



## Mega Project Joint Ventures

### Key Points

- Joint venture (JV) success in many ways rests on how strong the foundations for success have been made.
- Establish the “Rules of the Road” on communication and direction early.
- The JV must frequently engage the owner above the project team level and develop broader, deeper relationships between the owner and JV team.
- Proposal stage performance is a leading indicator of JV performance.
- All too often JV agreements duck some of the hardest issues or gloss over the deeper challenges.
- Effective startup of a mega project JV builds on the strong foundations laid during the proposal stage and memorialized in the JV agreement.
- JV boards have a significant role to play in JV success.

### Introduction

The persistent growth in engineering and construction project scale and complexity, combined with a continuing shift to alternative delivery models such as design-build and public/private partnerships, has made the use of joint ventures commonplace. Despite this broader utilization, too many joint ventures struggle to operate efficiently and miss the opportunity to capitalize on the full strengths of each of the partners.

This Executive Insight looks at some of the key areas for joint venture success.

### Successful Governance and Organizational Models

Joint venture (JV) success in many ways rests on the strength and completeness of the foundations for success. A key foundational element begins with the client’s understanding and experience with JVs. In simple terms, will the client look through to each of the partners, bypassing the JV structure, roles, and responsibilities? Or will they treat the JV as the entity which they have contracted with? The track record here is spotty and the divide and conquer approach often results in no winners, only losers. It is important for the joint venture to establish the “rules of the road” on communication and direction early and even more important for all the partners to reinforce this.

The JV interaction with the client must be outcomes-focused and continuously drive to decisions, regardless of how hard the decisions may be. There must be a focus on deep alignment between the owner and the JV, including recognition of cultural issues, including corporate cultures.

The JV must engage the owner, frequently, above the project team level and develop broader, deeper relationships between the owner and JV team. The focus should be on issue resolution, problem solving, and process improvement. The JV must drive resolution of contractual commercial issues, and not let such issues fester.

Lessons learned in building a strong foundation for JV and project success include:

- Executive management of JV and client must engage frequently with project team and each other and ensure alignment on strategic business objectives (SBOs) and core values.
- SBOs must be clearly communicated at all levels of both client and JV organizations.
- Partnering and alignment must have early, planned, ongoing, and significant activities by both the client and JV at all levels.
- Alignment must include project outcomes, outputs, processes, employment, and other policies and issues important to other stakeholders.
- Over communicate—it is never enough.
- Deal with the hard stuff—now.
- Work at relationships—open, honest, and respectful.
- The JV must work as a unified team and engage all JV members in dealing with the client. Roles must be clearly understood and agreed to.
- The JV must understand the client’s organization, decision making and approval processes, and designated decision makers.
- The contract must provide clarity on objectives; required processes or process constraints; acceptance criteria, including phased acceptance and any associated incentives; metrics; and issue and dispute resolution mechanisms. Importantly, the owner’s obligations including timely decision making must be spelled out.
- Ensure the client and the JV each understand the other’s commitments (inside, outside, and between them) and will provide the talent and resources to meet those commitments.
- Ensure leadership and competence are respected.
- Flexibility should be a contract feature.

A well-founded JV can be characterized by the following behaviors and attributes:

- Ensure effective and efficient JV operations.
- Ensure alignment of JV partners is underpinned by supporting JV agreement.
- Any perceived personnel weaknesses on the JV team should be addressed as early as possible.

- Proposal stage performance is a leading indicator of problems.
- Positive attributes include:
  - Strong leadership.
  - Full engagement of all JV partners.
  - Integration and leveraging of the best available talent to create a competitive advantage.
  - Integrated team activities serving as a springboard for more formal partnering at the project execution stage.
  - Extensive formal and informal communication to quickly address and resolve issues.
- Negative indicators include:
  - Weak or unclear leadership.
  - Weak relationships among JV members.
  - Limited engagement of members of the JV partner staffs (few members; inadequate level of interaction; failure to use best choice of personnel available; constantly changing staff).
  - Poorly defined process or management of activities.
  - Major philosophical differences.
  - Difficulties due to national or corporate culture differences.
- Principal cultural indicators include:
  - Unsophisticated
  - Not a team player
  - Different risk culture
  - Different contracting philosophy
  - No commitment to safety
  - Weak decision making

Leadership, as in any management endeavor, is essential. This is the critical role of the JV project manager (PM). The PM's prior JV experience, either in a principle or key deputy role, is also essential. The JV PM must be viewed by the client and all partners as singularly focused on the JV's success. The PM must have the capacity to not only manage client and project team relationships, but also those associated with the JV itself.

### **Success Starts at the Proposal Stage**

Successful joint ventures begin at the proposal stage. Particularly for mega project JVs, this is when true team building must begin. The pattern of JV behaviors and culture is developing and forming at this stage.

A number of recommended steps to assure JV success on mega projects follows:

- Detailed planning of the JV structure, charter, and operation
- Early determination of the best resource, based on skills and availability

- Commitment and engagement of key JV players at the proposal stage
- Alignment of success factors for all JV partners
- Clarify the process for selection and assignment of key staff.
- Clear and agreed to client engagement strategy
- Ensure necessary level and quantity of experienced personnel agreed to by all partners and a commitment to provide them in place.
- Agree that submission of the proposal is conditioned on the effectiveness as a team in proposal preparation.
- Build respect for each partner's strengths (the managing partner's role is to draw this out).
- Identify project and JV challenges and address these at the proposal preparation stage.
- Agree on human resource (HR) policies and procedures, work hours, and other personnel policies that may impact the project.
- Clearly define JV partner roles and responsibilities.
- Greater development of relationships at all levels of the JV partnership.
- Early fast-tracked alignment using external facilitation at the proposal stage
- Ensure alignment on financial expectations.
- Define the process for workload balancing between JV partners, including provision of necessary flexibility to maximize project performance.
- Establish integrated engineering, construction, and estimating team in one location at the outset of the proposal effort.
- Ensure assigned personnel are accepted by all JV partners.
- Complete and agree upon the initial version of the project execution plan and project procedures manual.
- Agree on approval authority and process, including requisite partner corporate approvals.
- Document proposal stage agreements to avoid later disputes.
- Agree on risk register, contingency, and process to manage contingency.
- Conduct a partner audit to understand strengths and weaknesses.
- Clearly agree on managing partner and their JV leadership role.
- Project director (and preferably other key staff) should begin JV leadership at the proposal stage.
- JV corporate executives should engage and support partnering.
- Conduct alignment sessions across all project elements, including functional and support organizations and in the respective home offices supporting the project.
- Ensure that a shared understanding exists of local regulations, protocols, market conditions, culture, and customs.
- Ensure there is a common understanding of what the client is saying.

- Clarify and agree to any areas of technical or functional leadership that will be the sole responsibility of one partner and ensure alignment with their corporate strengths.
- Align core values.
- Over invest in face-to-face communications.
- Agree on safety goals and the safety management program.

## **Recommended Clauses that Should Appear in the JV Agreement**

Joint venture agreements have come a long way over the years. All too often, however, JV agreements duck some of the hardest issues or gloss over the deeper challenges that all suspect will arise. Even worse are patterns of repetitive teaming between partners where these key issues are left to fester from project to project as if they will somehow miraculously resolve themselves.

Key issues that must be addressed and strengthened in mega project JV agreements include JV governance; management of the JV; risk; human resources; and certain financial aspects of the JV operation. Each of these is considered in turn below. The list is likely not exhaustive.

### *Governance*

- Exclusivity of the agreement as it relates to all business opportunities within the JV work scope by any of the JV partner's sister companies
- Agree on JV governance structure at teaming agreement stage
- Items that require unanimous consent
- Have an initial set of charters and policies that can be referenced even at the teaming agreement stage.
- Provisions and a process for adjustment to the JV agreement if a significant change in actual work scope develops.
- Address potential scope extensions and how they will be handled within the framework of the JV agreement.
- Condition proposal submission on efficiency and effectiveness of the proposal preparation process (demonstrated alignment and teamwork).

### *Management*

- Clear definition of Managing Partner responsibilities
- Approvals and financial commitments matrix

### *Risk*

- Mutually understand the risks to be assumed by the JV and each of its members. Ensure that the magnitude of potential shared risk is understood by all partners (understand consortium or joint and several maximum risk levels).

#### *Human Resources*

- Common policy on JV staff bonuses to ensure no project level distortions are created.
- Partner responsibilities for replacement of personnel they subsequently reassign.
- Personnel selection and hiring process

#### *Financial*

- JV billing agreement
- Management partner services included in the management fee
- Protocol for contingency and profit management
- Protocol for cash distribution

## **JV Startup**

Effective startup of a mega project JV should ideally build on the strong foundations laid during the proposal stage and memorialized in the JV agreement.

- Be careful of ambitions of key individuals (personality clashes at the leadership level).
- Be cognizant of competing priorities of partners (conflicting business strategies).
- Provide clear leadership.
- Reinforce teamwork.
- Build a long-term plan and keep it current.
- Develop a plan to sustain parent company identity for assigned staff.
- Ensure parent company care of the JV is present.
- Utilize project procedure manual development and roll out to align project staff and draw out best practices from the respective partners.
- Emphasize alignment activities in safety and procurement areas where significant differences between JV partners frequently occur.
- Ensure continuation of communicating staff costs, including benefit costs that were established at the teaming agreement stage. Mismatches in salary and benefits can create friction and distortions in staffing unless directly addressed early on.
- Ensure success means the same thing to the entire team and that it has been communicated consistently.
- Address cultural issues (both national and corporate).
- Ensure all are speaking to the client with one voice or a divide and conquer strategy could surface.

- Develop a staffing plan, including contingency approaches, and assign responsibilities (recognize risks inherent in a JV).
- Create mechanisms to ensure all JV partners feel equally engaged.
- Ensure comprehensive alignment and recognize the added challenges a JV creates.
- Surface any latent partner issues or potential partner related concerns and address these directly.
- Be careful not to underestimate the startup resources required.
- Avoid overcommitting.
- Ensure the project team has a common understanding of the client and the client's personnel and practices as well as the prior experiences of the various JV members.
- Test partner commitment early in startup.
- Continuously test personnel selections.
- Use outside facilitators as part of startup partnering program.
- Create an open communication and continuous learning environment to break down any barriers between partners.
- Understand the financial processes and practices of each JV partner.
- Finalize the management system selection early if it is not defined in the teaming agreement.
- Recognize the importance of the startup of the safety program.
- Address functional systems that typically create challenges: contracts and procurement procedures; IT infrastructure; and document control systems.
- Focus on trust and relationship-building activities.
- Ensure clear alignment on project objectives.
- Recognize that the biggest communication mistake is the perception that it exists

## **JV Board**

JV governance efforts typically involve some form of a JV board to address issues that cannot be resolved at the project level or are above the delegated approval authorities. Advice on how to make effective use of the JV board has been synthesized and is presented below.

### *Client*

- Interface with counterpart level in owner's organization.
- Build and nurture client relationships (be active and engaged).
- Help build a case with client for performance incentives.
- Emphasize client executive relationships.
- Act as a sounding board for the client.
- Ensure the client is meeting their obligations under the contract.
- Manage client expectations.
- Ensure executive alignment with the client.
- Establish and oversee the client management strategy.

### *Governance*

- Ensure guidance, expertise, governance, and effective decision making.
- Support the leadership role of the managing partner.
- Validate the project vision, strategy, and plan and ensure continued validity.
- Obtain approval of any changes to the agreed-to project baseline.
- Establish oversight of project activities.
- Establish a method for conflict resolution.
- Provide reach back for corporate resources from the respective JV partners.
- Set and enforce agreed-to policies.
- Establish team performance metrics.
- Ensure continued alignment of JV partners.
- Evaluate assumed risks and their management.
- Avoid external, owner, and JV-level “politics.”
- Hold the project team accountable.
- Drive top-level partner decisions.
- Ensure effective client communications are in place.
- Ensure approvals above the project level, including obtaining any JV partner corporate approvals.
- Drive team integration and foster trust among staff from the various JV partners.
- Provide a structured framework for periodic, scheduled, and comprehensive review of the project to reinforce project management and discipline.
- Resolve issues that escalate to the JV board level.

### *Management*

- Ensure client’s desired outcomes and strategic business objectives are reflected in the project plan.
- Support alignment of the client and the project team.
- Establish a sounding board and approval body for extra work.
- Challenge the project team to improve performance levels on both an incremental and breakthrough basis.
- Establish development goals for the project team.
- Demonstrate commitment to and the importance of safety.

### *Human Resources*

- Evaluate the selection of key project staff.
- Identify key resources and succession planning.

## **Summary**

Joint ventures present new opportunities to meet the challenges of scale and complexity associated with a growing number of large complex projects. They also create new challenges to



be successful. These challenges encompass governance and organizational models and require robust agreements that address the special requirements such projects entail.

Efficient startup of the JV and strong JV board engagement contribute to successful risk management of these mega projects. More broadly, successful risk management starts with the JV itself and the factors which provide the greatest positive and negative impacts on JV performance. These include:

- Communication, led by the JV project manager.
- Leadership.
- Trust and respect at the JV partner level (versus mistrust and competition).
- Early and comprehensive alignment around policies, processes, execution philosophy, and approach
- Full use of the strengths of each partner.

JV-specific execution risks revolve around the adequacy of:

- Governance of the JV (an added management dimension), including timely decision making.
- Managing partner leadership and capabilities.
- A performance-based partnership that is integrated and engaged.
- A shared-risk understanding of all project risks.

### **About the Author**

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