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Citation

International Joint Ventures and Political Risk[*]

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Abstract

In recent years, a number of researchers have examined the existence and source of shareholder wealth effects around announcements of international joint ventures. The results of these studies are mixed with no clear answers as to when and why investors attach value to firms using joint ventures to enter overseas markets. In this context, we examine the shareholder wealth effects for 92 international joint venture announcements made by Australian firms during June 1988 - December 1997. We find that, on average, shareholders of firms announcing joint ventures realize an abnormal return of +1.65% over the two-day announcement period of days (-1, 0). We also find that the wealth gains are much higher for international joint ventures undertaken in high-risk countries versus low-risk countries. This finding is consistent with the theory that international joint ventures can be structured in ways that allow the foreign partner to protect itself against expropriation risk and hence increase their value to shareholders.

Keywords: International joint ventures; Political risk; Shareholder wealth; Event study.

JEL Classification: F39, G14, G31.

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1. Introduction

In recent years, international joint ventures have become prominent vehicles for accessing foreign markets. An international joint venture typically involves two or more parties from different countries bringing together their tangible and intangible resources, setting up a new venture, and agreeing to share the profits through a contractual agreement. Typically, the resulting joint venture is located in the country of one of the partners.

Hennart (1991) argues that the rationale for entering into joint venture agreements can be explained using transactions costs theory. According to this theory, joint ventures are efficient when two conditions are simultaneously met. First, the markets for intermediate goods such as know-how, raw materials, parts and components, etc., held by each party are failing. Second, acquiring or replicating the assets yielding these intermediate goods is more expensive than obtaining rights to utilizing them through a joint venture agreement.

The major benefit of joint ventures is that the contributors of intermediate inputs get a claim on any residuals. This theory implies that international joint ventures would be undertaken when other modes of entry such as direct foreign investments and corporate acquisitions are costlier. However, there are also costs associated with entering into international joint ventures. Since the joint venture parties get claims to a fraction of the residuals, there are incentives for one party to take actions that would maximize its own gains at the expense of other joint venture partners.[1] There could also be conflicts in the areas of profit reinvestment rates, growth of the venture, and inter-firm pricing. Hence, the efficiency of a joint venture depends on the convergence of the goals of the parties to the agreement as well as the degree to which their actions can be controlled through pre-written contracts.

Beamish (1985) compares joint ventures in developing countries and developed countries and shows that there are significant differences in the reasons for undertaking the joint venture as well as differences in their success rates. He finds that almost 60% of joint ventures in developing countries are undertaken as a result of government policies, while the rest are undertaken because the joint venture parties require the technical skills or assets of each other. On the other hand, in developed countries 83% of the joint ventures are undertaken because the joint venture parties require the technical skills and assets of each other, while the rest are undertaken as a result of government policies. Beamish also finds that the performance of 61% (36%) of the joint ventures in developing (developed) countries is unsatisfactory once they are undertaken.

The above findings show that joint ventures have their advantages as well as problems such as high failure rates, especially when undertaken in developing countries. Hence, it is not clear whether announcements of international joint ventures will result in wealth gains or losses to the shareholders of firms announcing them. Further, many joint ventures are undertaken in countries where firms face varying degrees of risk and it is important to examine whether investors view joint ventures in high-risk countries differently from joint ventures in low-risk countries.

Based on the above discussion, we argue that international joint ventures are valued more by investors when they are undertaken in countries with a high degree of political risk. To support this argument, we rely on the property rights theory of joint ventures and show that firms will prefer international joint ventures when entering high-risk countries. We also show that the wealth gains associated with announcements of international joint ventures can be attributed to the political risk of the country where the joint venture is undertaken.

The remainder of this paper is organized as follows. In Section 2 we provide details of the property rights theory of international joint ventures and review the main previous literature related to examining the wealth effects of international joint ventures. Section 3 provides details of the data and method used. A discussion of the results is presented in Section 4 and Section 5 concludes the paper.

2. Related Previous Literature

2.1. Political Risk and the Form of International Expansion

Political risk can be defined as risk arising in countries where politicians can broker wealth transfers among various groups confronting differential transaction costs. Individuals negotiate private contracts for the exchange of goods and services and changes in property rights can result in wealth transfers if these private contracts

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[1] For example, the local partner may be able to mimic the technology provided by the foreign partner and use it outside the joint venture.

cannot be costlessly renegotiated. The wealth transfers will depend on the extent to which these contractual obligations persist even though they are no longer mutually advantageous under the new set of property rights. If property rights are weak and easily manipulated, individuals would enter into shorter term contracts to avoid wealth transfers. In this respect, joint ventures are well-suited as investment vehicles because they provide for shared ownership with recontracting clauses.

Using this framework, Phillips-Patrick (1991) argues that foreigners who typically face high political transaction costs will tend to use joint ventures more often, and will be more likely to negotiate for options to dissolve the arrangement and provide for equitable payment in liquid assets upon the termination of such agreements.

Under the property right theory of organizational form, assets that have substantial politically expropriable quasi-rents are more likely to be jointly owned if property rights are weak. For example, Fama and Jensen (1983) argue that differential contracting costs will influence the choice of organizational form. If the flow of services from certain assets is difficult to measure and price, profit-sharing through international joint ventures can help reduce the agency costs of separate ownership and lower the political risk of owning local assets. In that case, the local partner would provide more country-specific assets while the foreign partner would provide the more intangible assets such as technology or managerial expertise.

The major advantage of using joint venture arrangements when political risk is high is that joint venture contracts provide for the control, monitoring and recontracting mechanisms that would provide a means to redress unforeseen shifts in local business conditions and the political environment. Such contracts provide for elaborate specifications of termination or dissolution clauses that, in turn, provide a fair price to the partner electing to dissolve the agreement with payment typically being made in cash.

To summarize, international joint venture agreements provide a contractual means of exploiting firm-specific assets while permitting rapid recontracting or termination, if necessary. Hence, investors should attach at higher value to firms entering into countries with high political risk via joint ventures because this organizational form allows entering into a new market with the least risk.

2.2. Wealth Effects of International Joint Ventures

Previous researchers have examined the wealth effects of international joint venture announcements with mixed results. This research has focused on identifying the existence of shareholder wealth effects for firms announcing international joint ventures, and the factors that help explain the cross-sectional variations in these wealth effects. For example, Lummer and McConnell (1990) analyze 416 international joint ventures involving firms in 55 countries during 1971-80. They find that announcements of joint ventures involving foreign firms positively affect the US partner's market value, and that this effect is directly related to the amount of the foreign investment. In contrast, they find no market reaction to announcements of joint ventures involving foreign governments. Also, they find no significant abnormal returns associated with US firms involved in joint ventures in politically risky less developed countries.

Lee and Wyatt (1990) examine the wealth effects of 109 international joint ventures announced by US-based firms during 1974-86. Contrary to Lummer and McConnell (1990), they find that while the overall abnormal return reaction to joint ventures with foreign firms is negative, joint ventures with firms in less developed countries result in non-negative abnormal returns. They argue that the overall negative market reaction is due to firms overinvesting in assets that expand corporate wealth and increase managerial entrenchment at the expense of shareholder wealth. Consistent with these findings, Chung, Koford and Lee (1993) find that international joint ventures announced by US-based firms during 1969-89 are associated with negative abnormal returns earned by the US partner. They also find that the market's valuation of joint venture announcements is not related to the economic status of the host country or the industry involved.

Previous researchers have also examined the shareholder wealth effects of joint ventures with partners in specific countries. For example, Chen, Hu, and Shieh (1991) analyze joint ventures in China announced by 73 US-based firms during 1979-90 and find a significantly positive abnormal return to the US partner. They also find that the abnormal returns are inversely related to the size of the foreign investment, not related to firm size, or to the US partner's prior presence in China. Crutchley, Guo, and Hansen (1991) examine joint ventures between US and Japanese firms and find that the US partner earns significantly positive abnormal returns over the announcement period. They also find that a size effect exists with higher abnormal returns observed for smaller US firms signing joint ventures with larger Japanese partners. Etebari (1993) examines the valuation effects of joint ventures announced by 29 US-based firms in eastern and central European countries during

1988-91 and finds that, on average, these joint ventures are associated with significantly positive abnormal returns over a two-day announcement period. Finally, Janakiramanan, Lamba and Seneviratne (1999) study the wealth effects of 87 domestic joint ventures and 90 international joint ventures announced by Australian firms during 1988-96. They find that while there are no significant abnormal returns associated with domestic joint venture announcements, international joint ventures provide shareholders of Australian partners with significantly positive abnormal returns.

To summarize, previous research shows that the results of studies on international joint ventures are, at best, mixed with no clear evidence as to whether these joint ventures are wealth-enhancing investments. Researchers finding positive wealth effects argue that they are due to the synergistic effects of these joint ventures. Conversely, researchers finding negative wealth effects argue that they are due to the "empire-building" tendencies of managers who are undertaking non-positive NPV investments overseas.

In addition, researchers analyzing the shareholder wealth effects of international joint ventures in markets with high political risk have either adopted broad classifications of developing and developed markets to categorize this risk, or examined joint ventures in specific developing countries. Clearly, not all developing countries necessarily have high country risk, and this country risk is not necessarily the same across these developing countries. Some developing countries, such as Singapore or Hong Kong provide for a relatively safe investment environment while other countries, such as those in the African region are considerably more risky. In this paper, we do not rely on the developed/developing markets classification to proxy for country risk. Instead, we use country credit risk ratings to separate countries into high and low risk markets.[2] Using this classification we examine the relationship between country risk and joint ventures in overseas markets. Specifically, we examine whether investors attach a higher value to firms entering into international joint ventures in high-risk countries compared to low-risk countries as this organizational form allows firms to minimize their risk of entering high-risk markets.

3. Data and Method

3.1. Data

Our initial sample contains all international joint venture announcements during June 1988 - December 1997 by firms listed on the Australian Stock Exchange (ASX). Data on joint venture announcements are obtained from the ASX DataDisc, which contains detailed descriptions of all announcements made by publicly-listed firms trading on the ASX. The sample was filtered using the guidelines shown in the Appendix resulting in a final sample of 74 publicly-listed firms involved in 92 international joint ventures. Data on dividends and capitalization-adjusted prices for individual firms and data for the market proxy, the All Ordinaries Accumulation Index, are obtained from Datastream. Data on country risk ratings are obtained from the Institutional Investor's Semiannual Survey of Bankers.[3]

Table 1 provides a detailed description of the 92 international joint ventures announced in terms of the year of announcement, overseas partner, industrial classification, firm size, and the degree of foreign involvement. Around two-thirds of the joint ventures are announced during 1993-96, and over 70% of the joint ventures are located in developing countries, mainly in the Asian region (Panels A and B). Although we do not find a concentration of joint ventures by type of industry, over 25% of the joint ventures are announced by gold mining firms (Panel C).

{Insert Table 1 around here}

Panel D of the table shows the distribution of the firms announcing joint ventures based on size, industry, country risk, prior presence, and the degree of multinationalism. It is interesting to note that large firms are typically involved in industrial joint ventures while smaller firms generally focus on joint ventures in the resources sector. Large firms also have higher multinational exposure and generally have prior experience in the country where the joint venture is located. Further, almost two-thirds of the joint ventures in high-risk countries are located in the resources sector, whereas three-quarters of the joint ventures in the industrial sector are located in low-risk countries. A majority of firms entering into resources sector joint ventures have prior

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[2] Erb, Harvey and Viskanta (1995) suggest that country credit risk ratings can be used to provide an effective measure of country risk.

[3] The country risk rating represents the risk of doing business in that country and is based on an index ranging from 0 to 100 with higher rated countries receiving higher scores.

experience in that country, while a majority of firms entering into industrial sector joint ventures have no prior experience in that country.

Table 2 presents some summary statistics on the firms announcing international joint ventures. Firms announcing joint ventures are generally large with a median book value of assets of $3.5 billion and median sales of $2.9 billion. However, the median investment and the ratio of investment to total assets are relatively low, with a median investment of $20.8 million and a median ratio of 1%. The standard deviation and quartiles show the diversity in firm size. These summary statistics imply that the Australian partners tend to contribute more in terms of intangible assets, such as technology and know-how, while the local partners tend to be the main contributors of tangible assets.

{Insert Table 2 around here}

3.2.   Event Study Method

We use the standard event study method to measure the abnormal returns earned by firms announcing international joint ventures. The date of the joint venture announcement is taken as the event date and defined as day 0. Given that the exact event date is not always accurately known, we opt to base our analysis on a two-day announcement period.[4] In addition, we also examine the behavior of the average abnormal returns and cumulative abnormal returns over a longer 21-day event window of days (-10, +10). The market model is estimated as,

$$R_{jt} = \alpha_j + \beta_j R_{mt} + \varepsilon_{jt}, \tag{1}$$

where R_{jt} is the observed daily return for firm j on day t, R_{mt} is the observed daily return on the market index on day t, α_j is the estimate of firm j's intercept, β_j is the estimate of firm j's beta, and ε_{jt} is the residual error term. The estimates for α_j and β_j are based on the returns over days (-200, -30) relative to the announcement day using the Scholes and Williams (1977) adjustment for nonsynchronous trading. Firm j's abnormal return on day t is computed as,

$$AR_{jt} = R_{jt} - \hat{\alpha}_j - \hat{\beta}_j R_{mt}. \tag{2}$$

Next, we compute the average abnormal return on day t as,

$$AAR_t = \frac{\sum_{j=1}^{N} AR_{jt}}{N_t}, \tag{3}$$

where N_t is the number of firms with non-missing abnormal returns on day t. Finally, the cumulative abnormal returns over a window of days (-t, +t) is computed as,

$$CAR_{-t,+t} = \sum_{k=-t}^{+t} AAR_k. \tag{4}$$

To examine the wealth effects of the announcement of international joint ventures, we test the hypothesis that the average abnormal returns over any day or that the cumulative abnormal return over any given time interval equals zero. The test statistic is constructed as a ratio of average abnormal returns (or cumulative abnormal returns) to the standard error of that series. To check whether outliers may be affecting our results we also use a binomial sign test, which examines whether the proportion of positive abnormal returns is statistically different from those during the estimation period.[5]

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[4]   In some cases, the actual announcement date may have been made on day -1, but may have been reported on day 0.

[5]   The t-statistic for the sign test is computed as $(p - nr)/[n(1 - r)r]^{1/2}$ where p is the number of positive abnormal returns on day t, n is the total number of firms with non-missing abnormal returns on day t, and r is the fraction of positive abnormal returns during the estimation period.

To study the effects of country risk, we construct two sub-samples based on firms announcing international joint ventures in markets categorized as having high and low country risk, respectively. Joint ventures announced in markets with a country risk rating below (above) 50 are classified as being high (low) risk joint ventures. For each sub-sample, the average abnormal returns and cumulative abnormal returns are computed in the same way as for the full sample. Next, a difference of means test is conducted to examine whether the average abnormal returns and the cumulative abnormal returns are significantly different for the high and low country risk sub-samples.

3.3. Multivariate Analysis

Since earlier studies have found that the firm size, industry classification, degree of multinationalism, and prior presence in a market potentially have an impact on the abnormal returns, we use these factors as control variables and include country risk as an additional variable in a multivariate regression framework. This analysis involves running a series of regressions taking the following general form:

$$CAR_j = \beta_0 + \beta_1\ LSIZE_j + \beta_2\ IND_j + \beta_3\ MULTI_j + \beta_4\ CRATE_j + \beta_5\ PRIOR_j + \varepsilon_j\ , \tag{6}$$

where CAR_j is two-day announcement period cumulative abnormal return for firm j; $LSIZE_j$ is the natural log of the total book value of assets of firm j; IND_j is a dummy variable with a value 1 if the joint venture is in the resources sector and 0 if the joint venture is in the industrial sector; $MULTI_j$ is a measure of firm j's multinational presence based on the Herfindahl index with values between 0 and 1 with lower values indicating a higher level of multinationalism; $CRATE_j$ is the credit rating of the country in which firm j announces a joint venture and scaled between 0 and 100 where a higher value indicates a higher credit rating and lower risk; and $PRIOR_j$ is a dummy variable with value 1 if the firm already has a prior presence in the country where joint venture is to be located and 0 otherwise.

4. Empirical Results and Analysis

4.1. Overall Effect of Joint Venture Announcements

Table 3 presents the results for the average abnormal returns and cumulative abnormal returns around international joint venture announcements for the full sample over the event window of days (-10, +10). Panel A of the table shows the average abnormal returns and the corresponding t-statistics, the percentage of positive abnormal returns, and the cumulative abnormal returns and the corresponding t-statistics. Panel B of the table shows the cumulative abnormal returns for selected periods over the event window.

The recorded announcement day average abnormal return is +0.83%, but is found to be statistically insignificant (Panel A). However, the abnormal return on day -1 of +0.81% is statistically significant at the 1% level. The cumulated abnormal return over the two-day announcement period is +1.65%, which is statistically significant at the 1% level (Panel B). Over the longer event window of days (-2, +2) the cumulative abnormal returns are +2.5% and statistically significant at the 1% level.

{Insert Table 3 around here}

We also report the percentage of positive abnormal returns to determine whether the reaction to international joint venture announcements is a consistent phenomenon across all firms, or whether some outlier firms may be driving our results. On day -1 we find that 67.5% of the abnormal returns are positive and statistically significantly different from the percentage of abnormal returns during the estimation period. That is, over two-thirds of the firms react positively to joint venture announcements. Over the announcement period of days (-1, 0) we find 56.6% of the firms experiencing positive cumulative abnormal returns, but this figure is not statistically significant. However, over the longer event window of days (-2, +2) almost 62% of the firms experience positive cumulative abnormal returns, and this figure is statistically significant at the 5% level. These findings suggest that outliers are not driving our results. Overall, we find that international joint ventures enhance shareholder wealth, and that this revaluation effect is permanent over the event window.

To examine the relationship between political risk and the wealth effects of international joint venture announcements, we group the firms into joint ventures announced in markets characterized as having high and low country risk, respectively. Countries with a credit risk rating lower (higher) than 50 are classified as having high (low) country risk. The average abnormal returns, cumulative abnormal returns and the difference between these abnormal returns are presented in Table 4.

{Insert Table 4 around here}

We find that for firms entering into international joint ventures located in high-risk countries the average abnormal returns on days -2, -1 and 0 are +2.38%, 1.17% and 0.64%, respectively, with day -2 being statistically significant at the 5% level (Panel A). Over days (-1, 0) and days (-2, +2) the cumulative abnormal returns are +1.81% and 4.20%, respectively, and are both statistically significant at the 5% level, or better (Panel B). The average abnormal returns for firms entering into joint ventures in low-risk countries are also positive but generally not significant over days (-1, 0) or days (-2, +2). Comparing the cumulative abnormal returns we find that the abnormal returns for firms announcing joint ventures in high-risk countries are significantly higher than for firms announcing joint ventures in low-risk countries over the entire event window. Figure 1 graphs the cumulative abnormal returns for the full sample and the high and low country risk sub-samples. The figure clearly shows that international joint ventures in high-risk countries are significantly more highly valued by investors than international joint ventures in low-risk countries.

{Insert Figure 1 around here}

As noted earlier, a majority of the joint ventures in high-risk countries are in the resources sector where the political risk tends to be substantially higher. These findings show that firms do take country risk into account when making a decision on the type of industry to target as well as the organizational form they should adopt in a particular market.

4.2.   Multivariate Regression Results

Panel A of Table 5 shows the results of the regressions used to test the relationship between the shareholder wealth effects of international joint ventures and country risk, after controlling for the effects of other variables. We report the results for stepwise regressions where each potential explanatory variable enters the regressions one at a time. The dependent variable in all the regressions is the cumulative abnormal return over days (-1, 0).

{Insert Table 5 around here}

Our results show that the coefficient for country risk is negative and statistically significant at the 5% level, or better, after controlling for the effects of other variables.[6] This shows that firms entering into international joint ventures in high-risk countries are valued more by investors than firms entering in joint ventures in low-risk countries.

We also find some interesting relationships between the cumulative abnormal return over days (-1, 0) and the different attributes of the international joint ventures examined.[7] For example, we find a significant negative relationship between the cumulative abnormal return and firm size, which is similar to the findings for US-based firms announcing international joint ventures. The cumulative abnormal return is also significantly negatively related to the degree of multinationalism of the Australian partner, and moderately positively related to its prior experience. Lastly, the market's valuation of international joint ventures is not related to the type of industry.

5.   Conclusions

In this paper, we examine whether political risk affects the wealth gains accruing to shareholders of firms announcing international joint ventures. Using the event study method we examine the wealth effects for 92 international joint venture announcements made by 74 Australian firms during June 1988 - December 1997. We find that, on average, shareholders of firms announcing international joint ventures realize an abnormal return of

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[6]   The order of the country risk variable is not important since it remains statistically significant regardless of the order in which it enters the regressions.

[7]   Panel B of Table 5 shows the correlation coefficients between these independent variables. We find that firm size and industry type are negatively correlated implying that small (large) firms tend to undertake joint ventures in the resources (industrial) sector. The correlation between industry type and country risk is positive indicating that joint ventures in the resources sector are usually undertaken in high-risk countries. We also find a significant negative correlation between prior experience and the degree of multinationalism implying that firms with a higher level of multinationalism tend to have a prior presence in a particular market. In general, however, these correlations are not very high for multicollinearity among the independent variables to be of concern.

+1.65% over the two-day announcement period of days (-1, 0). The sources of these wealth gains can be attributed to firm size, the degree of multinationalism, and the country risk of the market where the joint venture is located. In general, the wealth gains are much higher when international joint ventures are undertaken in high-risk countries versus low-risk countries. This finding is consistent with the theory that international joint ventures can be structured in ways that allow the foreign partner to protect itself against expropriation risk and hence increase the shareholder value more than for firms undertaking joint ventures in low-risk countries.

Appendix: Criteria Used to Screen International Joint Venture Announcements

1.   The firm making the joint venture announcement must be traded on the Australian Stock Exchange (ASX) during the sample period.

2.   The firm must be trading immediately around the announcement and must have been trading for at least 200 days prior to the announcement date to facilitate the estimation of the market model parameters.

3.   The joint venture announcement must be distinct from other announcements, so that there are no confounding announcements around the event date or in the event window.

4.   The announcement must be the first announcement conveying information about the joint venture. The announcement information must contain the exact date on which the announcement is made.

5.   The joint venture announcement must provide the nationality of the partners and whether the partner is a government entity or a private firm.

6.   The assets of the joint venture must be in a foreign country.

7.   If the joint venture is executed via a subsidiary, the parent company must have control of the entity, where control is defined according to Australian accounting standards.

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Table 1: Frequency Distribution of International Joint Ventures Announced by Australian Firms During June 1988 - December 1997

Panel A: Frequency Distribution by Year of Announcement

Year	Frequency	Percent
1988	0	0.0
1989	0	0.0
1990	5	5.4
1991	5	5.4
1992	4	4.4
1993	16	17.4
1994	29	31.5
1995	16	17.4
1996	16	17.4
1997	1	1.1
Total	**92**	**100.0**

Panel B: Frequency Distribution according to the Home Country of the Overseas Partner

Overseas Partner	Frequency	Percent
China	18	19.6
India	5	5.4
Indonesia	15	16.3
Malaysia	7	7.6
Thailand	3	3.3
Vietnam	5	5.4
Other Emerging	14	15.2
Total Emerging	67	72.8
New Zealand	5	5.4
Singapore	3	3.3
United Kingdom	6	6.5
USA	6	6.5
Other Developed	5	5.4
Total Developed	25	27.2
Total	**92**	**100.0**

Panel C: Industrial Classification of the Australian Joint Venture Partner

Industry	Frequency	Percent
Energy, Oil and Gas	4	4.4
Engineering	3	3.3
Diversified Industrial	10	10.9
Food & Household	9	9.8
Gold	24	26.1
Miscellaneous Industries	4	4.4
Miscellaneous Services	5	5.4
Other Metals/Minerals	10	10.9
Other	13	14.1
Total	**92**	**100.0**

Table 1 (Continued)

Panel D: Distribution of Firms According to Firm-Specific Variables[a]

			Firm Size		Industry		Prior Experience		Country Risk		Degree of Multinationalism	
			Large (46)	Small (46)	Resources (34)	Industrial (58)	Yes (62)	No (30)	High (41)	Low (51)	High (46)	Low (46)
Firm Size	Large	(46)	46	-	7	39	30	16	9	37	31	15
	Small	(46)	-	46	27	19	32	14	32	14	15	31
Industry	Resources	(34)	7	27	34	-	21	13	23	11	18	16
	Industrial	(58)	39	19	-	58	41	17	18	40	28	30
Prior Experience	Yes	(62)	30	32	21	41	62	-	27	35	36	26
	No	(30)	16	14	13	17	-	30	14	16	10	20
Country Risk	High	(41)	9	32	23	18	27	14	41	-	32	9
	Low	(51)	37	14	11	40	35	16	-	51	9	42
Degree of Multinationalism	High	(46)	31	15	10	16	24	2	12	14	46	-
	Low	(46)	15	31	14	10	6	18	16	8	-	46

[a] Firm size is proxied by the total book value of assets of the firm announcing the joint venture. Firms are classified as having previous experience if they had previously announced an international joint venture. Firms are classified as operating in markets with high (low) country risk based on whether the country risk rating of that market is below (above) 50. Firms are classified as having a high (low) degree of multinationalism if the Herfindahl index is below (above) 0.5.

Table 2: Descriptive Statistics of the Sample of Australian Firms

	Mean	Median	Standard Deviation	First Quartile	Third Quartile
Total Assets (millions)	$3,517.4	$2,307.1	$4,347.4	$275.5	$5,749.5
Total Sales (millions)	$2,905.0	$2,201.9	$3,025.6	$268.0	$4,782.1
Australian Investment (millions)[*]	$58.0	$20.8	$88.6	$12.4	$57.7
Investment/Total Assets (%)[*]	28.6	1.0	112.0	0.3	1.8
Foreign Assets/Total Assets (%)	37.0	31.7	30.2	9.9	60.0
Percentage of Subsidiaries Overseas	14.4	9.6	14.7	5.7	19.3

[*] Figure based on a sub-sample of 35 firms that announced the amount of investment in the original announcement.

Notes:

Total Assets = Total book value of assets taken from the last annual report prior to the joint venture announcement.

Total Sales = Total sales from the last annual report prior to joint venture announcement.

Australian Investment = The total investment announced by the Australian joint venture partner.

Investment/Total Assets = The ratio of the total investment announced by the Australian joint venture partner to the book value of assets.

Foreign Assets/Total assets = The ratio of the Australian joint venture partner's total foreign assets to the book value of assets.

Percentage of Subsidiaries Overseas = The number of subsidiaries incorporated in countries other than Australia divided by the total number of subsidiaries included in the Australian partner's consolidated accounts.

Table 3: Summary of Average Abnormal Returns and Cumulative Abnormal Returns for the Full Sample of International Joint Ventures During June 1988 - December 1997

Panel A: Average Abnormal Returns Over Days (-10, +10)

Event Day	Average Abnormal Return	t-statistic	Percent Positive	Cumulative Abnormal Return	t-statistic
-10	-0.511	-1.377	50.7	-0.511	0.151
-9	-0.208	0.981	44.2	-0.719	-0.110
-8	-0.157	-0.573	50.7	-0.876	-0.273
-7	-0.284	-0.986	48.1	-1.160	-0.520
-6	0.351	1.380	49.4	-0.809	-0.188
-5	-0.139	-0.740	42.9	-0.948	-0.323
-4	-0.102	-0.354	50.7	-1.050	-0.399
-3	0.160	0.449	49.4	-0.890	-0.214
-2	0.292	1.401	53.3	-0.598	0.022
-1	0.813	3.382***	67.5***	0.215	0.640
0	0.833	1.387	52.0	1.048	1.307
+1	1.149	1.689*	57.1	2.197	1.899*
+2	-0.547	-1.226	45.5	1.650	1.461
+3	-0.257	-0.546	57.1	1.393	1.297
+4	0.186	0.703	54.6	1.579	1.518
+5	-0.091	-0.222	48.1	1.488	1.455
+6	0.252	0.641	58.4	1.740	1.762*
+7	-0.165	-0.402	49.4	1.575	1.490
+8	-0.036	-0.156	49.4	1.539	1.476
+9	0.049	0.163	54.6	1.588	1.546
+10	-0.167	-0.392	48.1	1.421	1.327

Panel B: Cumulative Abnormal Returns for Selected Periods Around Days (-10, +10)

Event Day(s)	Cumulative Abnormal Return	t-statistic	Percent Positive
(-1, 0)	1.646	2.691***	56.6
(-2, +2)	2.540	3.127***	61.8**
(-5,+5)	2.297	1.678*	52.3
(-10, +10)	1.421	0.390	51.3

* Statistically significant at the 10% level.
** Statistically significant at the 5% level.
*** Statistically significant at the 1% level.

Table 4: Summary of Average Abnormal Returns and Cumulative Abnormal Returns and Difference in Abnormal Returns for High and Low Country Risk Samples

Panel A: Average Abnormal Returns and Differences in Abnormal Returns for High and Low Country Risk Samples

Event Day	High Country Risk Sample (N = 41)			Low Country Risk Sample (N = 51)			Difference in High and Low Country Risk Samples	
	Average Abnormal Return	Cumulative Abnormal Return	Percent Positive	Average Abnormal Return	Cumulative Abnormal Return	Percent Positive	Difference	t-statistic
-10	0.392	0.392	52.1	-0.020	-0.020	42.0	0.412	0.838
-9	1.208	1.600	41.4	-0.427	-0.447	43.6	1.635	1.730[*]
-8	0.193	1.793[*]	48.7	-0.248	-0.695	58.9	0.441	0.697
-7	-0.908	0.885	51.5	-0.733	-1.428	37.8[*]	-0.175	-0.597
-6	-1.413	-0.528	43.7	-0.490	-1.918[**]	65.8[**]	-0.923	-1.150
-5	1.179	0.651	46.2	0.431	-1.487	47.3	0.748	0.967
-4	0.621	1.272	54.2	0.060	-1.427	46.8	0.561	0.763
-3	-0.425	0.847	48.3	0.107	-1.320	56.6	-0.532	-1.029
-2	2.381[**]	3.228[***]	49.9	0.067	-1.253	68.7[***]	2.314	2.718[***]
-1	1.174	4.402[***]	76.8[***]	-0.116	-1.369	69.3[***]	1.290	2.180[**]
0	0.635	5.037[***]	51.2	0.420	-0.949	78.5[***]	0.215	0.458
+1	-0.248	4.789[***]	56.8	0.191	-0.758	50.2	-0.439	-0.596
+2	0.260	5.049[***]	43.0	-0.258	-1.016	63.2[*]	0.518	0.904
+3	-0.843	4.206[***]	59.6	0.392	-0.624	56.4	-1.235	-1.623
+4	0.853	5.059[***]	58.7	-0.054	-0.678	48.7	0.907	1.327
+5	0.207	5.266[***]	52.4	-0.401	-1.079	42.4	0.608	0.865
+6	-1.625	3.641[***]	57.2	-0.203	-1.282	56.8	-1.422	-1.751[*]
+7	-0.195	3.446[***]	42.3	0.306	-0.976	56.9	-0.501	-0.787
+8	-1.274	2.172[**]	49.8	-0.226	-1.202	47.2	-1.048	-1.467
+9	-0.527	1.645[*]	52.7	0.450	-0.752	56.4	-0.977	-1.390
+10	-1.067	0.578	50.2	-0.382	-1.134	54.3	-0.685	-0.904

Table 4 (Continued)

Panel B: Cumulative Abnormal Returns and Differences in CARs for Selected Periods Around Days (-10, +10)

Event Days	High Country Risk Sample (N = 41)		Low Country Risk Sample (N = 51)		Difference in High and Low Country Risk Samples	
	Cumulative Abnormal Return	t-statistic	Cumulative Abnormal Return	t-statistic	Difference	t-statistic
(-1, 0)	1.809	2.078[**]	0.304	0.975	1.506	1.628
(-2, +2)	4.202	4.672[***]	0.303	0.936	3.899	4.079[***]
(-5, +5)	5.795	6.826[***]	0.839	2.657[***]	4.956	5.472[***]
(-10, +10)	0.578	0.725	-1.134	-3.657[***]	1.713	2.001[**]

[*] Statistically significant at the 10% level.
[**] Statistically significant at the 5% level.
[***] Statistically significant at the 1% level.

Table 5: Cross-Sectional Regressions of the Two-Day Cumulative Abnormal Returns on Selected Explanatory Variables for Australian Firms Announcing International Joint Ventures During 1988-97[a]

Panel A: $CAR_j = \beta_0 + \beta_1 LSIZE_j + \beta_2 IND_j + \beta_3 MULTI_j + \beta_4 CRATE_j + \beta_5 PRIOR_j + \varepsilon_j$

Regression	β_0	β_1	β_2	β_3	β_4	β_5	N	Adjusted-R^2	F-Statistic
1	0.016 (2.86)[***]	-0.010 (-4.64)[***]					92	0.225	21.5[***] (0.0000)
2	0.015 (1.22)	-0.010 (-4.61)[***]	0.034 (1.96)[*]				92	0.225	10.6[***] (0.0001)
3	0.015 (1.22)	-0.010 (-4.57)[***]	0.019 (1.15)	-0.019 (-2.45)[**]			92	0.225	8.1[***] (0.0003)
4	0.063 (3.18)[***]	-0.014 (-5.67)[***]	0.012 (1.02)	-0.018 (-2.39)[**]	-0.079 (-2.99)[***]		92	0.312	7.0[***] (0.0000)
5	0.093 (2.11)[**]	-0.015 (-5.97)[***]	0.009 (0.89)	-0.016 (-2.25)[**]	-0.065 (-2.36)[**]	0.008 (1.77)[*]	92	0.373	5.6[***] (0.0000)

Panel B: Correlation Coefficients Between Independent Variables

	IND_j	$CRATE_j$	$PRIOR_j$	$MULTI_j$
$LSIZE_j$	-0.467[***] (0.000)	-0.138 (0.218)	-0.101 (0.370)	-0.433[***] (0.000)
IND_j		0.332[***] (0.002)	0.001 (0.996)	-0.058 (0.607)
$CRATE_j$			0.047 (0.676)	-0.103 (0.479)
$PRIOR_j$				0.396[**] (0.028)

Table 5 (Continued)

[a] *Notes:*

CAR_j = The two-day cumulative abnormal return over days (-1, 0) relative to the announcement day.

$LSIZE_j$ = The natural log of the total book value of assets of the Australian joint venture partner.

IND_j = A dummy variable that equals 1 if the joint venture is in the resources sector and 0 if it is in the industrial sector.

$MULTI_j$ = A measure of the Australian joint venture partner's multinational presence based on the Herfindahl index which takes a value between 0 and 1 with a lower value indicating a higher degree of multinationalism.

$CRATE_j$ = The country risk rating based on an index of 0 to 100, where a higher value indicates a higher rating and lower country risk.

$PRIOR_j$ = A dummy variable that equals 1 if the firm already has a prior presence in the country where the joint venture is located and 0 otherwise.

The numbers in parentheses for coefficient estimates are t-statistics and the numbers in parentheses for F-statistics and correlation coefficients are p-values.

[*] Statistically significant at the 10% level.

[**] Statistically significant at the 5% level.

[***] Statistically significant at the 1% level.

Figure 1: Cumulative Abnormal Returns for the Full Sample and High and Low Country Risk Samples of Firms Announcing International Joint Ventures During 1988-97