

# Four steps to joint venture success

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Kelvin Hingley is Chairman of KPMG-HPR, KPMG in the UK's specialist project delivery consultancy. The group has more than 35 years of experience on many of the world's largest and most complex projects. Here Kelvin speaks of the actions needed to enable joint venture success.

Several years ago, a group of power utility executives asked me to unpick a particularly knotty problem. They had awarded the contract to build a new power station to a joint venture (JV) of local and global companies, but after a solid start things soon went awry.

Their problems began when the company building the foundations accused the firm supplying the turbines of failing to give them the information they needed. Then, the equipment suppliers accused the utility company of giving vague specifications and not answering their questions. The equipment suppliers said it was the joint venture's responsibility to sort this out under the terms of the JV agreement. But the JV partners were too busy trying to adjudicate whether the turbine suppliers or the builders were to blame in their initial dispute.

Net result? Confusion, significant delays, spiralling disputes and, most worryingly, a risk the company might fail to supply the national grid with the power they had promised.

The executives were struggling to understand what had gone wrong. They had done their due diligence, ran a rigorous tender process and put in place a consortium with illustrious names and outstanding track records.

## Trouble brewing

What had happened? Delving under the JV's glossy veneer, we found an entity whose only experience was that of its individual members: the companies had never worked together before. And critically, the JV's nominated leaders had never been involved in a project of this size, complexity or structure either. As one executive said to me, "We followed all the in-house rules and hired the best consultants. What we didn't appreciate was how different risks – which we could solve individually – could quickly combine to breed chaos and conflict."

Whether you are talking about new highways and airports or decommissioning oil rigs and power stations, I see project sponsors and joint venture partners committing the same flaws time and again: they focus solely on capacity and technical ability rather than the nuts and bolts of the joint venture. If the internal agreement between joint venture partners is not compatible with their commitment to – and the contract with – the customer, trouble soon follows.

It feels like this problem is even worse today than when I started troubleshooting twenty years ago – perhaps not surprising given the complexity of many modern projects and the need for companies to form JVs to spread their financial, and other, risks.

Nor is it an issue confined to infrastructure. Across the economy, more and more organisations are forming alliances with companies from completely different sectors in an effort to meet customers' rising demands and the increasingly complex nature of projects.

## Four lessons

Irrespective of sector, every joint venture has its own peculiarities. But I believe most can successfully avoid the many pitfalls lying in their path if they complete enough planning and follow some basic rules for joint venture success.

### 1. Build loyalty

First, spend enough time designing and setting down the internal structure of the joint venture. Is that structure both comprehensive and compatible with the contracting and commercial commitments the JV made to the client? Work out the risk each party is carrying – financial and otherwise – what power the project director and his or her team have, and the way they will make decisions or resolve differences.



Get things wrong at this stage and partners will invariably clash over the different parties' responsibilities and liabilities to the client contract. JVs that fail to think through internal structure frequently find individual team members retreating to a defensive position to protect the parent company – creating division and poisoning any collaborative spirit that may have existed. Project leaders need to make sure the team's first loyalty is to the joint venture.

## 2. Lead from the front

I believe that the second golden rule for joint venture success – and possibly the most important – is a powerful and capable leadership team running the show. You can have all the impressive contracts, control systems and governance rules in the world, but they won't bring a project in on time and on budget without sufficient leadership. All parties need to commit to providing and retaining their top talent inside the JV.

This was the crux of the issue at the power utility client mentioned earlier so we gathered the relatively junior managers and representatives into one room, asked them what was going wrong. After that, we brought in their bosses – the leadership – to openly and dispassionately thrash out the issues. No one could leave until we had a way forward.

Part of the battle is recruiting the right talent. A joint venture will never be able to attract the best and brightest from their parent company if those people think that leaving the 'mother ship' will damage their career. It is up to management to reassure staff, sell the benefits of a transfer and stress the importance of the mission to gather the best team. I have seen plenty of careers take off thanks to a joint venture.

So let us assume you have persuaded the right people to join the project. What happens when they begin work? Suddenly strangers from different organisations, backgrounds and countries – all with their own idiosyncrasies and cultures – are thrust together. It can be a combustible mix that has sunk projects on more than one occasion.

My advice is to embrace the new: *vive la différence*. Get that right and joint ventures, particularly with overseas firms that tend to bring completely different ideas and technologies, can be invaluable tools that improve efficiency and ultimately raise productivity. The gains can be dramatic for smaller and local sub-contractors and suppliers in particular.

## 3. Focus on the prize

My ingredient number three in the JV mix: establishing the right relationship and contract with the client. Everything the joint venture does should be geared to, and should respond to, the client's needs and to avoid risks that might get in the way of project delivery.

It might sound obvious to focus on the customer rather than the internal workings of the joint venture, but it is often forgotten. Invariably, maintaining that focus delivers the quickest and best result – and that tends to be good news for all contracting parties.

## 4. Establish liability up front

I think the fourth route to joint venture success is to make sure everyone knows where they are responsible and where liability lies – both among the partners and down the supply chain. Infrastructure JVs tend to be incredibly complicated; combining civil engineering, site works, architectural works and high technology. In other words, there is a lot that can go wrong.

In my experience, the question of who carries what risk is very rarely understood fully. This is a HUGE PROBLEM that is particularly the case in the way the different contractors interface with each other. A lot of KPMG HPV's work down the years has involved disputes between parties who simply didn't have, at the beginning of a project, a conversation about where risks are held and shared. Who is liable for what, and what is the extent and nature of the risks they carry individually and collectively?



A motorway project might have hit trouble because the tarmac contractor went bust, but if its partners have 'joint and several liability', they are all financially liable for the failure to deliver. Phrases like "I didn't understand that" or "I don't have the money" are not what you want to hear at that stage. Have the discussion up front and if necessary establish the limits of each individual party's liability – both inside the JV and down the supply chain.

As individuals, companies and governments become ever more ambitious in the things they seek to build and produce, organisations will increasingly turn to joint ventures to provide them with the scale, financial strength and knowhow they need. There is no single 'right' way to construct a joint venture. Every project is unique. But it is a universal truth that time spent in establishing a solid foundation will be time – and money – well spent.

- **On your reading list:** [Collaborate to Survive](#) – KPMG's report on construction, consortia and the 'Red Queen hypothesis'.
- **On your board agenda:** How do we access the experience and expertise needed to tie down the detail in JV structures and contracts?
- **Anticipate tomorrow...** International consortia and JVs are becoming the norm, with more overseas contractors taking leading roles in UK projects. This trend is set to continue. So how well prepared is your business to address differences around jurisdiction, methodology and culture at every level?
- **...deliver today:** Success or failure of large-project JVs and consortiums often comes down to the expertise and experience of both leaders and frontline managers. This is as much a talent issue as it is one for engineering solutions or tightly drawn contracts – and means we need to prioritise these skills and experience now.



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