

IJV announcements and shareholder value creation: do industrial diversification and relatedness matter?

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Abstract

Purpose – This study empirically examines how industrial diversification and partner business relatedness influence shareholder value, focusing on US multinational enterprises' (MNEs) worldwide joint venture (JV) announcements, with particular emphasis on East Asian economies.

Design/methodology/approach – Drawing on theories from finance, strategic management and international business, we apply a standard event study methodology and employ three parametric and nonparametric tests (i.e. the Patell Z-test, the rank test and the generalized sign test) to assess the impact. We calculate abnormal returns (ARs) as the difference between actual and expected returns and average them across firms to obtain the average AR for each day in the [−10, +10] window, thereby capturing potential information leakage before JV announcement and delayed market reactions afterward (Brown and Warner, 1985; Fama, 1998).

Findings – We find robust evidence of a diversification premium, confirming that diversification through IJVs increases shareholder value for US partners and partnering with businesses in unrelated industries can amplify the value gains from diversification.

Practical implications – The findings suggest that IJVs can be a more effective entry mode than acquisitions or greenfield investments when MNEs expand into non-core business areas, offering strategic guidance for both investment mode choice and partner selection.

Social implications – Our findings have important implications for firms' investment mode and partner selection decisions when they expand internationally.

Originality/value – To the best of our knowledge, this study is among the first to systematically investigate the combined effects of industrial diversification and partner business relatedness on shareholder value in the context of US firms undertaking IJV investments in East Asian economies.

Keywords International joint ventures (IJV), Foreign direct investments (FDI), Industrial diversification, Partner business relatedness, Shareholder value

Paper type Research article

1. Introduction

Globalization has profoundly transformed the strategic environment for firms engaging in international expansion, prompting a notable increase in the formation of international joint ventures (IJVs). IJVs represent a distinct form of cross-border strategic alliance that allows

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firms to combine complementary resources, gain access to foreign markets, acquire local knowledge and develop critical organizational capabilities, thereby enhancing competitive advantage (Beamish and Lupton, 2009; Schildt *et al.*, 2012; Ali *et al.*, 2021; Jin and Wang, 2021; Wang *et al.*, 2023; Li, 2023). Despite their potential to generate operational synergies and create shareholder value (Johnson and Houston, 2000; Amici *et al.*, 2013), IJVs are often challenged by instability and complexity arising from partner dynamics and cross-cultural differences, which can undermine shareholder wealth (Li *et al.*, 2016; Westman and Thorgren, 2016; Jin and Wang, 2021; Konara and Mohr, 2023).

The existing literature on industrial diversification presents mixed evidence regarding its impact on firm value (Fu *et al.*, 2021; Wild *et al.*, 2023). While some studies highlight the “diversification discount” whereby diversification erodes shareholder value (Hoechle *et al.*, 2012; Rudolph and Schwetzler, 2013), others demonstrate that diversification can enhance firm performance and shareholder wealth under certain conditions (Erdorf *et al.*, 2013; Fu *et al.*, 2021; Wild *et al.*, 2023). Similarly, the influence of partner business relatedness on value creation in IJVs remains ambiguous, with some research emphasizing the benefits of relatedness through improved coordination and resource sharing (Bryce and Winter, 2009; Erdorf *et al.*, 2013; Heil and Bornemann, 2018; Jin and Wang, 2021; Wang *et al.*, 2023; Li, 2023) and others noting potential conflicts and inefficiencies (Johnson and Houston, 2000; Demirkan and Zhou, 2016).

Despite the importance of these strategic factors, there is limited empirical research addressing how industrial diversification and partner business relatedness jointly affect shareholder value in the context of IJVs, a critical yet understudied mode of foreign direct investment (FDI). Motivated by these gaps, this study intends to examine the wealth effects of diversification and partner relatedness on US firms engaged in IJVs, focusing on investments predominantly in key Asian economies, including China, India, Japan and South Korea, using a sample of 1,042 IJV announcements from the late 1990s to the global financial crisis (GFC). We employ a standard event study methodology, complemented by three parametric and nonparametric tests, including the Patell *Z*-test, rank test and generalized sign test, to rigorously assess the impact. To the best of our knowledge, this study is among the first to systematically investigate the effects of industrial diversification and partner business relatedness on the shareholder value of US firms engaged in IJV investments. Our analysis of a comprehensive sample of US IJV announcements reveals that IJVs generally yield significant positive ARs for shareholders. Importantly, diversifying IJVs generate greater value than focused IJVs and the wealth effects of diversification are contingent on the relatedness of the foreign partner. These findings underscore the strategic advantages of IJVs relative to other FDI modes, particularly when US firms pursue international diversification beyond their core business areas in the Asian emerging markets.

The remainder of this paper is organized as follows: Section 2 reviews the theoretical framework and develops the hypotheses. In Section 3, we discuss the sample selection and data. Section 4 outlines the methodology and Section 5 discusses the empirical results. Section 6 concludes with a discussion of the implications.

2. Theoretical framework and hypothesis

2.1 Focused versus diversifying IJVs and shareholder value

Our theoretical framework draws on the literature from finance, strategic management and international business. Earlier studies frequently document a diversification discount, showing that diversified firms often underperform their more focused counterparts. However, more recent studies suggest that related diversification can create firm value by leveraging existing capabilities and facilitating knowledge transfer across similar business units (Erdorf *et al.*, 2013; Lai *et al.*, 2017; Fu *et al.*, 2021; Wild *et al.*, 2023). Specifically, Wild *et al.* (2023) found that IJV formation is associated with positive abnormal returns (ARs), increasing firm value by more than 1% on average. Yet, they argue that the magnitude of this shareholder wealth effect

depends on the type and complexity of the IJV, particularly the degree of diversification. Less complex, focused IJVs, especially in emerging markets, are associated with stronger shareholder gains compared with more diversified and unrelated ventures.

IJVs are strategic partnerships that may allow firms to access new markets, technologies and complementary capabilities. From the perspective of financial markets, the announcements of such ventures may be interpreted as a signal of future growth prospects, enhanced operational efficiency or strengthened competitive positioning. This market signaling can lead to positive ARs if investors perceive the investment as value-enhancing.

We then classify IJVs as either focused or diversifying based on the industry relatedness between the parent company and the joint venture (JV), to examine whether alignment with the parent company's core business influences value creation. Specifically, if the primary four-digit SIC code of the IJV matches that of the US parent firm, the investment is categorized as a focused IJV; if the SIC codes differ, the IJV is classified as a diversifying IJV. Industry similarity facilitates both knowledge exploration and exploitation, particularly in IJVs, where it can generate economies of scale and scope (Merchant and Schendel, 2000). These synergies arise from lower production costs and enhanced learning opportunities, increasing with industry similarity (Porter, 1985). Additionally, economies of scale and scope can raise entry barriers, offering strategic advantages (Contractor and Lorange, 1988). Empirical evidence further suggests that related diversification enables firms to reduce resource redeployment costs (Sakhartov and Folta, 2014) and achieve operational synergies (Bryce and Winter, 2009). Lai *et al.* (2017) attribute the differential wealth effects of focused versus diversifying IJVs to managerial incentive mechanisms, while Jin and Wang (2021) find that cultural distance and control asymmetry between IJV partners negatively moderate the positive relationship between resource complementarity and JV performance.

From a synergy generation perspective, even unrelated IJVs can enhance value. Parent firms may contribute through strategic oversight, resource provision and managerial expertise, with activities aligned with the "parenting" advantage. This aligns with the resource-based view, which posits that related diversification outperforms focused strategies by maximizing firm-level resources (Wan *et al.*, 2011). Additionally, adopting a portfolio strategy, where dissimilar JV businesses complement the parent firm's operations, can improve overall performance by balancing risk, cash flow, and growth. This vertical relationship fosters financial synergies through more efficient capital allocation and investment decisions.

Drawing on these arguments, we propose the following two hypotheses: **H1a** tests whether IJV announcements, in general, generate positive shareholder wealth effects, whereas **H1b** further distinguishes between focused and diversifying IJVs to evaluate whether both forms contribute to shareholder value creation.

- H1a.* The announcement of IJV investments generates positive shareholder wealth effects.
- H1b.* Both focused and diversifying IJV announcements positively enhance shareholder value for the parent firm.

2.2 Partner business relatedness and shareholder value

Partner-to-partner business relatedness refers to the degree to which JV parent firms operate in similar industries. A moderate level of relatedness is often linked to superior performance due to shared resources and economies of scope, while highly related partners are more likely to possess similar tangible and intangible assets, enabling both cost- and revenue-based synergies (Ortiz and Miles, 2014). For related IJVs, a prominent example is the JV between Ford Motor Company and Changan Automobile in China. Both firms operate within the automotive industry, allowing them to share technological expertise, streamline production processes and leverage existing capabilities. This close industry relatedness facilitates knowledge sharing and economies of scale, enhancing value creation. In contrast, unrelated IJVs can be

exemplified by the partnership between General Electric (GE) and Haier in China. GE's strength in industrial appliances and energy infrastructure complements Haier's expertise in consumer electronics and local market access. Despite operating in distinct core industries, this collaboration leverages managerial oversight and strategic resource allocation to generate value, albeit with increased governance complexity and agency challenges, as discussed by [Lai et al. \(2017\)](#).

Empirical studies suggest that JVs between related firms often receive favorable market reactions ([Garcia-Casarejos et al., 2009](#)). However, such alliances may also involve risks, particularly around proprietary knowledge and competitive tensions, potentially leading to opportunistic behavior. As a result, some evidence shows stronger positive market reactions to JVs between unrelated partners ([Johnson and Houston, 2000](#); [Kumar, 2013](#)), who face fewer rivalry concerns. This mixed evidence suggests the existence of an optimal degree of relatedness that maximizes investor valuation. Consistent with this, [Ortiz and Miles \(2014\)](#), examining 214 JV announcements by US manufacturing firms in 2000–2003, document an inverted U-shaped relationship, whereby moderate relatedness generates the highest ARs.

Recent studies highlight complementarity as a central determinant of IJV outcomes. [Ali et al. \(2021\)](#) demonstrate that symmetric dependence and resource complementarity significantly enhance IJV performance, with relational mechanisms such as trust, communication and cultural adaptation exerting stronger effects than structural mechanisms. [Jin and Wang \(2021\)](#) show that unrelated yet complementary partners can create substantial value, with the extent of value capture shaped by cultural and control differences. Similarly, [Wang et al. \(2023\)](#) highlight that complementary assets coupled with cultural fit promote value creation, suggesting that both related and unrelated-but-complementary partnerships can yield superior IJV outcomes. Complementing these perspectives, [Li \(2023\)](#) provides event-study evidence that unrelated partners (in business or culture) can generate higher investor value, as long as complementarities exist and integration costs remain manageable. These findings align with the resource-based view, which posits that value creation increases with resource relatedness up to a threshold, beyond which complexity can outweigh benefits ([Wan et al., 2011](#)). Moreover, resource heterogeneity in IJVs with unrelated partners can generate unique and sustainable competitive advantages by granting access to diverse capabilities ([Johnson and Houston, 2000](#); [Morris et al., 2017](#)). Such diversity, especially across national boundaries, can enhance organizational creativity and strengthen JV value ([Beamish and Kachra, 2004](#)). On this basis, the second set of hypotheses is proposed as follows:

H2a. There is a difference in the (cumulative) ARs for focused IJVs formed with related versus unrelated partners:

$$AR_{f,r} \neq AR_{f,u} \text{ and } CAR_{f,r} \neq CAR_{f,u}$$

H2b. There is a difference in the (cumulative) ARs for diversifying IJVs formed with related versus unrelated partners:

$$AR_{d,r} \neq AR_{d,u} \text{ and } CAR_{d,r} \neq CAR_{d,u}$$

Where $AR_{f,r}$ and $AR_{f,u}$ denote ARs for focused IJVs formed with related and unrelated partners, respectively; $AR_{d,r}$ and $AR_{d,u}$ denote ARs for diversifying IJVs formed with related and unrelated partners, respectively; $CAR_{f,r}$ and $CAR_{f,u}$ denote cumulative ARs for focused IJVs formed with related and unrelated partners, respectively and $CAR_{d,r}$ and $CAR_{d,u}$ denote cumulative ARs for diversifying IJVs formed with related and unrelated partners, respectively.

3. Sample selection and description

This study examines a sample of US firms that announced IJV in foreign countries. To ensure methodological consistency with prior research and to avoid periods characterized by abnormal market conditions, such as the GFC and recent geopolitical and socioeconomic disruptions, the sample is restricted to the period between 1999 and 2008. This time frame captures relatively stable economic conditions and preserves the integrity of baseline market relationships. The data were obtained from the Thomson Financial SDC Platinum Joint Ventures database, which includes information on the four-digit Standard Industrial Classification (SIC) codes of both the IJVs and their partners. The sample comprises IJVs formed between publicly traded US firms, listed on the NYSE, AMEX or NASDAQ and foreign firms. Daily stock return data for the US firms were retrieved from the Center for Research in Security Prices (CRSP), and the CRSP equally weighted index is used as a proxy for market returns. The final sample consists of 1,042 IJV announcements.

Table A1, [1] presents the annual distribution of IJV announcements. The year 2000 recorded the highest number (19.79% of the total), followed by 1999 (18.54%). A notable decline occurred from 2000 to 2004, after which IJV activity gradually increased. Table A2, [1] reports the distribution of IJVs by host country [2]. Among the 77 destination countries, China received the largest share (22.48%), followed by Japan (9.22%), India (8.17%), the United Kingdom (7.78%), Australia (3.65%), Mexico (3.46%), South Korea (3.27%), Canada (3.17%), Brazil (3.07%) and Germany (3.07%). These top ten destinations accounted for 67.34% of all US IJVs, with the four Asian countries, i.e. China, Japan, India and South Korea, alone contributing more than 43% of the total.

The sectoral distribution of US IJVs spans a diverse range of industries, with the information retrieval services sector comprising the largest share at 9.86%, followed by prepackaged software (3.77%), motor vehicle parts and accessories (3.48%), security brokers, dealers and flotation companies (2.61%) and management consulting services (2.32%). Among US partners, the prepackaged software sector represents the largest group (6.18%), followed by motor vehicle parts and accessories (5.02%), information retrieval services (3.86%), security brokers, dealers and flotation companies (3.57%) and plastic materials and synthetic resins (2.7%). In contrast, the majority of foreign partners originate from the investors, followed by motor vehicles and passenger car bodies (3.79%), telephone communications excluding radiotelephone (3.69%), banking (3.01%) and information retrieval services (2.53%).

4. Methodology

We use a standard event study method to measure the stock price reactions of US partner firms surrounding the announcements of IJV. Following Brown and Warner (1985), Fama (1998) and Kothari and Warner (2007), we employ a market model to estimate ARs in our event study. The announcement date, as recorded in the SDC database, is designated as day 0. Trading days preceding the announcement are labeled as day -1, -2, and so on, while those following it are labeled as day +1, +2, etc. For each firm, the market model parameters are estimated using daily stock returns and CRSP equally weighted market returns over a 150-day estimation window, spanning from day -170 to day -21. These estimated coefficients are then used to calculate daily ARs during the event window (day -10 to day +10), defined as the difference between the actual return and an expected return generated by the market model. Our choice of event window aligns with the event study literature, balancing the need to effectively capture short-term market responses while minimizing the risk of confounding effects from unrelated events occurring over a longer period (Brown and Warner, 1985; Kothari and Warner, 2007; Umar *et al.*, 2022; Chen and Pottier, 2024). ARs are averaged across firms to obtain daily average ARs, and cumulative average abnormal returns (CARs) are then calculated by summing these daily average ARs over the specified intervals.

To assess the statistical significance of the ARs, we apply three complementary tests: (1) the Patell Z-test, a parametric test for standardized ARs; (2) the rank test as proposed by [Corrado \(1989\)](#), a nonparametric alternative that accounts for event-induced variance and (3) the generalized sign test, a nonparametric method that evaluates whether the proportion of positive ARs differs significantly from the benchmark proportion observed during the estimation window. These three tests are widely employed in event study research because they are complementary and capture distinct dimensions of AR behavior. In particular, the Patell Z-test provides efficiency under standard assumptions while controlling for heteroskedasticity, the rank test avoids distributional assumptions and complements parametric evidence and the generalized sign test focuses on the direction rather than the magnitude of ARs, thereby offering resilience to skewness and extreme values. Hence, this combination yields a rigorous and balanced evaluation, mitigating the limitations of any single approach and ensuring robustness and accuracy in the inference of market reactions [\[3\]](#).

5. Results

[Table 1](#) reports the ARs and the cumulative ARs of US partners for the whole sample of IJV announcements. As it can be seen in [Table 1](#), during the test period, the mean AR on the

Table 1. Abnormal returns of US partners for IJV announcements

Event day or window	AR or CAR (%)	Z statistic	Rank statistic	Percent positive of AR or CAR
-10	0.18	1.241	0.820	48.4
-9	0.01	1.176	0.060	47.9
-8	0.05	0.346	-0.830	49.0
-7	0.05	-1.667*	-1.650	45.4
-6	-0.07	-0.737	-0.640	48.4
-5	-0.14	-0.951	-0.920	47.3
-4	-0.03	0.030	-0.450	47.1
-3	-0.10	-0.640	-2.160**	45.0
-2	-0.17	-1.188	-1.580	45.6
-1	-0.09	-1.517	-1.640	45.7
0	1.06	7.545***	4.050***	53.1***
+1	-0.14	-0.373	-1.220	45.6
+2	-0.22	-0.750	-1.290	46.5
+3	0.04	0.082	0.060	47.9
+4	-0.28	-3.110***	-2.700***	42.9***
+5	-0.24	-0.950	-1.590	45.0
+6	0.10	1.091	0.060	48.2
+7	-0.24	-2.092**	-2.600**	44.9
+8	-0.07	-0.360	-0.840	44.8
+9	0.23	1.883*	0.920	48.9
+10	-0.08	0.743	-0.100	47.9
[-1, 0]	0.97	4.263***	1.708*	51.0**
[-1, +1]	0.82	3.265***	0.688	49.3
[-2, +2]	0.43	1.664*	-0.753	50.8**
[-2, +1]	0.65	2.234**	-0.196	49.3

Note(s): AR and CAR are generated using the market model. For each firm, market model coefficients are estimated using daily returns and CRSP equally weighted market returns over the 150-day ([-170, -21]) estimation period. AR and CAR are tested for a statistically significant difference from zero using the two-tail parametric Patell Z test. A nonparametric rank test ([Corrado, 1989](#)) is used for testing the significance of the AR rank. The nonparametric generalized sign test is used to test whether the fraction of positive returns is different from that in the estimation period. ***, ** and * denote statistical significance at the 1%, 5% and 10% level, respectively

Source(s): Table created by authors

announcement day 0 is 1.06% and statistically significant at the 1% level according to all parametric and nonparametric tests. The two-day CAR over the day $[-1, 0]$ [4] is equal to 0.97% and statistically significant at the 1% level. Similar results are found for event windows $[-1, +1]$, $[-2, +2]$ and $[-2, +1]$ [5]. The findings indicate that announcements of IJV investments by US firms are associated with significantly positive shareholder wealth effects. On average, the stock market responds favorably to such announcements, thereby providing empirical support for [Hypothesis 1a](#).

We now examine the differential shareholder wealth effects associated with focused versus diversifying IJVs. Following [Doukas and Lang \(2003\)](#), we categorize IJVs based on the similarity between the primary four-digit SIC code of the US partner and that of the JV. IJVs are classified as focused when the SIC codes match, indicating alignment with the firm's core business and as diversifying when the codes differ, reflecting expansion into non-core industries. Of the 1,042 IJV announcements in our sample, 325 (31.2%) were identified as focused IJVs and 717 (68.8%) as diversifying IJVs. This distribution suggests that US firms predominantly employ the IJV mode to pursue international diversification strategies beyond their primary lines of business.

In [Table A3, \[1\]](#) we report the AR and the CAR of US partner firms for both focused and diversifying IJVs. The results indicate that, on the announcement day (Day 0), the average AR is positive and statistically significant for both categories, amounting to 0.90% for focused IJVs and 1.13% for diversifying IJVs. For focused IJVs, the CARs over the event windows $[-1, 0]$, $[-1, +1]$, and $[-2, +1]$ are also positive but statistically insignificant, with mean CARs ranging from 0.73% to 1.22%. These results indicate that, on average, diversifying IJVs generate higher shareholder returns than focused IJVs. This finding contrasts with [Doukas and Lang \(2003\)](#), who report superior returns for focused investments and instead supports [Hypothesis 1b](#), which posits that both focused and diversifying IJVs enhance shareholder value, with diversifying IJVs being particularly effective. This is further corroborated by our sample composition, where approximately 70% of US IJV investments involve entry into non-core related business segments.

To further investigate the shareholder wealth effects of IJV investments, we refine our analysis by examining the role of partner business relatedness. Specifically, we disaggregate both focused and diversifying IJVs based on the degree of business relatedness between US and foreign partner firms. Business relatedness is determined by comparing the primary four-digit SIC codes of the two partner firms. Focused IJVs are thus classified into two subgroups: those with related partners (i.e. identical SIC codes) and those with unrelated partners (i.e. different SIC codes). The same classification is applied to diversifying IJVs. This results in four subsamples: 124 focused IJVs with related partners, 201 focused IJVs with unrelated partners, 81 diversifying IJVs with related partners and 636 diversifying IJVs with unrelated partners. The distribution of these subsamples reveals a clear tendency among US firms to engage in IJVs with foreign partners whose business activities are dissimilar, regardless of whether the IJV is focused or diversifying. This suggests a strategic inclination toward leveraging complementary capabilities or exploring new business domains through partnerships with unrelated entities.

We proceed by estimating the market model and presenting the results for focused IJVs in [Table A4, \[1\]](#) and for diversifying IJVs in [Table A5, \[1\]](#). As shown in [Table A4, \[1\]](#), focused IJVs with related partners exhibit positive ARs and CARs on the announcement day that are comparable to those involving unrelated partners. This suggests that the stock market responds positively to focused IJVs regardless of the partner's business relatedness, particularly when the initiating firms may have been underperforming prior to the announcement. These findings imply that, in the context of international expansion within their core business areas, the business relatedness of foreign partners exerts minimal influence on the shareholder value of US parent firms. In contrast, [Table A5, \[1\]](#) reveals that diversifying IJVs with unrelated partners generate, on average, greater value for US parent firms than those with related partners. On the announcement day (day 0), diversifying IJVs with unrelated partners yield

higher ARs and the CAR over the window $[-1, 0]$ is also greater, 1.26% compared to 0.92% for those with related partners. These results indicate that unrelated partners in diversifying IJVs tend to enhance shareholder value more effectively. The results provide support for [Hypotheses 2a and 2b](#), and are broadly consistent with the findings of [Morris et al. \(2017\)](#).

Finally, to further investigate the sensitivity of shareholder wealth to the strategic alignment of core business activities in IJV, we reclassify the subsample of diversifying IJVs with unrelated partners. Specifically, we distinguish between two types: (1) unilaterally diversifying IJVs, where the IJV shares the same primary four-digit SIC code as the foreign partner but differs from that of the US partner; and (2) bilaterally diversifying IJVs, where the IJV operates in a business segment distinct from both the US and foreign partners. This classification results in a subsample comprising 162 unilaterally diversifying IJVs and 474 bilaterally diversifying IJVs from a total of 636 diversifying IJVs involving unrelated partners.

[Table A6, \[1\]](#) reports the ARs for both unilaterally and bilaterally diversifying IJVs with unrelated partners. The results show that the average AR on the announcement day (day 0) for bilaterally diversifying IJVs is positive and statistically significant at the 1% level across all tests. In contrast, the AR for unilaterally diversifying IJVs was negative and statistically insignificant. The CARs over the $[-1, 0]$ window reveal a similar pattern. These findings suggest that the greatest value is created for US shareholders when the US firm, foreign partner and IJV each operate in distinct core business areas. This evidence lends support to [Hypotheses 2a and 2b](#) and underscores the strategic value of heterogeneous resource integration in IJV. The enhanced wealth effects in bilaterally diversifying IJVs likely stem from greater synergetic potential through the combination of complementary, non-redundant capabilities. Such diversity may foster greater innovation, adaptability and value creation, consistent with the predictions of the resource-based theory.

Furthermore, these results reflect US firms' strategic adaptation to the broader forces of increasing globalization and regional integration, particularly in East Asia, which have created both opportunities and institutional complexities ([De Grauwe and Zhang, 2016](#); [Qi et al., 2018](#)). China and India, which together host over 30% of the US IJVs in our sample, are two of the fastest-growing economies in the world but also pose significant cultural, institutional and regulatory challenges for foreign entrants. In such environments, IJVs serve as an effective entry mode, enabling US firms to pursue international diversification while mitigating risks and capitalizing on local expertise, institutional familiarity and complementary partner resources.

6. Conclusions

This study is among the first to systematically investigate the effects of industrial diversification and partner business relatedness on the shareholder value of US firms engaged in IJV investments. The empirical evidence demonstrates that, on average, US firms experience significantly positive ARs upon IJV announcements, suggesting that IJVs are a value-enhancing mode of international expansion. Contrary to the traditional view in the corporate finance literature that diversification tends to erode firm value, called "diversification discount", this study finds that diversifying IJVs can generate greater shareholder gains than focused IJVs. These findings suggest that, when executed through collaboratively cross-border ventures, international diversification can enhance firm value, particularly by leveraging complementary resources, mitigating market entry risks and facilitating access to new capabilities and knowledge. Overall, the evidence underscores the strategic efficacy of IJVs in supporting global growth and value creation for multinational enterprises. Moreover, partner business relatedness is found to play a critical role in shaping the wealth effects of IJVs. Both focused and diversifying IJVs show stronger value creation when partner firms are engaged in related business activities. However, the greatest shareholder value is realized when all three entities, i.e. the US partner, the foreign partner and the JV itself, operate in distinct core businesses. This triadic diversification appears to facilitate

the pooling of heterogeneous resources and capabilities, thereby maximizing synergy potential and highlighting the critical importance of resource complementarity in cross-border strategic alliances.

The findings of this study carry several important implications for firms and policymakers, even within the current context of rising protectionism, anti-trade sentiment and increasing scrutiny of cross-border FDI. First, the evidence suggests that IJVs represent a value-enhancing mechanism for international expansion, offering a strategically superior alternative to greenfield investments or cross-border acquisitions, which are often associated with diversification discounts. For firms seeking international diversification, particularly into markets characterized by high institutional and cultural distance or policy uncertainty, IJVs provide a more resilient entry mode. By pooling complementary resources, sharing market entry risks and facilitating capability transfer, IJVs can mitigate the challenges and constraints imposed by restrictive trade environments while still generating shareholder value.

Second, this study highlights the critical role of partner selection in shaping the wealth effects of IJVs. While both focused and diversifying IJVs generate greater value when partners operate in related industries, the greatest shareholder gains arise when US firms, foreign partners and the JV itself operate in distinct core businesses. This triadic diversification allows firms to pool heterogeneous resources, maximize synergies and enhance innovation potential. This underscores the need for firms to strategically align partner relatedness, resource complementarities and governance structures, especially under conditions of heightened policy uncertainty, where the formation of resilient and adaptable alliances is essential for sustaining competitive advantage and long-term value creation.

Finally, the results have important implications for policymakers. Even as global protectionist pressures intensify, governments can sustain productive FDI inflows by fostering collaborative ventures rather than purely ownership-based modes of entry. Institutional frameworks and policy measures that reduce entry barriers, safeguard intellectual property and promote transparent JV governance can encourage foreign firms to invest, while ensuring that domestic stakeholders benefit from technology transfer, knowledge spillovers and job creation. This approach is especially salient in emerging economies such as China and India, where local knowledge and complementary resources are indispensable for successful market entry. At the same time, as recent evidence suggests (Wild *et al.*, 2023), investors will continue to demand risk premia in politically uncertain environments, reinforcing the importance of stable and transparent regulatory regimes.

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Notes

1. Please see it on the [Online Appendix](#).
2. We also analyzed the distribution of US partners, foreign partners, and IJVs by four-digit SIC codes. Due to space constraints, detailed data are not presented here but are available upon request.
3. The rationale for employing this set of tests is grounded in the principle of triangulating evidence. The Patell Z-test offers efficiency under standard parametric assumptions, whereas the rank and generalized sign tests provide robustness when such assumptions are relaxed. Collectively, these tests ensure that observed announcement effects are not artifacts of model specification, distributional assumptions or sample-specific outliers. Although alternative approaches, such as bootstrap procedures or variance-ratio tests, are available, the selected tests are methodologically rigorous

and widely applied in the finance literature (Brown and Warner, 1985; Dutta, 2014). Their joint application enhances both the robustness and credibility of the analysis and facilitates comparability with prior event study research. We are grateful to the referee for highlighting this point.

4. This procedure considers the situation that the announcement is made during trading hours over the previous day and reported with a one-day lag.
5. We used an event window of $[-10, +10]$ to capture the market reaction to the event announcement and observed that ARs become largely negative beyond day -2 and day $+2$. This finding aligns with the event study literature, which suggests that shorter event windows are more effective in capturing immediate market responses as well as potential delays in information dissemination and investor processing (Brown and Warner, 1985; Kothari and Warner, 2007; Umar *et al.*, 2022; Chen and Pottier, 2024). In contrast, wider windows risk being influenced by confounding effects from unrelated events occurring over a longer period. Therefore, we focus our analysis on cumulative abnormal returns (CARs) within event windows up to $[-2, +2]$ to ensure greater accuracy and reliability in estimating the wealth effects.

Supplementary material

The supplementary material for this article can be found online.

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