

## **THEORETICAL ASPECTS OF JOINT BUSINESS**

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An examination of the international business literature identifies several major theoretical paradigms that have been employed to explain the organization, operation, and outcomes of joint ventures.

1) The principal theoretical approach to explaining JV formation and development is based on transaction cost economics (TCE) (Hennart 1988). Proponents of TCE argue that alliances occur because the sum of production and transaction costs associated with joint ownership is lower than that for sole ownership or market transactions. As regards different forms of foreign market entry, an JV may be preferable to the former because of the difficulties and costs involved in managing overseas employees, and the local partner can contribute valuable market knowledge.

2) A second theoretical approach from the organizational economics tradition is agency theory, which attributes a divergence of interests between shareholders (principals) and managers (agents) to the separation of ownership and control in modern businesses. From this perspective, management team may be regarded as the agent of the parent companies and, hence, the venture's business structure would reflect the parents' efforts to minimize risks they associate with agenda. The foreign partner, in particular, is likely to discern potential difficulties in assessing the abilities and actions of the joint venture executive committee due to physical and cultural distance.

3) Another popular approach has its roots in the resource-based view of the firm, which suggests that valuable firm resources—comprising tangible and intangible elements—are usually scarce, imperfectly imitable, and lacking in direct substitutes (Barney 1991). From this viewpoint, joint ventures are formed to create bundles of strategic and social resources not otherwise available to either partner, which in turn can generate competitive advantage and improve performance. It is about producing the most value from one's existing capabilities and resources by combining these with others' sources of advantage and, in this, ensuring complementarity is paramount.

4) The quest for organizational learning or knowledge is another theoretical explanation for firms cooperating and continuing to engage in partnerships. A growing body of research suggests that venturing firms may enhance their competitive positions through acquiring new skills and capabilities from partner firms (Shenkar/Li 1999). Based on this school of thought, international joint ventures are a repository of valuable information and provide a platform for acquiring a partner's tacit experiential knowledge or even obtaining new knowledge developed by the IJV itself (Berdrow/Beamish 1999).