



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Master Degree Project in Finance

International Joint Ventures in Asian Emerging Markets

An event study about how the local partner's shareholder gains are affected by
the selection of foreign partner

Sirirat Kiatprungwet and Maja Trolle

Supervisor: Conny Overland
Master Degree Project No. 2015:93
Graduate School

Abstract

International Joint Ventures (IJVs) play an important role in the strong competitive trend towards globalization of world markets. This trend leads to greater access to the world's Asian emerging markets, which creates possibilities for economic growth for companies entering IJVs. However, problems may arise since the choice of business partner can affect shareholder gains for the local partner. This paper examines whether it is beneficial, in terms of shareholder gains, for a local partner on an Asian emerging market to engage in an IJV together with a foreign company from a country belonging to The Group of Seven (G7) in contrary to a company from an industrialized non-G7 country. The shareholder gains to the local partners are examined by conducting event studies for the three-day cumulative abnormal returns in a sample of 106 IJVs between 2000 and 2015. To the best of our knowledge, this is the first study that examines this, from the perspective of the local partner. The main finding suggests that there is no significant difference in the gains to the local partners shareholders when the foreign partner comes from a G7 country in contrary to when the foreign partner comes from a non-G7 country. However, the local partners' firm size is found to be significantly related to the shareholder gain. In addition, the results show that the shareholder gains to the local partner together with a foreign partner from North America are higher than when the local partner is together with a foreign partner from Europe.

Keywords: International Joint Venture, The Group Of Seven, Asian emerging market, level of economic development, Cumulative Abnormal Return, event study.

Contents

1	Introduction	1
1.1	Background	1
1.2	Problem Discussion	3
1.3	Research Question	4
1.4	Purpose	4
1.5	Contribution	4
2	Literature Review	5
3	Methodology	9
3.1	Research Design	9
3.2	Data	12
4	Results and Analysis	15
5	Discussion	20
6	Conclusions	22
7	Bibliography	24

List of Tables

1	Summary statistics for the sample of 106 International Joint Ventures between 2000 and 2015	11
2	Summary of countries	12
3	Regression results for 106 International Joint Ventures between 2000 and 2015	18
4	Regression results for alternative event windows	19

Glossary

Acronym	Meaning
CAAR	Cumulative Average Abnormal Return
CAR	Cumulative Abnormal Return
G7	The Group Of Seven
GDP	Gross Domestic Product
HIC	Highly Industrialized Country
IJV	International Joint Venture
ISIN	International Securities Identification Numbers
JV	Joint Venture
NAICS	North American Industry Classification System
NIC	Newly Industrialized Country

Acknowledgement

We would like to express gratitude to our supervisor Conny Overland for the useful remarks and engagement through the process of this master thesis. Furthermore, we would like to thank Van Diem Nguyen for the advices in data preparation. Last but not least, we wish to express our sincere thanks to our families and friends for the given encouragement, support and motivation through life and through the time of this master thesis.

- *Gothenburg, June 2015*

Sirirat Kiatprungwet and Maja Trolle

1 Introduction

This section highlights the reasons for companies to enter International Joint Ventures (IJVs), and addresses problems related to the selection of a suitable business partner. Focus lies on local companies in Asian emerging markets that enter IJVs. Further, the discussion ends by asking the question about whether it is beneficial for a local company, in terms of shareholder gains, to engage in an IJV with a company from one of The Group of Seven (G7) countries, in contrary to a company established in an industrialized non-G7 country.

1.1 Background

There is a strong competitive trend towards globalization of world markets and this is of importance for businesses all over the world (Hewitt, 2005). This makes it possible for companies to "explore and develop capabilities to internationally source or distribute goods, services or intellectual property" (Maughn and Stewart, 2011, p.1). New emerging markets in the world's developing countries can be reached and this creates possibilities for economic growth. Traditionally, the two most common ways for economic growth for a company is either internal growth or growth by acquisitions. Joint ventures (JV) and other strategic alliances are an increasingly important third way, especially internationally (Hewitt, 2005).

A Joint Venture is most often described as a formation in which two or more business partners from the same, or different, jurisdictions share risk, resources and returns from a joint enterprise. This enables the companies to gain access to markets which otherwise might be beyond their resources (Maughn and Stewart, 2011). The aim for the parent companies is to seek economic synergy. Economic synergy is the additional economic benefits that arise from the cooperation between the partners and their ability to complement each other's resources and capabilities (Luo, 2002). Together, the parent firms of the JV seek to find a working partnership, often with both partners taking active roles in the decision making of the jointly owned entity. Further, it is common that one of the partners is located on the market where the joint enterprise is located, such that local knowledge about the marketplace is preserved (Hewitt, 2005).

An increasingly important type of JV is considered to be the International Joint Venture (IJV). An IJV is when at least one of the partners has its company headquarter located in a country outside the operations of the JV, or if the venture has operations in more than one country (Hewitt, 2005). Lately, in relation to the globalization of world markets, IJVs has grown in importance as it allows a faster and less costly entrance to new markets than what otherwise can be achieved by purchasing an existing company or by starting a whole new venture (Maughn and Stewart, 2011). Also, Mantecon (2009) states that investors show positive reactions to IJVs prior to cross-border acquisitions, since IJVs can be an effective way to reduce uncertainty and country risk, due to the sharing of information the partners conduct. Thus, based on these findings, a JV or an IJV can be seen as an instrument for reducing future risk and for potential investing. Other drivers to enter an IJV might be access to technology, expansion of customer base, entry into emerging economies, entry into new technical markets, pressure of global competition, leveraged joint ventures, and(/or) as a catalyst for change (Hewitt, 2005).

All of the positive features of an IJV benefits most companies but especially small to medium size companies that lack the infrastructure, capital, resources, management, experience, and strength to enter new markets on their own (Maughn and Stewart, 2011). Further, the formation of an IJV benefits the foreign partner which will take part of the local partners' knowledge about the marketplace. It is also common that the local partner already has existing relationships with customers and key suppliers, and has knowledge about the local language, local law regime, customs and social norms. Awareness about all of these factors increase the probability of success (Hewitt, 2005). Also, the complementarity of the firms is essential for an IJV to be successful, i.e. one partner's skills and capabilities complement the needs of the other partner, and vice versa. Bringing the partners together for mutual benefit creates dependence between them which creates a sustainable relationship. Nevertheless, it is of great importance to be aware of the fact that many of the characteristics that affect the probability of success are hard to measure and compare in a quantitative manner. Such characteristics can be national differences related to culture, local law regime, governing law and arbitration, law and practice related to IJVs, preparation and commercial due diligence (Hewitt, 2005).

Since "joint ventures represent an intercultural and interorganizational linkage between two separate parent companies that join forces in different strategic interests and operations" (Luo, 2002, p.217), problem may rise. It becomes a complex situation where interests and expectations might collide (Luo, 2002). Therefore, understanding, careful planning and complementarity of company resources and capabilities are of great importance. For companies in emerging markets, the main problems are lack of complementary experience, capital, management and technology. These attributes are often related to industrialized countries, with higher level of development. Development is often measured in terms of the Gross Domestic Product (GDP), and the countries with highest GDP are called Major advanced economies. These countries are often referred to as The Group of Seven (G7), and they are special since they belong to the wealthiest and most industrially competitive nations in the world, with their lead in technology and production capabilities. The top five economies in G7 accounts for approximately half of world manufacturing value added and approximately one-third of world manufactures trade. According to the United Nations Industrial Development Organization (2013), the United States alone represents half of the top five's total world manufacturing value added and Germany represents approximately one-third of the top five's world manufactures trade total. Further, highly industrialized countries are represented by well-developed corporate governance, advanced infrastructure and are at the top of the socioeconomic hierarchy (United Nations Industrial Development Organization, 2013). The so called "non-G7 countries" are here referred to as countries which either are newly industrialized (NIC) or are highly industrialized countries (HIC) outside the G7. In terms of development, then G7 and HIC are most alike. Also, the G7 countries have as a group higher aggregated GDP than the non-G7 countries as a group and that's what separate them from other highly industrialized countries that otherwise share same characteristics in terms of development (International Monetary Fund, 2011). The positive attributes related to G7 countries are often what less developed countries are striving to reach, since they represent the top most successful economies in the world (United Nations Industrial Development Organization, 2013).

1.2 Problem Discussion

Previous studies show mixed results of the wealth effects of IJVs, and have mainly focused on US-based firms entering IJVs with companies established in Asia (Chen et al., 1991; Borde et al., 1998; Fröhls et al., 1998), from the perspective of the US firms' shareholder wealth. Furthermore, Fröhls et al. (1998) examines how IJVs take turns when matching US-based firms with firms from either emerging economies or G7 countries. The empirical results of the IJVs wealth effects are inconclusive, with negative, positive, or insignificant findings. For instance, Lee and Wyatt (1990) and Chung et al. (1993) find significant negative wealth effects from IJV announcements, whereas Fröhls et al. (1998) and Borde et al. (1998) show significant positive wealth effects. However, Gupta and Misra (2000) show insignificant findings of shareholder wealth effects. Thus, further understanding of the wealth effect or value creation of IJVs is needed. This especially with focus on the local partner since there exist little research with perspective of the local company and its shareholder gain in an IJV. The local company is here referred to as a company established in an Asian emerging market.

As a local company on an Asian emerging market, lack of capital, management and technology might be a difficulty in order to compete in developing goods, services or intellectual property on the local market. Thus, it might be in the local company's own interest to enter an IJV with a foreign partner that can complement the lack of economic growth factors (United Nations Industrial Development Organization, 2008). Also, since IJVs have been able to contribute in technological progress, economic growth and success in international markets for many developing countries, this may be a promising way for economic growth (Hewitt, 2005). However, problems will arise, and one of the main issues is related to the selection of a suitable business partner. This is a problem for the local partner since it could affect its shareholder gains.

A typical choice of partner for a company located on an emerging Asian market, would be a partner from an industrialized country (i.e., a developed country). This due to the fact that this partner often have the complementary factors that the local company needs (United Nations Industrial Development Organization, 2008). However, even though positive attributes exist in industrialized economies, the local company faces the problem about not knowing which factors impact the shareholder gains the most. Characteristics like the degree of the economic development of the foreign partner's country, the foreign and the local partner's geographic location, type of IJV operation, passage of time, and the local partner's firm size may have different effects of different sizes on the shareholder gain. Also, even if the local company would pair up with a foreign company from an advanced economy, it still remains unknown if it is preferable to pair up with a company from a country belonging to a Major Advanced economy (i.e., G7), or just an advanced economy from an industrialized non-G7 country. It is not certain that the degree of economic development, in terms of GDP, in the foreign country affects the shareholder gain for the local company. Thus, the problem lies in whether it is most beneficial, in terms of shareholder gains, for the local company to engage in an IJV with a foreign company from a G7 country or from an industrialized non-G7 country.

1.3 Research Question

Is it beneficial, in terms of shareholder gains, for a local company on an Asian emerging market to engage in an IJV together with a foreign company from a G7 country, in contrary to a company from another industrialized non-G7 country?

1.4 Purpose

The purpose of this thesis is to add to the knowledge of IJVs from the local firm's perspective, by investigating how the selection between a G7 and a non-G7 foreign partner affects the shareholder gain for the local partner on an Asian emerging market. The study provide knowledge about how the degree of the economic development in the foreign partner's country, as well as other factors, affect the local partner's shareholder gain, at the time around the announcement of the IJV.

1.5 Contribution

This paper adds to the previous research on IJVs and increase the understanding about whether IJVs with a foreign partner from a G7 country lead to higher shareholder gain for the local company in an Asian emerging market, compared to if the foreign partner would be from a non-G7 country. In this study the IJVs consist of two business partners only (i.e., a local and a foreign). The local partner is established in an Asian emerging market where the joint enterprise is located. The foreign partner is either located in one of the G7 countries in the main group or in a non-G7 country in the control group. Thus, focus lies on the value gain, in terms of shareholder gain, for the local partner and not on the foreign partner. This is in contrast to previous research where focus often lies on the foreign value gain or the value creation in the joint enterprise. Thus, this paper wants to shed some light on the announcement effect of IJVs for the local partners shareholder gain. To the best of our knowledge, no studies have examined this before.

2 Literature Review

This section provides the reader with previous research on G7 countries, and on IJVs which shows mixed results. It also provides the reader with several theoretical explanations to why there should be a difference between G7 countries and other industrialized countries, in terms of differences in the level of economic development, efficient financial markets, and corporate governance.

It is known that G7 countries have large economies, and efficient financial markets that go along with GDP. Therefore, there are a number of reasons why we anticipate that a local firm when entering an IJV would be better off with a company from a G7 country, than with a company from a non-G7 country. Such reasons can be the level of economic development, efficient financial markets, and corporate governance.

Economic Development can be reached through an increase in consumption, income, saving and investment (Nafziger, 2012; Todaro and Smith, 2012). From the concept of macroeconomics, GDP can be seen as a measure of an economy's overall performance, since GDP is a country's total value of consumption, investment, government expenditure and net export. Therefore, it can be regarded as an indicator of economic development (Samuelson and Nordhaus, 2010). Economic theory suggests that the stock market's reaction tends to be related to GDP, and this can be explained by the standard discounted cash flow model, which implies that share prices are related to real economic activities, since share prices should reflect the shareholders' expectations about the companies' future cash flows (Binswanger, 2004; Duca, 2007). According to these theoretical explanations, large size of economies (e.g., G7 economies) could be of importance, since share prices are built on investors' expectations of the level of GDP (Binswanger, 2004). Therefore, we believe that there should be a connection between the level of economic development of the G7 country, and the performance in terms of IJV for the host country of the local partner.

Lee and Wyatt (1990) study the shareholder wealth effects of US companies with a sample of 109 IJV announcements, and find that wealth effects depend on the degree of economic development of the foreign partner's countries. The finding indicates that the overall market's reactions to IJVs with foreign US partners are negative, and this can be explained by the agency cost of free cash flow hypothesis that companies tend to overinvest in assets, and thus increase managers' control, at the cost of shareholder wealth (Lee and Wyatt, 1990). In addition, Hassapis and Kalyvitis (2002) and Binswanger (2004) find that there exists a strong relationship between stock price changes and the level of GDP in all the G7 countries except for Italy, since share prices can reflect the shareholders' expectations of companies' future payouts. Consistent with Hassapis and Kalyvitis (2002), the study by Duca (2007) shows that countries that perform well in terms of GDP (e.g., the US, UK, Japan and France) seem to experience shareholder gains. The reason might be that the share price valuation depends on expected future payouts, since expected future payouts can be seen as a good proxy of economic development as measured in terms of GDP (Duca, 2007).

Efficient financial markets play an important role in contributing to economic growth (Levine, 2004; Mishkin and Eakins, 2012). These financial markets can lower transaction costs, due to their large size, which allow them to take benefit of economies of scale (Mishkin and Eakins, 2012). Countries with efficient financial markets can be ad-

vantageous to multinational corporations by delivering access to lower cost of capital in comparison to domestic financial markets. Efficient financial markets can also alleviate agency problems and asymmetric information, which leads to efficient capital allocation, and thus increase the firms' ability to finance their investments (Oxelheim, 2006). Additionally, these markets can provide more liquidity for investors than poorly functioning financial markets. Without efficient financial markets, the level of capital flow between suppliers and those with shortages of capital tend to be low, and it therefore becomes costly to raise capital, and thus lower the returns on investments (Saunders and Cornett, 2012). Due to these theoretical explanations, we believe that a country with a more efficient financial market such as a member country of the G7 could have advantages for the local firm, in comparison to a non-G7 country.

Fatemi (1984) and Doukas and Travlos (1988) examine shareholder gains for multinational corporations, and find that the wealth gains when expanding internationally depend on the financial markets' efficiency of the partners' countries, since the level of market integration varies across countries. In addition, Wurgler (2000) finds that efficient financial developed countries have better capital allocations than countries with poor financial markets, due to optimal investments that are in line with growth opportunities across industries. The finding also shows that better capital allocations have a positive relation to the minority shareholder protection (Wurgler, 2000). Moreover, Levine (2004) mentions that well-developed financial markets alleviate external financing constraints for firms, which can affect economic growth, since it involves monitoring improvements of investments and savings. Furthermore, Felmingham and Cooray (2008) find that the G7 countries' financial markets are highly integrated, which implies high capital mobility between the G7 countries.

Corporate governance is another important factor for economic development, since shareholders and debtholders can efficiently monitor, and encourage managers to maximize the value of the firms (Levine, 2004). Good corporate governance can ensure that managers will act in the shareholders' interests, through better operating and control systems, and transparency in the decision making. In addition, improving the corporate governance system will reduce information costs, make investments more attractive, and increase the confidence of the investors, which in turn leads to value creation (Claessens and Yurtoglu, 2012). Thereby, good corporate governance should enhance a firm's performance and increase the firm value (Boubaker and Nguyen, 2014). Based on these theories, the quality of corporate governance could be of importance, since corporate governance is an importance factor for economic development. Therefore, we believe that a country with enhanced corporate governance such as a G7 country, would lead to value creation for a local firm.

Rossi and Volpin (2004) and Bris and Cabolis (2008) study cross-border mergers and acquisitions, and find that there will be value gains due to a transfer in the quality of the corporate governance rules when a firm teams up with another firm from a country with better corporate governance (i.e., high levels of investor protection). Consistent with these findings, Connelly et al. (2005) analyze the relationship between market valuation and the corporate governance quality of listed companies in China and Hong Kong. They find empirical evidence which shows that a firm from a country with better quality of corporate governance is associated with higher market valuation, due to the improved governance. This gives an explanation to why companies select their partners in specific

countries (Bris and Cabolis, 2008).

Previous studies within the area of IJVs show mixed empirical results, where most of the literature regards US-based companies, and focuses on the foreign partners' wealth effect perspective (Chen et al., 1991; Borde et al., 1998; Fröhls et al., 1998). This part of the literature review section refers to US and UK, Australia, and China as examples of G7, non-G7, and Asian emerging market countries, respectively.

Several studies document positive wealth effects of the IJV announcements to the foreign partners, which mainly emphasize on US, UK and Australia based firms. The study by Chen et al. (1991) examine a sample of 88 US-China IJVs between 1979 and 1990. Based on the result, the shareholders' wealth effects for the US companies are significantly positive, due to the expansion of the firms' global network, and additionally, the wealth gains are not related to the size of parent companies (Chen et al., 1991). In a similar finding, Fröhls et al. (1998) analyze a sample of 320 IJVs, which contains at least one US partner and one partner from an emerging country in Eastern Europe or China, or from a member country of the G7. The finding by Fröhls et al. (1998) shows that the IJVs will create wealth if the partner comes from an emerging country, and it will lead to the highest wealth gain if the partner is from China. However, they also reveal that if the US firm teams up with a partner from a G7 country, it will lead to a neutral wealth effect. A possible explanation for their findings can be that the availability of profitable investments is different between companies and countries, since each country-combination has different chances and challenges (Fröhls et al., 1998). Moreover, Borde et al. (1998) find in a sample of 100 IJVs between 1979 and 1994, that there will be positive market reactions when the parent firms are from US and Asia. The study also shows that investors react more positive toward the announcement of service IJVs operations, due to lower risk, in comparison to manufacturing operations (Borde et al., 1998). In a more recent paper, Jones and Danbolt (2004) study the effect of 158 JV announcements of UK based firms, and find that the announcement of the IJV leads to a significant positive abnormal return on the announcement date. They also report that there will be lower abnormal returns when large firms participate in JVs, or when the target location is in Asia. A study of Australian based firms by Janakiramanan et al. (2005) with a sample of 90 IJVs, concludes that when the projects are located in Asian countries, the wealth effects are positive. The result by Janakiramanan et al. (2005) also shows that the gain of an IJV announcement is affected by the size of a firm, since small firms seem to provide new technique, whereas larger firms seem to provide capital and marketing skills.

In contrary to above findings (Chen et al., 1991; Borde et al., 1998; Fröhls et al., 1998), Lee and Wyatt (1990) and Chung et al. (1993) find negative wealth effects for US firms when announcing IJVs. According to Chung et al. (1993), the announcement of the IJV creates wealth loss for the US partner due to high-technology diffusion, management disagreements or hostile partners.

Though many studies show significantly positive or negative wealth effects, the paper by Gupta and Misra (2000) presents a different result. The study reports insignificant wealth effects of the two-day cumulative average abnormal return (CAAR), for a sample of 532 IJV announcements by US-based firms between 1979 to 1992 (Gupta and Misra, 2000).

To the best of our knowledge, no studies have analyzed the local partner's shareholder

gains when announcing an IJV together with a foreign partner from a member country of the G7 in comparison to an industrialized non-G7 country, in the perspective of the local partner in an Asian emerging market.

The theoretical constructs and the empirical evidence that we have found in the literature, provide possible explanations to why G7 countries would be a better choice for a local partner in an IJV than other industrialized countries (i.e., non-G7 highly industrialized and newly industrialized countries). This since the G7 countries are associated with large and efficient financial markets, high degree of economic development (with the exception of Italy), and effective corporate governance. Hence, our hypothesis is stated as follows:

Hypothesis 1: The shareholder gains to local partners associated with announcements of IJVs together with foreign G7 partners are significantly higher than the shareholder gains associated with announcements of IJVs by local partners together with non-G7 partners.

3 Methodology

This section describes the research design and the data used.

3.1 Research Design

The event studies for the IJV announcements are performed by first using the market model (MacKinlay, 1997) to estimate the normal returns within the estimation window for each of the local companies established in the Asian emerging markets. After this step, the abnormal returns are computed and aggregated to estimate the cumulative abnormal return during the event window (MacKinlay, 1997). In addition, a multivariate analysis is conducted for the examination of measuring gains to the local partner’s shareholders, and to examine the impact of the different types of characteristics on the announcement period’s cumulative abnormal return (Janakiramanan et al., 2005). The dependent variable in the regressions is the *three-day cumulative abnormal return* $CAR(-1 : 1)$, which is defined as the gains to the local partner’s shareholders.

The full model is shown in Equation 1:

$$CAR_i(-1 : 1) = \beta_0 + \beta_1 G7member_i + \beta X_i + \epsilon_i \quad (1)$$

where $G7member$ is the main independent variable, β is the parameter estimates for the control variables, X is the matrix of our control variables, and ϵ is the error term. Heteroskedasticity robust standard errors are applied. $CAR(-1 : 1)$ is the [-1 to +1] day cumulative abnormal return starting one day prior to the IJV announcement and ends one day after.

The cumulative abnormal return from τ_1 to τ_2 is defined as (MacKinlay, 1997):

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

The estimate of the abnormal return for firm i and date τ is defined as (MacKinlay, 1997):

$$AR_{i,\tau} = R_{i,\tau} - \hat{\alpha}_i - \hat{\beta}_i R_{m,\tau} \quad (3)$$

where $R_{i,\tau}$ is the daily actual return for company i at date τ , and $R_{m,\tau}$ is the return for the global market index MSCI All Country World Index (ACWI) at date τ . The MSCI ACWI contains country indexes from "23 developed and 23 emerging market country indexes" (MSCI, 2015), and serves as a proxy for a global market portfolio. It is reasonable to use the global market index MSCI ACWI, since we assume that our investors are global investors.

Several studies use cumulative abnormal returns as a measure of gains to shareholders in the context of IJVs (e.g., Chung et al., 1993; Fröhls et al., 1998; Janakiramanan et al., 2005). Thus, consistent with previous studies, the cumulative abnormal return is used as a measure of gains to the local partner’s shareholders over a three-day event window surrounding the IJV announcement date. To verify that the result is not only driven by

the selected event window (Do et al., 2013), we re-run the regressions by using alternative event windows.

The OLS estimation of $\hat{\alpha}$ and $\hat{\beta}$ for the estimation window starts at 120 trading days and ends at 21 trading days before the IJV announcement (Fröhls et al., 1998). Thus, for the estimation period, each observation contains 99 daily returns.

Main independent variable:

Our independent variable of interest, *G7member*, is a dummy variable that equals 1 if the foreign partner is from a member country of the G7 and zero otherwise. Many studies have shown that the source of wealth gain when expanding internationally, is influenced by the level of economic development of the partners' countries, and their financial markets' efficiency (Fatemi, 1984; Doukas and Travlos, 1988; Lee and Wyatt, 1990). One may expect that there will be a difference in the gains to the local partner, between a foreign partner from a G7 and a foreign partner from a non-G7 country.

Control variables:

Lfirmsize is the natural logarithm of the local firms' market capitalizations 21 days prior to the IJV announcements (Fröhls et al., 1998). Many studies have documented that wealth gains for an IJV are affected by the firm size (e.g., Jones and Danbolt, 2004; Janakiramanan et al., 2005).

HIC is a dummy variable which takes the value of 1 if the foreign partner comes from a highly industrialized non-G7 country, and zero otherwise.

HICG7 is a dummy variable which takes the value of 1 if the foreign partner comes from a highly industrialized country in the G7 group, and zero otherwise.

NIC is a dummy variable which takes the value of 1 if the foreign partner comes from a newly industrialized country, and zero otherwise.

NorthAmerica, *Asia*, *Australia* and *Europe*, are dummy variables, which each equals 1 if the foreign partner comes from North America, Asia, Australia or Europe, respectively, and zero otherwise. Several studies have found that wealth gains are related to the geographic location of the partners' countries (e.g., Borde et al., 1998; Jones and Danbolt, 2004; Janakiramanan et al., 2005).

CN, *ID*, *IN*, *MY*, *PH*, *TH*, and *VN* are dummy variables, which each takes the value of 1, if the local partner is from China, Indonesia, India, Malaysia, the Philippines, Thailand or Vietnam, respectively, and zero otherwise.

MFGOperation is a dummy variable, which equals 1 if the type of the IJV is a manufacturing operation and zero otherwise. Borde et al. (1998) find that an IJV manufacturing operation is negatively related to wealth gains, due to higher risk, in comparison to service IJV operations.

TPDummy is the time period dummy variable that takes the value of 1 if the IJV announcement occurs between 2008 and 2015, and zero otherwise. The year 2007 is used as the cut-off date when partitioning the sample into two parts, one for IJV announcement dates between 2000 and 2007, and the other for IJV announcements between 2008 and 2015. This due to the financial crisis that occurred in 2007. The time period dummy variable can be used to control for time effects.

Table 1: Summary statistics for the sample of 106 International Joint Ventures between 2000 and 2015

Car is the three day cumulative abnormal return (CAR (-1:1)), which is defined as the gain to the local partner's shareholders. *G7member* is a dummy variable which equals 1 if the foreign partner is from a member country of the G7 and zero otherwise. *Lfirmssize* is the natural logarithm of the local firms' market capitalizations 21 days prior to the IJV announcements. *MFGOperation* is a dummy variable, which equals 1 if the type of the IJV is a manufacturing operation and zero otherwise. *CN*, *PH*, *IN*, *ID*, *MY*, *TH*, and *VN*, are dummy variables, which each takes the value of 1, if the local partner is from China, the Philippines, India, Indonesia, Malaysia, Thailand or Vietnam, respectively, and zero otherwise. *HIC* is a dummy variable which takes the value of 1 if the foreign partner comes from a highly industrialized non-G7 country, and zero otherwise. *HICG7* is a dummy variable which takes the value of 1 if the foreign partner comes from a highly industrialized country in the G7 group, and zero otherwise. *NIC* is a dummy variable which takes the value of 1 if the foreign partner comes from a newly industrialized country, and zero otherwise. *Asia*, *NorthAmerica*, *Europe* and *Australia*, are dummy variables, which each equals 1 if the foreign partner comes from Asia, North America, Europe, or Australia, respectively, and zero otherwise. *TPDummy* is the time period dummy variable, which takes the value of 1 if the IJV announcement occurs between 2008 and 2015, and zero otherwise.

Summary statistics for all variables				
Variable	Mean	Std. Dev.	Min.	Max.
Car	0.005421	0.055914	-0.15445	0.137797
G7member	0.584906	0.495079	0	1
Lfirmssize	6.258449	1.576118	3.045474	10.5914
MFGOperation	0.575472	0.496619	0	1
CN	0.613208	0.489329	0	1
PH	0.009434	0.097129	0	1
IN	0.103774	0.306415	0	1
ID	0.169811	0.377251	0	1
MY	0.018868	0.136705	0	1
TH	0.066038	0.249528	0	1
VN	0.018868	0.136705	0	1
HIC	0.028302	0.166622	0	1
HICG7	0.584906	0.495079	0	1
NIC	0.386793	0.489329	0	1
Asia	0.603774	0.491436	0	1
NorthAmerica	0.169811	0.377251	0	1
Europe	0.216981	0.414148	0	1
Australia	0.009434	0.097129	0	1
TPDummy	0.518868	0.502018	0	1

Table 2: Summary of countries

Number of foreign and local partners' countries	
Foreign partners	N
<i>HICG7</i>	
France	6
Germany	7
Italy	4
UK	4
US	17
Japan	24
Total	62
<i>HIC</i>	
Australia	1
Switzerland	2
Total	3
<i>NIC</i>	
Singapore	13
Korea (Republic of)	8
Taiwan	3
Hong Kong	17
Total	41
Local partners	
China	65
India	11
Indonesia	18
Malaysia	2
The Philippines	1
Thailand	7
Vietnam	2
Total	106

3.2 Data

The data used in this study is obtained from the Bureau van Dijk M&A database Zephyr, and from the Thomson Reuter's Datastream. First, an initial sample is constructed via Zephyr, containing IJVs following a search strategy with specified criteria. The search criteria are joint venture as deal type, and the time period is set from the 5th of January year 2000 to the 5th of January year 2015 for rumoured, completed-confirmed, and announced deals. Only cross-border deals that are limited to be set between one foreign partner and one local partner targeted in an Asian emerging market are allowed. The foreign partner will be based either in a member country of the G7 (i.e., Canada, France, Germany, Japan, Italy, the United Kingdom, and the United States), or in a non-G7 country. Australia, Hong Kong, Republic of Korea, Singapore, Sweden, Switzerland, and Taiwan, are selected to represent the non-G7 countries.

Furthermore, China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam

are developing countries, which in this paper are identified as the locations of the targets as well as the local partners. The local partners are selected due to the fact that they are all included in the Asian emerging markets, classified by the International Monetary Fund in the World Economic Outlook 2011. Most of them are also top ranked in the list of the 22 best emerging markets 2014 (Bloomberg, 2015). Due to limitations of available data using mentioned search criteria, the time period is set to 15 years.

All observations contain one listed local partner and one unlisted, delisted, or listed foreign partner. Moreover, the sample is divided into a main group and a control group. The main group involves one foreign partner from a G7 country and one local partner from an Asian emerging market. The control group consists of one foreign partner from a non-G7 country and one local partner from an Asian emerging market. The G7 contains highly industrialized countries from major advanced economies, and the non-G7 consists of other advanced economies which comprise highly industrialized countries and newly industrialized Asian countries (International Monetary Fund, 2011).

When first setting up the search strategy, with the criterion joint venture as deal type, the sample has 32 787 observations globally. However, by adding more constraints to the search as mentioned previously, the amount decreases substantially and is thus reduced to 903 observations. After this step, a matching process is conducted manually to exclude the observations which are not consistent with the purpose of this study, which is to examine observations with one local and one foreign partner. After this step the sample contains 162 observations.

All listed partners have International Securities Identification Numbers (ISIN) which will be of important further use in the data collecting process. The ISIN numbers are applied into Datastream for retrieval of historical daily stock quotes, which thereafter are compared manually with the joint venture announcement dates (obtained from Zephyr) to prevent potential missing values in the sample.

Further, the estimation window starts 120 trading days before and ends 21 trading days before the IJV announcement. Additionally, in cases where there are longer sections of missing data, on and close to the announcement day, the observations will be excluded from the sample, and therefore the final sample contains 106 observations.

For the final sample shown in Table 2, there are 62 foreign partners from the G7 countries (*HICG7*) which are divided as follows: France (6), Germany (7), Italy (4), the UK (4), the US (17) and Japan (24). There are 44 foreign partners from the non-G7 (*HIC* and *NIC*) countries which are divided among Australia (1), Switzerland (2), Singapore (13), Republic of Korea (8), Taiwan (3) and Hong Kong (17). The observations for Canada and Sweden are excluded, due to missing values in the estimation windows. Furthermore, the local partners for the final sample are divided between China (65), India (11), Indonesia (18), Malaysia (2), the Philippines (1), Thailand (7) and Vietnam (2).

In addition, in order to categorize whether the IJVs operate in the service or manufacturing industries, the primary North American Industry Classification System (NAICS) 2012 6-digit codes obtained from Zephyr, are used. Moreover, the natural logarithm of each local firm's market capitalization 21 days prior to the IJV announcement (Fröhls et al., 1998), is used as a proxy for the firm size. The market capitalizations for the local firms are obtained from Datastream by using the ISIN codes.

Furthermore, the MSCI All World Country Index (ACWI) is used as a proxy for a global market index between 2000 and 2015, which is obtained from Bloomberg Terminal.

4 Results and Analysis

This section provides a comprehensive analysis, regression results for the sample of 106 IJV announcements between 2000 and 2015, and a summary of the findings.

Table 3 presents the regression results for CAR (-1:1) with the sample of 106 IJV announcements between 2000 and 2015 for seven different models. Model 1 reports the regression result when CAR (-1:1) is regressed only on *G7member*. The estimated coefficient for *G7member* is not statistically significant. This indicates that there is no difference in the gains to the local partner between a foreign partner from a G7 and a foreign partner from a non-G7 country.

In Model 2, the degree of economic development of the foreign partners' countries are divided into three different categories, which are highly industrialized non-G7 countries (*HIC*), highly industrialized countries from G7 (*HICG7*), and newly industrialized countries (*NIC*). Due to the fact that *HICG7* and *HIC* share many similar characteristics, *NIC* is chosen as the benchmark in order to examine if there exists differences in cumulative abnormal returns when comparing *HICG7* with *NIC*, or *HIC* with *NIC*. When CAR (-1:1) is regressed on *HICG7*, *HIC* and the control variable *Lfirmsize*, the result shows that neither the estimated coefficient for *HICG7* nor *HIC* are statistically significant. This means that there is no difference in the three-day cumulative abnormal return for both *HICG7* and *NIC*, and *HIC* and *NIC*, holding all else constant. However, there are three observations from *HIC*, and they are not our primary interest. Additionally, the result shows that *Lfirmsize* is statistically significant at the 5 % level. This indicates that the firm size of the local partner affects the local partner's shareholder gain.

For Model 3, which is corresponding to Model 1, CAR (-1:1) is regressed on the main independent variable *G7member* and the control variable *Lfirmsize*. *G7member* is found to be insignificant, whereas *Lfirmsize* is statistically significant at the 5 % level. Model 4 reports the regression corresponding to Model 3 but it also controls for the foreign partners' locations which are *NorthAmerica*, *Asia*, *Australia* and *Europe*. *Europe* is chosen to be the benchmark, to examine the differences in CAR (-1:1) when comparing *NorthAmerica*, *Asia* or *Australia* with *Europe*. *Lfirmsize* remains statistically significant at the 5 % level. However, *G7member*, *NorthAmerica*, *Asia*, and *Australia* are not statistically significant. The insignificant estimated coefficients for *NorthAmerica*, *Asia*, and *Australia* show that there are no significant differences in the three-day cumulative abnormal returns, when comparing a foreign partner from *Europe* with a foreign partner from *North America*, *Asia* or *Australia*, holding all else constant. Model 5 reports the regression which corresponds to Model 4, but includes the control variable *MFGoperation*. The result shows that *Lfirmsize* and *NorthAmerica* are statistically significant, whereas *MFGoperation* is found to be insignificant. Including *MFGoperation*, the adjusted R-squared increases from 0.0215 (Model 4) to 0.0357 (Model 5). Based on the results of *MFGoperation*, the gain to the local partner is not significantly related to the establishment of a manufacturing IJV operation. This finding is in contrast to Borde et al. (1998), who find that an IJV manufacturing operation is negatively related to shareholder gains. However, their study is viewed from the perspective of the foreign partner.

Model 6 reports the regression corresponding to Model 5, but it also controls for the local partners' locations which are *PH*, *IN*, *ID*, *MY*, *TH*, *VN* and *CN*. Due to the fact that China is the world's best emerging market, according to Bloomberg (2015), *CN* is chosen

to be the benchmark to examine the differences in CAR (-1:1) when comparing *PH*, *IN*, *ID*, *MY*, *TH*, or *VN* with *CN*. Changing from Model 3 to Model 6, the adjusted R-squared increases from 0.0243 to 0.0382. The result shows that neither *G7member*, *Asia*, *Australia*, *MFGoperation*, *IN*, *MY*, *TH*, nor *VN* are statistically significant. However, the estimated coefficient on *ID* is positive and significant at the 10 % level. This indicates that the gain to the local partner is higher when the local partner is from Indonesia, in comparison to when the local partner is from China. Note that it is not possible to make a generalized conclusion regarding the result of the Philippines, since it only exists in one observation. Moreover, *Lfirmsize* and *NorthAmerica* remain significant.

Model 7 reports the regression corresponding to Model 6, but it also controls for time effects. By including the time period dummy variable *TPDummy*, we can examine if there exists systematic differences between the three-day cumulative abnormal returns that occur during 2000 - 2007 (i.e., pre-crisis) and those that occur during 2008 - 2015 (i.e., post-crisis). We use the year 2007 as the cut-off date, which is reasonable, since that was when the global financial crisis occurred. The result shows that the estimated coefficient on *TPDummy* is insignificant, which implies that no changes in the gain to the local partner occurred over time. Note that Model 7 has a lower explanatory power (the adjusted R-squared is 0.0299) than Model 6, when the time period dummy variable is included. This might be due to that we have few observations. When including all the control variables (Model 7), *G7member* is found to be insignificant, which implies that there is no significant difference in CAR (-1:1) between a foreign partner from a G7 and a foreign partner from a non-G7 country. Thus, the result provides no support for hypothesis 1, i.e., we cannot reject the null hypothesis of equal shareholder gains between local partners associated with announcements of IJVs together with foreign G7 partners, and shareholder gains associated with announcements of IJVs by local partners together with non-G7 partners. This finding is in contrast to the study by Lee and Wyatt (1990), which states that the wealth effect of an IJV is influenced by the degree of the economic development of the partner's country. However, Lee and Wyatt (1990) study the wealth effect from the foreign partner's perspective, and do not focus on Asian emerging markets. Moreover, the estimated coefficient for *Lfirmsize* is positive and significant at the 10 % level. The significant result shows that the local partner's firm size is positively related to the gains to the local partner's shareholders. The finding is in contrast to the study by Chen et al. (1991) which documents that the wealth gains are not related to the size of parent firms. However, our result is consistent with the findings by Jones and Danbolt (2004), and Janakiraman et al. (2005) that the wealth gains of IJV announcements are related to firm size. According to Janakiraman et al. (2005), small firms are more likely to provide new technique, whereas larger firms seem to provide capital and marketing skills. This might be the explanation to why gains to shareholders are related to firm size. On the other hand, their studies mainly focus on IJV announcements by US, UK, or Australian based firms and not from the local partner's perspective. Additionally, the significant result related to the foreign partner's geographical location *NorthAmerica* shows that the gains to the local partner, together with a foreign partner from North America, are higher than when the local partner is together with a foreign partner from Europe.

To check for robustness, we re-run the regressions using the alternative event windows: CAR (-2:1) and CAR (-2:2), and compare the results with the original event window CAR (-1:1). Table 4 presents the regression results for the sample of 106 IJV announcements

between 2000 and 2015 for Model 7 by using the event windows: CAR (-1:1), CAR (-2:1) and CAR (-2:2). The results show that the estimated coefficients for the main independent variable *G7member* and the control variable *Lfirmsize* remain unchanged for all the chosen event windows. On the other hand, *NorthAmerica* changes from being statistically significant to insignificant for the regression results of CAR (-2:2). However, the adjusted R-squared for Model 7 of CAR (-2:2) is only 0.0030.

In summary, after including the control variables, the result of this study provides no support for hypothesis 1, i.e., we cannot reject the null hypothesis. The finding indicates that the gains to the local partner's shareholders are not significantly related to the degree of the economic development of the foreign partner's country. However, the result shows that the gains to the local partner's shareholders are influenced by the firm size of the local partner. Moreover, including the time period dummy variable implies that no changes in the gain to the local partner occurred over time. The results also show that if the foreign partner is from North America, the gains to the local partner are higher than when the local partner is together with a foreign partner from Europe.

Table 3: Regression results for 106 International Joint Ventures between 2000 and 2015

Table 3 presents the regression results from the event studies for the sample of 106 IJVs between 2000 and 2015. The dependent variable in the regressions is the three day cumulative abnormal return (CAR (-1:1)), which is defined as the gains to the local partner's shareholders. *G7member* is a dummy variable which equals 1 if the foreign partner is from a member country of the G7 and zero otherwise. *Lfirmsize* is the natural logarithm of the local firms' market capitalizations 21 days prior to the IJV announcements. *NorthAmerica*, *Asia*, *Australia* and *Europe* are dummy variables which each takes the value of 1 if the foreign partner is from North America, Asia, Australia or Europe, respectively, and zero otherwise. *MFGOperation* is a dummy variable, which equals 1 if the type of the IJV is a manufacturing operation and zero otherwise. *PH*, *IN*, *ID*, *MY*, *TH*, *VN*, and *CN*, are dummy variables which each takes the value of 1 if the local partner is from the Philippines, India, Indonesia, Malaysia, Thailand, Vietnam, or China, respectively, and zero otherwise. *HIC* is a dummy variable which takes the value of 1 if the foreign partner comes from a highly industrialized non-G7 country, and zero otherwise. *HICG7* is a dummy variable which takes the value of 1 if the foreign partner comes from a highly industrialized country in the G7 group, and zero otherwise. *NIC* is a dummy variable which takes the value of 1 if the foreign partner comes from a newly industrialized country, and zero otherwise. *TPDummy* is the time period dummy variable, which takes the value of 1 if the IJV announcement occurs between 2008 and 2015, and zero otherwise. Robust standard errors are shown in parentheses. ***, ** and * indicates statistical significance of parameter estimates at the 1 %, 5 % and 10 % level respectively.

VARIABLES	(Model 1)	(Model 2)	(Model 3)	(Model 4)	(Model 5)	(Model 6)	(Model 7)
	CAR(-1:1)	CAR(-1:1)	CAR(-1:1)	CAR(-1:1)	CAR(-1:1)	CAR(-1:1)	CAR(-1:1)
G7member	-0.00150 (0.0111)		-0.00354 (0.0111)	-0.0105 (0.0130)	-0.0149 (0.0137)	-0.0191 (0.0139)	-0.0186 (0.0139)
Lfirmsize		0.00741** (0.00301)	0.00736** (0.00301)	0.00814** (0.00335)	0.00869** (0.00342)	0.00847** (0.00369)	0.00777* (0.00400)
NorthAmerica				0.0262 (0.0179)	0.0291* (0.0174)	0.0322* (0.0187)	0.0314* (0.0186)
Asia				0.00230 (0.0140)	0.00248 (0.0137)	-0.00724 (0.0156)	-0.00831 (0.0160)
Australia				-0.0177 (0.0217)	-0.0116 (0.0220)	-0.0137 (0.0236)	-0.0152 (0.0247)
MFGOperation					0.0176 (0.0113)	0.0173 (0.0116)	0.0174 (0.0116)
PH						-0.0766*** (0.0175)	-0.0736*** (0.0172)
IN						0.00112 (0.0245)	0.000436 (0.0244)
ID						0.0300* (0.0155)	0.0266 (0.0176)
MY						0.0148 (0.0358)	0.00987 (0.0385)
TH						0.0104 (0.0129)	0.00964 (0.0134)
VN						-0.0175 (0.0193)	-0.0222 (0.0236)
HIC		-0.0138 (0.00948)					
HICG7		-0.00449 (0.0117)					
TPDummy							0.00623 (0.0140)
Constant	0.00630 (0.00851)	-0.0379* (0.0198)	-0.0386* (0.0197)	-0.0451* (0.0242)	-0.0567** (0.0253)	-0.0524* (0.0283)	-0.0500* (0.0296)
Observations	106	106	106	106	106	106	106
Adj. R-squared	-0.0094	0.0164	0.0243	0.0215	0.0357	0.0382	0.0299

Table 4: Regression results for alternative event windows

Table 4 presents the regression results from the event studies for the sample of 106 IJVs between 2000 and 2015 for Model 7, by using the event windows: CAR(-1:1), CAR(-2:1), and CAR(-2:2), which are defined as the gains to the local partner's shareholders. *G7member* is a dummy variable which equals 1 if the foreign partner is from a member country of the G7 and zero otherwise. *Lfirmsize* is the natural logarithm of the local firms' market capitalizations 21 days prior to the IJV announcements. *NorthAmerica*, *Asia*, *Australia* and *Europe* are dummy variables which each takes the value of 1 if the foreign partner is from North America, Asia, Australia or Europe, respectively, and zero otherwise. *MFGOperation* is a dummy variable, which equals 1 if the type of the IJV is a manufacturing operation and zero otherwise. *PH*, *IN*, *ID*, *MY*, *TH*, *VN*, and *CN*, are dummy variables which each takes the value of 1 if the local partner is from the Philippines, India, Indonesia, Malaysia, Thailand, Vietnam, or China, respectively, and zero otherwise. *HIC* is a dummy variable which takes the value of 1 if the foreign partner comes from a highly industrialized non-G7 country, and zero otherwise. *HICG7* is a dummy variable which takes the value of 1 if the foreign partner comes from a highly industrialized country in the G7 group, and zero otherwise. *NIC* is a dummy variable which takes the value of 1 if the foreign partner comes from a newly industrialized country, and zero otherwise. *TPDummy* is the time period dummy variable, which takes the value of 1 if the IJV announcement occurs between 2008 and 2015, and zero otherwise. Robust standard errors are shown in parentheses. ***, ** and * indicates statistical significance of parameter estimates at the 1 %, 5 % and 10 % level respectively.

VARIABLES	CAR(-1:1)	CAR(-2:1)	CAR(-2:2)
G7member	-0.0186 (0.0139)	-0.0209 (0.0163)	-0.00401 (0.0178)
Lfirmsize	0.00777* (0.00400)	0.00716* (0.00400)	0.00724* (0.00377)
NorthAmerica	0.0314* (0.0186)	0.0305* (0.0181)	0.0244 (0.0197)
Asia	-0.00831 (0.0160)	-0.00362 (0.0180)	0.00337 (0.0185)
Australia	-0.0152 (0.0247)	-0.0442 (0.0289)	-0.0508* (0.0283)
MFGOperation	0.0174 (0.0116)	0.0188 (0.0130)	0.0141 (0.0142)
PH	-0.0736*** (0.0172)	-0.0761*** (0.0172)	-0.0325 (0.0201)
IN	0.000436 (0.0244)	0.00333 (0.0271)	-0.00265 (0.0273)
ID	0.0266 (0.0176)	0.0292 (0.0184)	0.0212 (0.0200)
MY	0.00987 (0.0385)	0.000630 (0.0377)	0.0188 (0.0507)
TH	0.00964 (0.0134)	0.00738 (0.0177)	0.0201 (0.0188)
VN	-0.0222 (0.0236)	-0.0579* (0.0316)	-0.0546*** (0.0173)
HIC			
HICG7			
TPDummy	0.00623 (0.0140)	0.0149 (0.0155)	0.0133 (0.0163)
Constant	-0.0500* (0.0296)	-0.0499* (0.0295)	-0.0572*** (0.0282)
Observations	106	106	106
Adj. R-squared	0.0299	0.0605	0.0030

5 Discussion

This section discusses and interprets the results from Section 4, with support from the Literature Review in Section 2. The discussion concerns reasons and our own opinions to why the main results look like they do.

The main result related to whether a G7 member versus a non-G7 member as a foreign partner is beneficial, in terms of shareholder gains for the local partner, is found to be insignificant. Thus, the study provides no support for Hypothesis 1. In our opinion, this might be due to the similarities in level of economic development between the foreign partners in the main group and in the control group. The G7 countries belong to the most developed economies, however, the non-G7 countries still contain HIC and NIC which also are highly developed (International Monetary Fund, 2011). Thus, even though the G7 as a group have higher aggregated GDP, countries belonging to this group still share many characteristics with the non-G7 countries (United Nations Industrial Development Organization, 2013). For instance, most of the countries have well developed corporate governance, efficient financial markets, advanced infrastructure and high level of economic development. And, it is not necessary that all member countries of the G7 have a high level of economic development, for instance the G7 member Italy. In addition, as mentioned in the literature review in Section 2, Hassapis and Kalyvitis (2002) and Binswanger (2004) find that there exists a strong positive relationship between stock price changes and GDP in all the G7 countries except for Italy. Consequently, with all information stated previously, the insignificant result related to Hypothesis 1, is against what generally would be expected. This since the stock market's reaction tends to be positively related to GDP (Binswanger, 2004; Duca, 2007). It is also against the findings by Duca (2007), who finds that countries that perform well in terms of GDP (e.g., the US, UK, Japan and France) also experience shareholder gains.

Another possible explanation to why we cannot reject the null hypothesis is that other factors seem more important than the level of economic development. These factors could be more efficient financial markets and well-developed corporate governance. Furthermore, in accordance with the results, another important factor is geographical location. For instance, a foreign partner from North America, i.e. from US, gives higher shareholder gains to the local partner in contrary to a foreign partner from Europe, when announcing an IJV. A reason why US generates higher shareholder gains to the local partner can be explained and supported by the findings by Borde et al. (1998). They state that US firms seem to have a better ability to capitalize on the wealth gains in Asia, since they are more familiar with this area. Also, US is the largest economy among the G7 and non-G7 economies. Therefore, we would expect that a country like this has advantages in most areas related to efficient financial markets, and corporate governance. This, since countries with large and well-developed financial markets can lower transaction costs, which allow them to take benefit of economies of scale (Mishkin and Eakins, 2012). Also, they can deliver access to lower cost of capital (Oxelheim, 2006), and alleviate agency problems and asymmetric information which leads to efficient capital allocation. In addition, a well-developed corporate governance makes it possible for shareholders and debtholders to efficiently monitor, and encourage managers to maximize the value of the firms (Levine, 2004). This in relation to reducing information costs, make investments more attractive, and increase the confidence of the investors, will in turn lead to value creation (Claessens and Yurtoglu, 2012). However, other industrialized countries share many of the positive

characteristics stated above, but since US is the greatest economy, they might be superior in most aspects.

Another important factor is firm size, and the finding by Janakiramanan et al. (2005) may give an explanation to why the size of a firm affects the gains to shareholders. Small firms are more likely to provide new technique, whereas larger firms seem to provide capital and marketing skills (Janakiramanan et al., 2005). Firm size is also related to the level of resources and capabilities, such as experience, management and productivity, which could affect the success of the company and thus affect its shareholder gains. In our opinion, it is likely that the positive features of an IJV benefits most local companies of different sizes, but especially small to medium size companies that lack the infrastructure, capital, resources, management and experience. However, the results in this study provide no further knowledge about preferred company size, which prevents a further discussion.

Lastly, other factors might have an effect on our final results, and they can be of many different types. Some examples could be national differences like culture, historical achievements, reputation, experience with Asian emerging markets, governing law and arbitration, law and practice related to IJVs, preparation and commercial due diligence and local law regime (Hewitt, 2005). As mentioned in the background in Section 1, these factors are hard to measure in a quantitative manner (Hewitt, 2005), and are therefore not included in our regressions, which makes them a part of the limitations of this paper.

6 Conclusions

In this section, the conclusions of the work are presented and generalized. The reader is reminded of the research question stated in Section 1 and is answered by the findings in Section 4 and Section 5.

In this paper, based on a sample of 106 IJV announcements between 2000 and 2015, we analyze whether it is beneficial, in terms of shareholder gains, for the local partner on an Asian emerging market to enter an IJV together with a foreign company from a G7 country in contrary to an industrialized non-G7 country.

The main finding after including the control variables suggests that there is no significant difference in the gains to the local partner between a foreign partner from a G7 country and a foreign partner from a non-G7 country. Thus, the result provides no support for Hypothesis 1. The estimated coefficients for *G7member* are found to be insignificant in all models for the three-day event window. Further, our results are robust for all of the alternative event windows. Thus, the finding indicates that the gains to the local partner's shareholders are not significantly related to the degree of the economic development of the foreign partner's country. A reason for this result might be the similarities in level of economic development between the two groups (United Nations Industrial Development Organization, 2013).

The results also prove that other factors are more important than the level of economic development, in relation to the local partners' shareholder gains. The foreign partner's geographical location is one such factor. If the foreign partner is from North America, the gains to the local partner are higher than when the local partner is together with a foreign partner from Europe. Thus, these findings suggest that it is beneficial for a local partner on an Asian emerging market to enter an IJV together with a foreign partner from North America, as compared to with a foreign partner from Europe. This result may be due to that US firms seem to have better ability to capitalize on the wealth gains in Asia, since they are more familiar with this area, according to Borde et al. (1998). Also, US is the greatest economy, and is therefore expected to have advantages in most areas related to efficient financial markets and corporate governance.

Moreover, the gains to the local partner are lower when the local company is from the Philippines, as compared to if the local partner is from China. However, the result related to the Philippines cannot be seen as a generalized result. This since the Philippines only exists in one observation.

In addition, there is significant evidence of a firm size effect. The gains to the local partner's shareholders, when announcing IJVs, are influenced by the firm size of the local partner. This, since *Lfirmsize* remains positive and statistically significant in Model 2 to Model 7, as well as in the alternative event windows. The finding by Janakiramanan et al. (2005) may give an explanation to why the size of a firm affects the gains to shareholders. Small firms are more likely to provide new technique, whereas larger firms seem to provide capital and marketing skills (Janakiramanan et al., 2005), thus different combinations and different size of resources and capabilities will affect the shareholder gain.

In conclusion, according to our findings, there is no significant difference in the gains to the local partners between a foreign partner from a G7 country and a non-G7 country.

Thus, the degree of the economic development of the foreign partner's country is not significantly related to the local partner's shareholder gains. What actually does have an effect on shareholder gains is the firm size of the local company and the location of the foreign company.

Future research: This study serves as a starting point in investigating shareholder gains, in the perspective of the local partners entering IJVs, in Asian emerging markets. This when the foreign partner is from a G7 country in contrary to a non-G7 country. The observations made in this study suggests that future researchers should further investigate the impact of other factors like differences in culture, historical achievements, reputation, and differences in law regime. Also, the result of the IJV with Philippines as a local partner can be misleading, thus, it needs further investigation in a larger sample size.

7 Bibliography

- Binswanger, M. (2004). Stock returns and real activity in the G-7 countries: did the relationship change during the 1980s?. *The Quarterly Review of Economics and Finance*, [online] 44(2), pp.237-252. Available at: <http://www.sciencedirect.com/science/article/pii/S1062976903000541> [Accessed 3 Apr. 2015].
- Bloomberg, (2015). *Best Emerging Markets 2014: Countries - Bloomberg Best (and Worst)*. [online] Available at: <http://www.bloomberg.com/visual-data/best-and-worst//best-emerging-markets-2014-countries> [Accessed 18 Feb. 2015].
- Borde, S., Whyte, A., Wiant, K. and Hoffman, L. (1998). New evidence on factors that influence the wealth effects of international joint ventures. *Journal of Multinational Financial Management*, [online] 8(1), pp.63-77. Available at: <http://www.sciencedirect.com/science/article/pii/S1042444X98000188> [Accessed 8 Mar. 2015].
- Boubaker, S. and Nguyen, D. (2014). *Corporate governance in emerging markets*.
- Bris, A. and Cabolis, C. (2008). The Value of Investor Protection: Firm Evidence from Cross-Border Mergers. *Review of Financial Studies*, [online] 21(2), pp.605-648. Available at: <http://www.jstor.org/stable/40056830> [Accessed 4 Mar. 2015].
- Claessens, S. and Yurtoglu, B. (2012). *Corporate Governance and Development - An Update*. [ebook] Available at: http://www.ifc.org/wps/wcm/connect/518e9e804a70d9ed942ad6e6e3180238/Focus10_CG%26Development.pdf?MOD=AJPERES [Accessed 24 Feb. 2015].
- Chen, H., Hu, M. and Shieh, J. (1991). The Wealth Effect of International Joint Ventures: The Case of U.S. Investment in China. *Financial Management*, [online] 20(4), p.31. Available at: <http://www.jstor.org.ezproxy.ub.gu.se/stable/3665710> [Accessed 4 Mar. 2015].
- Chung, I., Koford, K. and Lee, I. (1993). Stock market views of corporate multinationalism: some evidence from announcements of international joint ventures. *The Quarterly Review of Economics and Finance*, [online] 33(3), pp.275-293. Available at: <http://www.sciencedirect.com/science/article/pii/106297699390015C/pdf?md5=29bb7c54c4b17540d4c849f4d2955e8c&pid=1-s2.0-106297699390015C-main.pdf> [Accessed 4 Mar. 2015].
- Connelly, J., Cheung, S., Limpaphayom, P. and Zhou, L. (2005). Do Investors Really Value Corporate Governance? Evidence from the Hong Kong Market. *SSRN Journal*. [online] Available at: <http://ssrn.com/abstract=953330> [Accessed 25 Apr. 2015].
- Do, Q., Lee, Y. and Nguyen, B. (2013). Political Connections and Firm Value: Evidence from the Regression Discontinuity Design of Close Gubernatorial Elections. *SSRN Journal*. [online] Available at: <http://spire.sciencespo.fr/hdl:/2441/7o52iohb7k6srk09n0dcia0po/resources/wp15.pdf> [Accessed 10 Apr. 2015].
- Doukas, J. and Travlos, N. (1988). The Effect of Corporate Multinationalism on Shareholders' Wealth: Evidence from International Acquisitions. *The Journal of Finance*, [online] 43(5), pp.1161-1175. Available at: <http://www.jstor.org/stable/2328212> [Accessed 6 Apr. 2015].

Duca, G. (2007). The Relationship Between The Stock Market And The Economy: Experience From International Financial Markets. *Bank of Valletta Review*, [online] (36). Available at: <https://www.bov.com/documents/bov-review-36-paper-1> [Accessed 29 Apr. 2015].

Fatemi, A. (1984). Shareholder Benefits from Corporate International Diversification. *The Journal of Finance*, [online] 39(5), pp.1325-1344. Available at: <http://www.jstor.org/stable/2327730> [Accessed 5 Apr. 2015]. Financial Times, (2015). *G7 Or Group Of Seven Definition from Financial Times Lexicon*. [online] Available at: <http://lexicon.ft.com/Term?term=G7-or-Group-of-Seven> [Accessed 6 Apr. 2015].

Felmingham, B. and Cooray, A. (2008). Real interest rates interdependence among the G7 nations: does real interest parity hold?. *Journal of International Finance and Economics*, [online] 8(1), pp.14-22. Available at: <http://ro.uow.edu.au/cgi/viewcontent.cgi?article=1624&context=commpapers> [Accessed 7 Mar. 2015].

Fröhls, M., Keown, A., McNabb, M. and Martin, J. (1998). Growth opportunities, corporate governance and the market value of multinational joint ventures. *Manage. Decis. Econ.*, [online] 19(1), pp.13-30. Available at: <http://www.jstor.org.ezproxy.ub.gu.se/stable/3108307> [Accessed 13 Feb. 2015].

Georgieva, D., Jandik, T. and Lee, W. (2012). The impact of laws, regulations, and culture on cross-border joint ventures. *Journal of International Financial Markets, Institutions and Money*, [online] 22(4), pp.774-795. Available at: <http://www.sciencedirect.com/science/article/pii/S1042443112000261/pdfft?md5=4b766f96969feb2a376666d401a492bd&pid=1-s2.0-S1042443112000261-main.pdf> [Accessed 7 Mar. 2015].

Gertjan, S. and van Frederikslust, R. (2004). Shareholders Wealth Effects of Joint Ventures. *Multinational Finance Journal*, [online] 8(3), pp.221-225. Available at: <http://www.mfsociety.org/modules/modDashboard/uploadFiles/journals/googleScholar/737.html> [Accessed 15 Jan. 2015].

Gupta, A. and Misra, L. (2000). THE VALUE OF EXPERIENTIAL LEARNING BY ORGANIZATIONS: EVIDENCE FROM INTERNATIONAL JOINT VENTURES. *Journal of Financial Research*, 23(1), pp.77-102.

Hassapis, C. and Kalyvitis, S. (2002). Investigating the links between growth and real stock price changes with empirical evidence from the G-7 economies. *The Quarterly Review of Economics and Finance*, [online] 42(3), pp.543-575. Available at: <http://www.sciencedirect.com/science/article/pii/S1062976901001119> [Accessed 6 Feb. 2015].

Herger, N. and McCorrison, S. (2014). *Horizontal, Vertical, and Conglomerate FDI: Evidence from Cross Border Acquisitions*. 1st ed. [ebook] Available at: http://www.szgerzen.ch/fileadmin/Dateien_Anwender/Dokumente/working_papers/wp-1402.pdf [Accessed 29 Mar. 2015].

Hewitt, I. (2005). *Joint ventures*. London: Sweet & Maxwell.

International Monetary Fund, (2011). *World Economic Outlook*. 1st ed. [ebook] Available at: <http://www.imf.org/external/pubs/ft/weo/2011/01/pdf/text.pdf> [Accessed 5 Feb. 2015].

Janakiramanan, S., Lamba, A. and Seneviratne, C. (2005). A Comparison of the Share-

- holder Wealth Effects of Firms Announcing domestic and International Joint Venture. *Investment Management and Financial Innovations*, [online] (4), pp.33-49. Available at: http://businessperspectives.org/journals_free/imfi/2005/imfi_en_2005_04_Janakiramana_n.pdf [Accessed 25 Jan. 2015].
- Jensen, M. (1986). Agency Cost Of Free Cash Flow, Corporate Finance, and Takeovers. *American Economic Review*, [online] 76(2), pp.323-329. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=99580 [Accessed 10 Feb. 2015].
- Jones, E. and Danbolt, J. (2004). Joint venture investments and the market value of the firm. *Applied Financial Economics*, [online] 14(18), pp.1325-1331. Available at: <http://www.tandfonline.com/doi/full/10.1080/09603100412331313569#abstract> [Accessed 13 Feb. 2015].
- Keown, A., Laux, P. and Martin, J. (2005). The Information Content of Corporate Investment Announcements: The Case of Joint Ventures. *Research in Finance*, [online] 22, pp.33-71. Available at: [http://dx.doi.org/10.1016/S0196-3821\(05\)22002-6](http://dx.doi.org/10.1016/S0196-3821(05)22002-6) [Accessed 2 Apr. 2015].
- Kwoka, J. (1992). The Output and Profit Effects of Horizontal Joint Ventures. *The Journal of Industrial Economics*, [online] 40(3), pp.325-338. Available at: <http://www.jstor.org/stable/2950543> [Accessed 20 Jan. 2015].
- Lee, I. and Wyatt, S. (1990). The Effects of International Joint Ventures on Shareholder Wealth. *Financial Review*, 25(4), pp.641-649.
- Levine, R. (2004). Finance and Growth: Theory and Evidence. *NBER Working Paper No. 10766*. [online] Available at: <http://www.nber.org/papers/w10766> [Accessed 20 Apr. 2015].
- Luo, Y. (2002). *Multinational enterprises in emerging markets*. [Copenhagen]: Copenhagen Business School Press.
- MacKinlay, C. (1997). Event Studies in Economics and Finance. *Journal of Economic Literature*, [online] 35(1), pp.13-39. Available at: <http://www.jstor.org/stable/2729691> [Accessed 25 Jan. 2015].
- Mantecon, T. (2009). Mitigating risks in cross-border acquisitions. *Journal of Banking & Finance*, [online] 33(4), pp.640-651. Available at: <http://www.sciencedirect.com.ezproxy.ub.gu.se/science/article/pii/S0378426608002859> [Accessed 26 Feb. 2015].
- Maughn, R. and Stewart, M. (2011). *International joint ventures, a practical approach*. 1st ed. [online] Available at: http://www.dwt.com/files/Publication/1b841dbe-3453-4983-97cd-d6f5b44e5b2f/Presentation/PublicationAttachment/47d38fc0-1cc3-4c3e-b91f-d8aacd2ce6d1/International%20Joint%20Ventures%20Article_Stewart.pdf [Accessed 26 Feb. 2015].
- McConnell, J. and Nantell, T. (2015). Corporate Combinations and Common Stock Returns: The Case of Joint Ventures. *American Finance Association*, [online] 40(2), pp.519-536. Available at: <http://www.jstor.org/stable/2327898> [Accessed 2 Mar. 2015].
- MSCI, (2015). *Index Definitions*. [online] Available at: <http://www.msci.com/products/indexes/tools/index.html#ACWI> [Accessed 30 Mar. 2015].

- Mulherin, J. (2004). *Mergers and corporate governance*. Cheltenham, UK: Edward Elgar Pub.
- Nafziger, E. (2012). *Economic development*. Cambridge: Cambridge University Press.
- Overland, C. (2012). *Essays on Ownership and Control*. Gothenburg: BAS.
- Oxelheim, L. (2006). *Corporate and institutional transparency for economic growth in Europe*. Amsterdam: Elsevier.
- Prather, L. and Min, J. (1998). Testing of the positive-multinational network hypothesis: wealth effects of international joint ventures in emerging markets. *Multinational Finance Journal*, [online] 2(1), pp.151-165. Available at: <http://www.mfsociety.org/modules/modDashboard/uploadFiles/journals/googleScholar/652.html> [Accessed 10 Jan. 2015].
- Rossi, S. and Volpin, P. (2004). Cross-country determinants of mergers and acquisitions. *Journal of Financial Economics*, [online] 74(2), pp.277-304. Available at: <http://www.sciencedirect.com/science/article/pii/S0304405X04000674> [Accessed 6 Apr. 2015].
- Samuelson, P. and Nordhaus, W. (2010). *Economics*. 19th ed. Boston: McGraw-Hill Irwin.
- Tirole, J. (2006). *The theory of corporate finance*. Princeton, N.J.: Princeton University Press.
- Todaro, M. and Smith, S. (2012). *Economic development*. 11th ed. Boston: Pearson Addison Wesley.
- United Nations Industrial Development Organization (2008) *Patterns of Internationalization for Developing Country Enterprises (Alliances and Joint Ventures)*. [online] Available at: http://www.unido.org/fileadmin/user_media/Publications/07-89254_alliancesandjointventures_appr.PDF [Accessed 13 Mars, 2015]
- United Nations Industrial Development Organization (2013) *The Industrial Competitiveness of Nations, Looking back, forging ahead*. [online] Competitive Industrial Performance Report 2012/2013. Available at: http://www.unido.org/fileadmin/user_media/Services/PSD/Competitive_Industrial_Performance_Report_UNIDO_2012_2013.PDF [Accessed 4 Mars, 2015]
- Weston, J., Mitchell, M. and Mulherin, J. (2004). *Takeovers, restructuring, and corporate governance*. Harlow: Pearson Education Limited.
- Wurgler, J. (2000). Financial markets and the allocation of capital. *Journal of Financial Economics*, [online] 58(1-2), pp.187-214. Available at: <http://www.sciencedirect.com/science/article/pii/S0304405X00000702/pdf?md5=c86ce1240679e6b56aa9f09a9d970354&pid=1-s2.0-S0304405X00000702-main.pdf> [Accessed 8 Mar. 2015].

