Journal of Banking & Finance 37 (2013) 1386–1396

Contents lists available at SciVerse ScienceDirect

Journal of Banking & Finance

journal homepage: www.elsevier.com/locate/jbf

Value creation in banking through strategic alliances and joint ventures

Alessandra Amici [a], Franco Fiordelisi [b], Francesco Masala [a], Ornella Ricci [b,*], Federica Sist [c]

[a] Associazione Bancaria Italiana, Via delle Botteghe Oscure 46, 00186 Rome, Italy
[b] Faculty of Economics, University of Rome III, Via Silvio d'Amico 77, 00145 Rome, Italy
[c] Lumsa University, Via Pompeo Magno 22, 00192 Rome, Italy

ARTICLE INFO

Article history:
Available online 20 April 2012

JEL classification:
G14
G21
L24

Keywords:
Strategic alliances
Joint ventures
Banking
Event study

ABSTRACT

A large number of studies (DeYoung et al., 2009) analyze merger outcomes in the financial industry, while other forms of business cooperation are still poorly investigated. Our paper examines results of strategic alliances and joint ventures in European and US banking over the period 1999–2009. First, we estimate abnormal returns around the deal announcement date and then these are regressed on a large set of explanatory variables. We show that joint ventures create shareholder value when involving non-banking financial partners and allowing banks to expand abroad, while international strategic alliances tend to destroy shareholder value.

© 2012 Elsevier B.V. All rights reserved.

1. Introduction

Most industries have experienced a worldwide trend towards greater integration and consolidation during the last 20 years. Looking at the volume of mergers and acquisition (M&A) transactions, this has boosted over the last few years: according to Thomson Financial (2007), the volume of worldwide M&As during 2007 reached US$4.5 trillion in announced deals and US$3.8 trillion in completed deals, i.e. a 24% increase over the previous record set in 2006. From 2000, the volume of M&A deals has increased by 32%, despite the fall off during the third quarter of 2007 caused by concerns in the credit markets. The M&As phenomenon concerns all countries worldwide (Table 1): in 2007, M&A deals increased by 25% in North America (reaching a volume of almost US$2.0 trillion over 2007, i.e. 52% of M&A deals value worldwide), by 18% in Europe (reaching a volume of almost US$1.3 trillion over 2007, i.e. 34% of M&A deals value worldwide) and they also increased strongly in the Asian-Pacific area by 61% (reaching a volume of almost US$0.4 trillion over 2007, i.e. 10% of M&A deals value worldwide). Regarding the types of deal, M&A cross-border activity accounted for 47% of worldwide activity in 2007 as global consolidation continued to drive activity in various sectors. Given the importance of the consolidation phenomenon, it is not surprising that there is an extensive literature: most papers dealing with consolidation and integration have focused on M&As (Campa and Hernando, 2004; Martynova and Renneboog, 2008), but there is also a substantial literature assessing results of other forms of cooperation for non-financial companies, such as strategic alliances and joint ventures (Koh and Venkatraman, 1991; Merchant and Schendel, 2000; Meschi and Cheng, 2002; Gulati et al., 2009).

The consolidation and integration phenomena have been particularly intense in the financial industry. In 2007, M&A transactions among financial institutions worldwide were more than 7000 for an overall value of more than US$700 billion (see Thomson Financial, 2007, p. 2) making this industry one of the most important sectors for M&A deals. As such, it is not surprising that there is a specific literature focusing on consolidation and integration in the financial industry (Fiordelisi, 2009): most papers have dealt with M&As focusing on insurance (Cummins and Weiss, 2004) and, especially, on banking (for a comprehensive review of these studies, see DeYoung et al., 2009). However, it is surprising that there is only a handful of studies providing empirical evidence of the outcomes of strategic alliances and joint ventures focusing on the US (Gleason et al., 2003, 2006; Marciukaityte et al., 2009) and Japanese financial firms (Chiou and White, 2005). As far as we are aware, there are no studies assessing the results of strategic alliances and joint ventures in European banking. This lack of

* Corresponding author. Tel.: +39 06 5733 5708; fax: +39 06 5733 5797.
E-mail addresses: a.amici@abi.it (A. Amici), fiordeli@uniroma3.it (F. Fiordelisi), f.masala@abi.it (F. Masala), oricci@uniroma3.it (O. Ricci), federica.sist@gmail.com (F. Sist).

0378-4266/$ - see front matter © 2012 Elsevier B.V. All rights reserved.
http://dx.doi.org/10.1016/j.jbankfin.2012.03.028

Table 1
Worldwide completed merger and acquisition deals in 2007. This table reports the number and value of mergers and acquisitions completed worldwide in 2007. *Source:* Thomson Financial (2007, p. 3).

Region	Rank value (in USD billion)	No of deals	Change in rank value (in %)
America	1979.3	11,567	27.1
North America	1862.1	10,575	24.7
Central America	49.7	181	404.7
South America	58.1	707	41.3
Caribbean	9.3	104	−26.3
Africa/Middle East	39.9	443	−27.6
Asia–Pacific	378.4	5504	61.1
Europe	1298.7	9915	18.2
– Eastern Europe	112.4	1212	21.1
– Western Europe	1186.3	10,575	18.0
Worldwide	3784.1	28,729	23.9

studies in banking is surprising since European banks expanding abroad, especially in Eastern Europe, have often used these forms of cooperation.

Do strategic alliances create shareholder value? Do joint ventures create shareholder value? What determines value creation in strategic alliances and joint ventures? The purpose of this paper is to empirically address these questions for banks.

Our main finding is that investors do not have a strong preference between strategic alliances and joint ventures, but Abnormal Returns (ARs) are led by different value drivers. Specifically, joint ventures create shareholder value when involving non-banking financial partners and allowing banks to expand abroad, while strategic alliances appear to marginally affect shareholder wealth and tend to destroy value when partners come from different countries. Our results are obtained by analyzing 208 alliances (either strategic alliances or joint ventures) signed between January 1999 and December 2009 and involving at least one European or US listed bank. This results in a sample of 219 observations relative to the market reaction of participant banks (i.e. some alliances involve more than one listed European or US banking institution). First, we estimate shareholder value creation through an event study that estimates ARs for banks involved in the alliance around its announcement date. In a second step, the Cumulated Abnormal Return (CAR) is assumed as the dependent variable of a multivariate regression analysis considering as covariates a large set of possible determinants of shareholder value created: specifically, we consider characteristics of the alliance, the origin and the destination country, and various control variables at the bank and macroeconomic levels.

Our paper contributes to the existing literature in various ways. First, our paper is the first to analyze the outcome of strategic alliances and joint ventures in European banking, as far as we are aware. Second, we provide empirical evidence of the determinants of value creation through strategic alliances and joint ventures with a multivariate analysis, while most of (the few) previous papers propose only a univariate analysis of ARs (Gleason et al., 2003, 2006; Marciukaityte et al., 2009). Third, we provide empirical evidence about the shareholder value created by diversifying into both financial and non-financial sectors: specifically, our dataset enables us to distinguish the case of alliances with non-banking financial firms from that of non-financial partners. Finally, we analyze a very updated sample of alliances (from 1999 to 2009), while the most recent paper (Marciukaityte et al., 2009) considers alliances signed up to the year 2003.

The remainder of the paper is organized as follows: Section 2 provides a review of the existing literature; Section 3 defines our testable hypotheses; Section 4 describes the adopted methodology, sample selection criteria and the definition of all variables included in our regression model. Section 5 discusses results and some robustness checks while Section 6 concludes, outlining main study limitations and directions for future research.

2. Literature review

Gulati (1998) defines strategic alliances as voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services. These cooperative strategies enable firms to work together without relinquishing control of their own operations and activities (BIS, 2001) and acquiring lacking resources or capabilities from the marketplace (Chan et al., 1997). Alliances can result from a large variety of motives and goals, ranging from simple contractual agreements to more formal arrangements involving equity ties. As outlined by BIS (2001), joint ventures may be considered a type of strategic alliance, resulting in the creation of a separate legal entity.

Following Gleason et al. (2003), we focus on cooperative activities in this paper by distinguishing strategic alliances and joint ventures. Strategic alliances are defined as cooperation activities between two or more independent firms involving allocation of ownership, operational responsibilities, financial risks and rewards (Marciukaityte et al., 2009). This definition includes both equity and non-equity arrangements between partners that remain absolutely independent from each other (i.e. contractual agreements and minority stakes). Joint ventures, occurring when partners jointly control a new business entity specifically devoted to the common business, are considered separately.

The existing literature dealing with strategic alliances and joint ventures essentially focuses on non-financial industries (Merchant and Schendel, 2000; Zollo et al., 2002; Moeller et al., 2004; Sampson, 2005; Goerzen, 2007; Chang et al., 2008; Gulati et al., 2009). Surprisingly, there are only a handful papers providing empirical evidence of this phenomenon in the financial service industry. The small number of papers focusing on the financial industry is probably due to a lack of publicly available information regarding cooperation agreements (different from M&As).

As far as we are aware, there are four papers (Gleason et al., 2003; Chiou and White, 2005; Marciukaityte et al., 2009) analyzing strategic alliances in the financial industry focusing on the US and Japan. These papers use an *event study* methodology to analyze whether the stock returns of financial firms involved in strategic alliances and joint ventures display ARs around the announcement date (t). The only study performing a multivariate regression analysis is Chiou and White (2005), focusing on the Japanese market and excluding alliances involving both financial and non-financial firms. These papers show that ARs are usually positive and statistically significant after the strategic alliances and joint ventures: specifically, the strategic alliance announcement increases the value of firms (Marciukaityte et al., 2009); international and horizontal deals outperform, respectively, domestic and cross-products deals (Gleason et al., 2003); ARs are higher for joint ventures than for M&As and for complementary expansion deals with respect to scale expansion ones (Gleason et al., 2006). To our knowledge, there are no studies focusing on Europe: this lack of literature is surprising since European banks are largely diversified and internationalized, especially after the deregulation process and the creation of a single European market in the 1990s.

Our paper is the first focusing on European banking and using a very updated dataset: our sample is composed of 208 deals (either strategic alliances or joint ventures) signed by European and US banks between 1999 and 2009. Previous papers analyzed US banking over the 1990s: specifically, Gleason et al. (2003) analyze 638 agreements (385 joint ventures and 253 strategic alliances)

Download English Version:

https://daneshyari.com/en/article/5089440

Download Persian Version:

https://daneshyari.com/article/5089440

Daneshyari.com