Available online at www.sciencedirect.com
ScienceDirect
Journal of Banking & Finance 31 (2007) 2365–2382
Journal of BANKING & FINANCE
www.elsevier.com/locate/jbf

Analyzing joint ventures as corporate control activity

Myron B. Slovin [a], Marie E. Sushka [a,b,*], Tomas P. Mantecon [c]

[a] HEC School of Management, Paris, 78351 Jouy en Josas, France
[b] Arizona State University, Department of Finance, P.O. Box 873906, Tempe, AZ 85287-3906, United States
[c] University of Nevada, Las Vegas, Las Vegas, NV 89154, United States

Received 2 September 2005; accepted 11 September 2006
Available online 25 January 2007

Abstract

We analyze joint ventures initiated by two publicly traded firms, and compare the results to asset sales and mergers. Combined returns are significantly greater for joint ventures than asset sales, and smaller than mergers. Gains are shared between joint venture parties, unlike asset sales and mergers where all gains accrue to sellers/targets. Ownership structure has no effect on joint venture returns. Combined gains from quasi-asset-sale joint ventures are significantly greater than for asset sales, and similar to mergers. Horizontal joint ventures generate greater gains than vertical or cross-industry ventures, and there is evidence that horizontal ventures capitalize expected monopoly rents.

JEL classification: G34

Keywords: Joint venture; Asset sale; Merger

1. Introduction

The corporate control literature encompasses a large body of theoretical and empirical work on mergers, takeovers, and asset sales. The key characteristics of these transactions are that unitary control of a firm or a unit is unambiguously transferred from one entity (target or seller) to another entity (acquirer), shareholder wealth significantly increases,

* Corresponding author. Address: Arizona State University, Department of Finance, P.O. Box 873906, Tempe, AZ 85287-3906, United States. Tel.: +1 480 965 6581; fax: +1 480 965 8539.
E-mail address: marie.sushka@asu.edu (M.E. Sushka).

0378-4266/$ - see front matter
doi:10.1016/j.jbankfin.2006.09.009

and all of the gains typically accrue to sellers (targets). A joint venture is also a form of corporate control activity, but without an unambiguous transfer of unitary control. Instead, a joint venture, which has the legal status of a corporation, is a relationship-based structure between firms that permits joint ownership of assets and entails interfirm cooperation for synergistic projects, with each partner having access to the joint venture's activities. Most research on joint ventures (Bhattacharyya and Lafontaine, 1995; Darrough and Stoughton, 1989; Chemla et al., 2002) focuses on strategic and contracting problems of joint ventures. The few empirical studies, such as McConnell and Nantell (1985), report that joint ventures have only modest effects on partner firm value.

Given the distinctions between joint ventures and other corporate control transactions, and the lack of evidence about the relative benefits of these different transactions, we provide an understanding of how joint ventures fit into the market for corporate control by evaluating gains from joint ventures, and the distribution of these gains, and comparing this evidence to results for asset sales and mergers. To conduct the analysis we study joint ventures with observable ownership structures that are initiated by two publicly traded partners, as well as benchmark samples of mergers and asset sales in which both parties publicly trade. We examine how the gains from joint ventures are influenced by the venture's characteristics, including ownership structure, firm size, type of partner contributions, and industry structure. Overall, we find that the market highly values a joint venture, a structure that fosters interfirm cooperation in conducting projects and activities.

We find positive announcement returns to joint venture partners that are comparable to prior studies, and report several important new results. One, the positive gains in combined shareholder wealth at joint ventures are significantly greater than combined gains from asset sales, but are less than for mergers. Two, there are significant differences in the distribution of the gains among the parties to these transactions. In asset sales and mergers, all of the gains accrue to seller (target) firms, suggesting that the control market for assets and firms is highly competitive. In contrast, both partners in joint ventures obtain significant gains, with substantial gains to large partners, entities comparable in size to acquirers in other control transactions. Three, there is no significant difference in combined wealth gains from 50/50 (equal ownership) versus majority/minority (unequal) joint ventures. Thus, a 50/50 governance structure does not harm effectiveness nor is it responsible for the large wealth gains relative to asset sales. Four, we identify a type of joint venture with many of the characteristics of an asset sale that can be viewed as a relationship-based alternative to an asset sale. These quasi-asset-sale joint ventures move operating assets from the sole control of one firm to co-ownership by two partners. Unlike asset sales, where only sellers accrue gains, we find large gains both to partners selling assets to joint ventures and partners acquiring co-ownership. Wealth gains for quasi-asset-sale joint ventures are significantly greater than for asset sales, and are similar to the gains for mergers. Five, combined wealth gains differ significantly by industry structure, with gains from horizontal (same industry) joint ventures being greater than for cross-industry (diversifying) or vertical (purchaser/supplier) joint ventures, but the gains for each type of joint venture significantly exceed the gains from asset sales. Based on intra-industry evidence, and the fact that there are greater gains in concentrated industries than in non-concentrated industries, we contend that the greater gains to horizontal joint ventures reflect, in part, expectations of reduced industry competition or monopoly rents. Thus, horizontal joint ventures may afford rivals an opportunity to engage in cooperative behavior that forecloses some prospects of future competition, as well as generating synergistic gains.