.29%	-0.24%*	-0.08%	0.21%$
-7	-0.07%	-1.50%*	0.41%*	0.25%*	-0.13%
-6	-0.20%	1.03%	0.04%	-0.09%	-0.29%$
-5	0.17%	0.59%	-0.13%	0.23%	0.08%$
-4	0.85%*	0.23%	0.04%	-0.05%	0.46%$
-3	0.05%	0.74%	-0.19%*	-0.10%	-0.72%
-2	-0.31%	-0.72%	-0.13%	-0.15%	-0.05%
-1	-1.34%**	-0.48%	0.07%	0.02%	0.15%
0	1.01%*	-0.33%	0.40%*	0.22%	0.81%**
1	0.14%	-0.75%*	-0.07%	-0.06%	0.26%
2	-0.18%	0.61%*	0.37%*	-0.19%	-0.06%
3	0.00%	0.18%$	-0.01%	-0.12%	0.01%
4	-0.11%	-1.07%**	-0.31%**	0.00%	-0.08%
5	0.73%*	-0.47%	-0.38%$	0.25%	-0.06%
6	0.47%	0.53%	-0.36%	0.09%	-0.02%
7	0.24%	-1.54%*	-0.18%	0.35%*	-0.45%
8	0.14%	0.50%	-0.02%	-0.18%	-0.27%
9	0.34%	-0.10%	-0.05%	0.05%	-0.02%
10	0.39%	0.43%	0.59%***	-0.04%	0.69%**

Announcements relating to IJVs proposed to be located in Africa had significant positive impact on shareholders' value. An examination of the mean abnormal returns reveals as many as five reactions in the event window. The snippets of information which the market might have received before official announcement may have been responsible for the reaction a day before official announcement. The magnitude of this was -1.34% and significant at the 1% level. On day=-4 there was a positve abnormal return of 0.85% and significant at the 5% level. This value-enhancing abnormal return may be attributed to issues relating to information assymetry.

The market reaction for projects to be located in Europe was significant on the day of announcement. The abnormal return was 0.81% (p<1%). The markets in Europe have been classified largely as being efficient. The perception of high information efficiency in European markets is an indication that information contained in the announcements is well assimilated before an investment decision is made. Thus the positive response means joint venture as a strategy has the potential of creating shareholder value in this continent. There were six other reactions in the 21-day window. There was a value enhancing reaction on day +10 of 0.69% and significant at the 1% level. However, on day=-9, the reaction was negative (-0.55%) meaning shareholders' value was reduced. The impacts were at the 10% level of significance on day=-8,-6,-5 and -4. The impact was not as strong as the day of announcement and 10 days after announcement. Prior to announcement the CARs had rarely come into the negative zone. This cumulative diminishing returns was reversed after announcement and sustained until day=+8.

The uncertainty associated with prior announcement events may be the inadequate official information that may be available for processing (Min and Prather, 2001; Merchant and Schendel, 2000 and Hanvanich and Cavusgil, 2001). Investors are speculating or relying on historical data associated with similar announcement (if true) to make such decisions. It is interesting to note that the MARs reduced in magnitude after the impressive announcement day impact (on day zero). During this period it is assumed that all the information content surrounding the joint venture has been properly understood, hence the euphoria that greeted the announcement dwindled drastically (Dursun and Kilic, 2008; Min and Prather, 2001). This had a negative impact on the CARs even though it enjoyed some positive magnitude for at least 8 days.

Announcement relating to the international joint venture (IJVs) to be located in the Americas showed a positive market response on the event day. MARs was 0.40% and significant at the 5% level. The market continued to add value to shareholders' wealth two (2) days post announcement with a return of 0.37%. However on the 4th and 5th days after announcement the response had a wealth reducing effect on shareholders' value. On the 10th day there was a significant shareholder value creation of 0.59%. This was significant at the 0.1% level. On average, the announcement relating to the IJVs proposed to be located in the Americas enhanced shareholder value.. A closer observation from Table 6.10 shows that the market started reacting before the day of announcement (day -8=-0.24% p<5%); (day -7=0.41%, p<5%) and (day -3=-0.19, p<5%). These inconsistencies may be due to the lack of adequate information preceding the official announcement. The sharp fall in the cumulative abnormal returns curve indicates the MARs did not add value until the 8th and 10th days.

Announcement relating to IJVs to be located in Australian/Oceania did not make an impact on the day of announcement. It is however it is interesting to note that the market reacted twice before the actual event on day d=-10 and -7. The response was however negative (-1.79% and -1.50 respectively). The respective significance was 1% and 5%. A day after announcement also registered a negative market response of magnitude -0.75% (5% level of significance). For the first time, the 2nd and 3rd days post announcement returns were positive and respectively significant (MARs) at the 5% (0.61%) and 10% (0.18%) levels. Five (5) out of the seven (7) reactions associated with this continent were negative. This had a detrimental effect on shareholder value. Summarising, the economic climate for this location is not favoured by investors (Cavusgil et al., 2003)

The announcement relating to joint ventures proposed to be located in this region did not generate any market reaction. It is worth noting that the two reactions associated with this continent were a week before (day=-7) and week after (day=+7) announcement. These two reactions were both positive [(0.25%, p<5%)] and [0.35%, p<5%]. The unstable nature associated with the cumulative abnormal returns (CARs) is attributed to the magnitude of the abnormal returns. Investors are sceptical about the IJVs located in this region - the Asian financial crisis may be a major factor relating to this announcement insensitivity.

To effectively analyse the role of location on shareholders' value a multiple window analysis is performed for each of the continents and compared with each other. This is shown in Table 5.

Table 5 : CARs for Alternative Windows

Continent					
CARs[-10,-2]	CARs[-1,+1]	CARs[-2,+2]	CARs[0,0]	CARs[0,+2]	CARSs[+2,+10]
Africa					
-0.59%	-0.18%	-0.67%	1.01%*	0.97%	2.02%
Americas					
-0.39%	0.40%	0.65%$	0.4%*	0.71%*	-0.35%
Asia					
-0.20%	0.18%	-0.15%	0.22%	-0.03%	0.21%
Aus. & Oceania					
-2.60%	-1.56%	-1.67%	-0.33%	-0.47%	-0.88%

Europe
-0.74%*   1.23%   1.12%$ 0.81%**   1.02%*   -0.28%

Announcements relating to IJVs proposed to be located in Asia did not register any significant impact. This confirms the earlier findings of the analysis relating to the mean abnormal return. The story is not different from announcements proposing to locate the IJV in Australia/Oceania. On the contrary three (3) positive reactions [CARs (-2,+2), p<10%; CARs(0,0),p<5% and CARs(0,+2), p<5%] accompanied the announcements relating to the Americas. In Europe, the three (3) reactions identified were mixed. The CARs (-10,-2) window is associated with a negative return (-0.74%, p<5%) this does not add to shareholder value.   However, the remaining reactions enhanced shareholder value. They include CARs(0,+2)- (1.02%, p<5%); CARs(-2,+2)-(1.12%, p<$); CARs(0,0)-(0.81%, p<1%) and CARs (0,+2)-(1.02%<5%). Apart from the event day reaction, Africa did not register any significant reaction.

4.4   There are differential wealth effects based on time of announcement

The investigation into the impact of the global financial turmoil on announcement of IJVs is done by categorising the sample into two groups. The announcements before 2008 (i.e. 2005, 2006 and 2007) were in the pre-2008 group, 2008, 2009 and 2010 were classified as post 2008. The year 2008 was included in the post 2008 category because it was the year where there was a considerable amount of pressure on the financial markets (see Buckley, 2011). The pre-2008 group consisted of 223 announcements and post 2008 totalled 171. An event analysis was performed on these groups and the differences in mean compared using a t-test analysis. Table 6 shows the event analysis conducted on the two groups. It also contains the ratio of positive to negative abnormal returns and their corresponding t-statistic to help in the statistical significance determination

The event study result which was conducted using the same parameters as before shows an impact upon announcement before 2008. A positive mean abnormal return of 0.47% with a Positive to Negative ratio (P:N) of 114:109, i.e. 51.12%. This means market conditions were conducive for investment, particularly for joint ventures. This favourable response was however not replicated in the post 2008 announcement. The percentage of positive mean abnormal returns recorded was less for this period (38:47 or 44.7%).

Table 6: MARs of pre- and post- 2008 IJV announcements

Day	N	MARs	P:N	t	N	MARs	P:N	t
		Pre-2008 Announcement				Post-2008 Announcements		
-10	223	-0.27%	101:122	-1.828*	171	-0.06%	47:38	-0.16
-9	223	-0.20%	99:124	-1.320$	171	0.37%	44:41	1.05
-8	223	-0.21%	97:126	-1.409$	171	-0.28%	34:51	-0.803
-7	223	0.11%	116:107	0.765	171	0.27%	42:43	0.778
-6	223	0.01%	114:109	0.04	171	-0.08%	35:50	-0.224
-5	223	-0.04%	107:116	-0.281	171	0.13%	39:46	0.379
-4	223	0.07%	107:116	-1.083	171	0.07%	45:40	0.192
-3	223	-0.16%	100:123	-1.083	171	-0.02%	42:43	-0.054
-2	223	0.06%	109:114	0.392	171	-0.33%	34:51	-0.933
-1	223	-0.01%	108:115	-0.043	171	0.10%	43:42	0.285
0	223	0.47%	114:109	3.150***	171	0.12%	38:47	0.336
1	223	-0.08%	104:119	-0.513	171	-0.21%	35:50	-0.584
2	223	0.00%	111:112	-0.029	171	-0.03%	44:41	-0.079
3	223	0.05%	114:109	0.349	171	-0.12%	39:46	-0.355
4	223	-0.36%	94:129	<-2.413**	171	0.00%	42:43	-0.012
5	223	0.17%	105:118	1.113	171	-0.22%	36:48	-0.633
6	223	0.01%	105:118	0.069	171	-0.20%	40:43	-0.575
7	223	-0.11%	103:120	0.846	171	0.26%	44:38	0.734
8	223	0.13%	119:104	0.846	171	-0.43%	32:49	-1.224

| 9 | 223 | -0.09% | 117:106 | -0.584 | 171 | -0.22% | 38:41 | -0.612 |
| 10 | 223 | 0.14% | 107:116 | 0.923 | 171 | 0.16% | 41:37 | 0.443 |

The symbols $,*,**, and *** denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a generic one-tail test. The symbols (,< or),> etc. correspond to $,* and show the direction and generic one-tail significance of the generalized sign test.

The market did not show any interest in the announcement of IJVs after the global financial crisis. An inspection of all the t-statistics associated with the post-2008 announcements reveals non significance in the 21-day window of analysis. It is also interesting to note that there was much information leakage into the market before 2008. This is because the market reacted three times (day=-10, -9, and -8) before the official event announcement (day=0).

5. Conclusions

The time of the announcement was purposely used to examine the impact of the global financial crisis on international joint venture announcements. Thus announcements made before and after 2008 were separated to pave the way for comparative analysis to be carried out. The impact of the proposed location of the joint venture was examined by identifying each announcement with the respective continent: - Africa, Asia, the Americas, Australia/Oceania and Europe. Separate event analysis was carried out for each continent using parameters set out in the event methodology. The resulting mean and cumulative abnormal returns (by continent) are compared and discussed.

The heavy reliance on the traditional event study methodology for this investigation is based on its ability to measure disturbances to stock prices (Fama et al., 1969; Brown and Warner, 1980, 1985; Koh and Venkatraman, 1991; MacKinlay, 1997; Merchant and Schendel, 2000; Hanvanich and Cavusgil, 2001; Min and Prather, 2001; Merchant, 2012). Some of these disturbances include the announcement of joint ventures, dividends; foreign direct investment agreements (FDI); CEO appointments; mergers and acquisitions and new product development. The use of alternative windows i.e. ((0,0); (0,+2); (-2,0); (-1,+1); (-2,-10); (+2,+10)) helped in conducting in-depth analysis on shareholder value. The choice of these windows is based on literature (Koh and Venkatraman, 1991; Merchant and Schendel, 2000; Min and Prather, 2001; Dursun and Kilic, 2008) and is also influenced by the assumption that larger windows may not have the ability to capture the specific event (announcement) because they may be diluted by confounding events

The positive abnormal returns on the day of announcement for all IJVs confirm the theories underpinning the rationale for the formation of a JV. The transactional cost theory (Williamson; 1975; 1980; Kogut, 1988) for example, is a key consideration by partners in the JV formation process. The cost associated with information gathering is reduced in the process. Further, in the context of risk-sharing, other things being equal, it is brought to the barest minimum. The positive reaction (0.41%) on the day of announcement also confirms that joint ventures are effective market entry strategies as viewed by the financial market. The positive shareholder value creation associated with the announcement confirms that potential investors see the enhancement in technology (using complimentary technology of each partner), may subsequently enhance the quality of production. Also the sharing of expertise from both partners and the ability to block competition through its size will enhance the potential to gain competitive advantage

However, a closer inspection of the abnormal returns in all the analysis conducted showed that the announcement value created on the announcement day does not have a lasting impact on the on the value of shareholder. Within the 21-day window, some positive impacts were wiped away as early 2-days post announcement. This is keeping in line with the literature of IJVs. This conclusion can be linked to the Efficient Market Hypothesis (EMH) which posits that information of an asset is immediately factored into the pricing of an asset when available. Some of the earlier reactions may also be due to the inadequate information available for assessment or leakage if information of the yet to be announced joint venture.

Some key findings such as the relevance of sector, time and location enhances the quality of this research. For example, the use of the 2008 financial crisis as a point of reference to conduct a t-test which compares pre-2008 and post-2008 was unique in this area of research. The finding relating to time suggests that investors were not interested in the potential value of the IJV announcements because of the happenings in the stock market. Also, the use of continent as location was unique to this research. Its use revealed continents where investors prefer to invest thus confirmation of the relevance of location. For further research, the unique role of the home country of the partners could be explored in the shareholder value analysis.

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