

Managing Joint Ventures and Alliances: an MPA seminar held at the Royal College of Pathologists, London on 16 November 2004

More than 90 participants attended the seminar and the following organizations were represented:

Anglian Water Services, Anglo Platinum, BAA Plc, Barhale Construction Plc, Bechtel Ltd, Bovis Lend Lease, BP International Ltd, British Energy, BT Syntegra, Carillion plc, CMS Cameron McKenna, CSE International, Denton Wilde Sapte, EDF Energy, Emcor Rail Ltd, Ernst & Young, Freshfields Bruckhaus Deringer, Global Alliance, Groupe ESC Lille, Halcrow Group, Harris Management Services Ltd, Henley Management College, Herbert Smith, IBM Business Consulting, Jacobs Babbie, KBR, KPMG, Laing Rail, Linklaters, Ministry of Defence, Morgan Est Plc, Mott MacDonald, Mouchel Parkman, Mowlem plc, MTR Corporation Ltd, National Audit Office, National Grid Transco, PA Consulting Group, Partnerships UK, Rolls-Royce Naval Marine, Rolls-Royce Plc, Said Business School, Scott Wilson, Sir Robert McAlpine, Strategic Rail Authority, Templeton College, Thames Water Utilities, The Nichols Group, UKAEA, University College London, WS Atkins

A long-term joint business venture to enter a new market in the UK

An engineering and construction company joined forces with three partners around a decade ago to enter to a new UK market created by a new form of procurement, PFI/PPP. The four partners each had a 25% stake in the venture.

In most respects, the JV got it right. A good combination of partners succeeded in making its mark on the industry and there was an alignment of goals and objectives. There was generally a good mix of people working in the business. Only the control structure was flawed, with unanimous decisions required for some of the decision-making, which was frustrating at times, and not enough flexibility over scope was built in.

Despite the successes, nothing lasts forever, and the market has changed. Wisely, the partners had foreseen that the market might reach a natural close, and a clear shareholders' agreement was created at the outset. A smooth exit was now possible.

MPA events are confidential, although this summary has been compiled so as not to breach confidentiality. Full proceedings and entry to MPA events are available only to members.

Joint ventures and alliances have made a substantial contribution to major project industries. Without them, some projects might never have got started—or, more pertinently, completed. The JV or alliancing structure has been essential to projects in many sectors. Think Channel Tunnel or the Øresund Bridge, GCHQ, the M2 toll motorway in Sydney and the smaller North Sea oil and gas projects, all of them covered at MPA events.

But are JVs/alliances still the preferred route for large and difficult project projects? Against the changing background of major projects, what is the experience and advice of project practitioners? Seminar 114, *Managing Joint Ventures and Alliances*, analysed the issues.

Why joint venture?

Joint ventures and alliances meet a real need in the world of major projects:

- projects are becoming more complex and their scope is often broader
- on some projects, no single supplier would have the resources and technical knowledge to do the project on its own
- there is strength in numbers and JVs/alliances provide a greater pool of professional labour
- the parties may offer complementary skills
- risk can be spread and shared
- on overseas projects, a local partner may be an entry ticket to the work, providing local knowledge and an entrée into whole new markets
- by joining forces with its competitors, a company can reduce the number of bidders and whittle down the competition.

And why not?

There are plenty of reasons to be cautious about entering a joint venture or alliance:

- research on joint ventures in Europe, America and Japan has showed that a high proportion of
- joint ventures fail
- dispute, deadlock, default or business failure of one of the partners may cause a JV to fail
- anecdotal evidence supports a cautious view: “as many of my construction joint ventures have failed to deliver ... as have succeeded”.

The right vehicle

If the decision is to go the JV/alliancing route, it may be best to set up a framework structure well ahead of tenders, so the parties don't rush into an ill-thought out agreement. The most common vehicles are:

- a company
- a contractual relationship or consortium
- a general or limited partnership
- a limited liability partnership
- a European Economic Interest Grouping.

BP/Bovis Global Alliance

The Global Alliance between BP and Bovis was set up in 1996 as an international construction and refurbishment programme to reduce the costs of building and maintaining petrol-filling stations.

Performance measurement was used to evaluate the success of the programme, using clear well-chosen key performance indicators (KPIs) to drive innovation and improvement. The measurement regime was linked to results, with an incentive payment scheme for Bovis and all the individuals. To ensure continuous improvement, new goals and targets were introduced.

During the period, BP acquired Amoco, Arco and Aral; Bovis was transformed into Bovis Lend Lease. So new people had to be integrated and culture clashes resolved.

Now eight years old, the alliance has produced impressive results. BP's cost savings since 1997 are around \$800 million, quality has been enhanced and safety (especially in the US) improved. Key to success are the alignment of objectives, well-selected KPIs, value engineering, realistic benchmarks, incentivization, breakthrough thinking, strong innovation and the ability to harness the cultural diversity of local teams. All in all, a remarkable success story!

D154 project at Devonport dockyard

The D154 project at Devonport was set up to create a new facility for refitting nuclear submarines and to upgrade existing facilities. A modern nuclear facility had to be created on a brownfield site in the middle of a large operational dockyard, to fixed delivery date.

Partnership was seen as the best way forward. An alliance was established, consisting of DML (Devonport Management Limited) and the five prime suppliers. Key principles of the alliance included an "alliance first" culture, tasks allocated to the alliance member best suited to the job and work swaps. The alliance charter stressed the need for openness and honesty, a "challenge and support" approach, clear, relevant communication and "generous listening".

But no alliance or its charter can spirit away the problems—and they were plentiful on D154. Delays, changes to safety requirements, difficulties on the concurrent engineering and 127 days of continuous rain during a crucial construction/installation period all took their toll.

Without the alliance, successful delivery on time could not have happened. The work swaps, the camaraderie and shared objectives, good communication and co-location during the endgame all contributed to the positive outcome. HMS Vanguard docked on 2 February 2002.

The parties need to weigh up the comparative advantages against their aims. Get the legal documentation shipshape and watertight. It should embody terms such as dividend policy, financial support, form of management, purpose of the venture and the obligations of the parties to contribute assets and personnel. And don't forget an exit strategy (more below).

From day one

Careful work done at the front end of a JV or alliance is probably essential to success:

- establish the parameters of the JV venture at the outset—in other words, define your objectives and the project relationships
- clarify your core values
- decide the ownership split (50:50, 49:51, 25% in a four-party JV, etc)
- understand the implications of the split—research suggests that 50:50 JVs are twice as likely to succeed as JVs with an unequal split
- agree the work share
- define the degree of risk transfer required
- give project staff clear leadership and guidance from the very start
- keep the customer in the loop
- anticipate success but provide for failure
- get a good deadlock resolution structure in place
- select the right people within the organizations to work on the project—you can mould the project culture but you can't change the culture of the parent organizations
- if you have to compromise, think it through cleanly—know what you what you are signing up to.

Keeping it going

As the project progresses:

- maintain a "project-first" culture
- implement work swaps, if provision has been made for them
- co-locate at crucial points, if appropriate.

Exit mechanisms

Even a successful long-term JV may need to be terminated if economic or political conditions change. Joint venturers and alliance partners should devise an exit strategy at the start. Mechanisms for termination include:

"Russian roulette"—a system of buying/selling the parties' shares (no blood on the carpet required)

the Mexican or Texan shoot-out—another system for rapid buying/selling out)

compulsory transfer of shares to the non-defaulting party

auction

liquidation.

And finally ...

A joint venture or alliance, like marriage, shouldn't be entered into inadvisedly. But if well managed, it can bring rewards. Difficult projects can be cracked and made profitable by an aligned and motivated JV or alliance.

But strictly not for the faint-hearted!