Joint Ventures – The 'new normal' for corporate growth?

Already around 35% of global corporate revenues comes directly from some form of 'non-operated business', be it partnership, alliance or joint venture. This trend is set to continue and accelerate – with some groups forecasting their revenue from such arrangements rising to as high as 75% or more within the next five years. What does this mean for corporates?

Overcoming reluctance

The drivers of this growth are clear – entry to faster-growing economies, capital constraints and a desire to reduce investment risk, legal or political requirements, access to local infrastructure, etc. Traditionally, many companies dislike joint ventures and enter them only reluctantly. Over recent months we have seen this attitude shift towards a concern that current corporate capabilities and processes may not be suited to the new environment of JV portfolios.

Here are just a few comments we have encountered:

"We need to invest in building the right capability and skills to ensure we extract maximum value from our JV portfolio, whether we are majority or minority shareholders."

Head of Production,
Oil and Gas Super Major

"We want to become as strong at building joint ventures with our partners as we are at building our own brand in the market place."

Head of M&A,
Global Telecoms Company

"Joint ventures represent an increasing percentage of our revenue and EBIT. I’m concerned that we’re underestimating what’s involved."

Head of Strategy,
Food and Drink Major

Corporates are accustomed to pulling the levers of power and have typically built much stronger internal controls in recent years. In our experience, this assertiveness sometimes deserts companies contemplating a joint venture partnership, being replaced either by an uncharacteristic hesitancy or by an almost reckless optimism. On the flip side, another prevalent approach assumes that a company can impose its own processes and behaviours on the venture, even when this flies in the face of local culture, custom and practice.

Joint ventures require greater vigilance than other corporate activities, but experience tells us this must be delivered in a different style, deploying a different mix of skills.

Recognising how joint ventures are different

It’s tempting to assume that a joint venture is simply a variation on the ‘M&A’ theme. Indeed, this is the approach taken by many companies. However, this assumption is flawed. By its nature, a joint venture is a quite different animal from a conventional acquisition or merger. It is the start of a long-term relationship between partners, one which will require ongoing attention throughout its life, not just at the beginning.
The early days of a venture not only set the tone, but can often make or break its success. The problem is, fundamental issues often don’t emerge until a couple of years down the track. Common examples include:

- Partner operational teams are reported as ‘difficult to work with’
- Decisions prove both tortuous and slow
- Differences arise over who is accountable for what
- Local work practices threaten the agreed project delivery schedule
- The host government proves assertive and demanding, claiming non-compliance in a number of areas as a tool to renegotiate

Such things need to be spotted and tackled early, and in a way that manages the longer term relationship with the JV partner. So what does this mean for the deal process?

There is no such thing as a ‘perfect’ joint venture agreement. However, by involving those responsible for resolving such issues, and designing and testing effective intervention, resolution and protection mechanisms before the deal is signed, companies can substantially increase their chances of success. This involvement will also help build a more robust set of JV objectives, which is co-built (not just inherited) by the operational implementation team whose role is to actually deliver them.

Embedding the new normal

Overcoming challenges like these swiftly and sustainably demands distinct capabilities. These include effective influencing skills, cultural sensitivity and diplomacy, a willingness to intervene proactively and the ability to make changes happen on the ground. Before the JV agreement is signed, effective early planning is critical to ensure a consistent and robust negotiation strategy, focusing on what really matters. Success also relies on capturing and learning from mistakes, and ensuring that these lessons are fed back into future JV deal planning.

Those who embrace this ‘new normal’, build their in-house JV-specific capabilities and invest time and effort to tailor their deal and implementation approach, will stand to extract more value from their ventures. They will become the most attractive venture partners. In the new multi-JV world, this will help create a big competitive advantage.
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