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When failure is not an option: Making joint ventures work for capital projects

Part 2: Four steps to making project JVs work

In the second of a three-part series on capex joint ventures, the authors introduce a four-part framework that helps managers and JV CEOs avoid the pitfalls associated with leading this new generation of JVs.

By Alexander Pease and Richard Westney

This article is the second of our three-part series on joint ventures in capital projects. As we discussed in the first article of this series, the scale, complexity and risk associated with the execution of large scale projects frequently leads to joint venture constructs as a way to introduce expertise, diversify risk and gain access to capital. We also observed that, up until recently, the majority of these partnerships consisted of a dominant, operating partner that provided the bulk of the resources and leadership, paired with one or more relatively silent partners in the background. Interestingly, this trend has shifted dramatically over the last decade, and project JVs are increasingly becoming a “partnerships of equals”, with shared governance, staffing and execution responsibilities distributed among the participants. The complexity of making these arrangements work, combined with the inherent challenges associated with the delivery of mega-projects themselves, results in a “multi-barreled risk”. Consider the following major drivers of organizational risk embedded within a typical megaproject JV:

- Cross-cultural challenges associated with the introduction of sovereign nationals and international corporate employees
- Inter-company incentive and strategic misalignment between two (or more) principle investors
- Expertise, system and process friction between the various contractor and subcontractor teams, who may have alliances or other preferred relationships with one of the JV partners
- “Normal” start-up risks associated with the scale-up and development of a project “new-co”, the onboarding of new JV employees, integrating staff from the partners who have been seconded to the JV, and greenfield development of new systems and processes, among others.

While this is an incomplete list, it is easy to see how organizational and cultural risks explode as project joint ventures evolve from a single, operating partner construct to a complex, shared-operator model. In this article, the second of our series, we introduce a simple, four-part framework that enables incoming project managers and JV CEOs to avoid the many pitfalls associated with leading this new generation of project venture.

A case example: Middle East Refining Co

In mid-2008, the CEO of a major Middle Eastern refining project JV approached us with a request for help. The markets were in turmoil, access to capital scarce and refined product demand down globally. The outlook for recovery was uncertain at best, and it seemed to be a bad time to invest circa $10 billion in a world-scale, greenfield refinery. Despite these challenges, the sovereign partner was keen to proceed, citing robust demand in the Middle East and Asia, an attractive market for input commodities and contracting services, as well as the need to create job growth locally. The integrated oil company, on the other hand, was very nervous, having previously experienced a number of large scale blow-ups, consequently suffering withering investor pressure and intense scrutiny on its overall strategy and cost position. Adding to the complexity, the senior leadership team, with roughly balanced representation from both partners, felt a deep distrust of one another. They also suffered from a lack of confidence in their overall ability to deliver and faced substantial job insecurity should the project be mothballed. While unsure of what to do, the CEO recognized he had significant problems to address.

Define and align—build—execute—renew

The complexity of the aforementioned case is intricately linked to the underlying organizational, cultural and strategic alignment of the joint venture itself. While most project managers and project JV CEOs are comfortable leading the detailed technical work required to design and deliver a world-scale project, they are less experienced and comfortable with the complexity of building a world-class organization. Despite obvious differences, we would argue that there a number of similarities. For example, best practice for the technical design of major projects stresses, above all else, the importance of early, strategic planning, organization and risk mitigation. This principle, (often referred to as "front-end loading"), emphasizes the need to anchor the optimization criteria for the project upfront and freeze portions of the design at critical stage-gates. It also lays out a clear definition of what work is required (and allowed)—and what is not—along the project lifecycle. Building a world-class joint venture organization benefits from the same robust process discipline. From that we derive the following four steps to building a world-class project JV organization:

Step 1—Define and align: As noted above, project JVs often begin by bringing together unlikely allies whose goals, cultures, operating models, risk appetites, and financial strengths are apt to vary widely. Identifying the disparate goals, models and strengths and weaving them into a single, aligned and broadly-communicated vision is critical for an effective JV to function effectively. This vision—supported by a number of underlying organizational themes and parameters—creates a common language for the JV, and is a reinforcing mechanism for maintaining alignment across all partners.

While this alignment must be created across multiple dimensions of the project, risk can be a particularly powerful place to start. Despite conflicting priorities, all JV partners can align quickly behind the need to develop a shared identification, prioritization and mitigation approach for risk in any large-scale project. When the exercise is broadened to include programmatic risks (instead of focusing purely on technical risks), critical themes such as organizational design, strategic priorities, commercial approach and operating philosophy come to the surface. Identifying and quantifying the importance of these issues and aligning the organization around the approach to tackling them is a critical first step to building a world-class team.

Step 2—Build: The process of building the team should start with recruiting the best people from each participating partner. This can be quite a challenge, as top talent often see joining the JV as a career-limiting move, putting them “out of sight, out of mind”, for years. And, since the JV’s priorities differ (by necessity) somewhat from those of the parent organization, even the successful achievement of those objectives by secondees may not be viewed as credible or be given the same merit by those in the parent organization. This issue must be addressed quickly, and a JV CEO has several pragmatic steps that he can take to preempt problems:

1. First, establish a world-class board of directors, with representation from senior people from all parent organizations. This provides secondees with a window back to the parent company and vice versa. This board should be committed to and deeply involved in strategic planning, decision making and oversight.
2. Second, demand a hands-on leadership team of highly respected executives from the parent company. This is both a clear demonstration that the success of the project is a real priority worthy of investment and a critical driver of organizational effectiveness.
3. Lastly, demand performance and move quickly when issues arise. This entails establishing a carefully structured performance management system with appropriate funding and authority to incentivize key individuals.

Most new JVs will require several significant leadership role changes as they ramp up, and addressing this clearly and decisively enables the JV CEO to “custom build” the team they need to be successful as the project progresses. For example, the leadership focus of the early stages of an offshore development will move from leasing to exploratory and development drilling to field development planning and each of these requires different skill-sets.

Building the organization is not just about the team itself, however. A successful project organization should also establish a culture, a leadership model, and a cross-functional operating style that is uniquely its own, as opposed to one cloned from one of the JV partners. It must also respect the economic interdependencies between the JV and each partner; there will inevitably be asymmetries between a given partner’s ability to contribute resources (such as funding, people and technology) and the need for equal influence over key decisions. Critical tools and processes must be built, and the team should invest deliberately in building these quickly, or the organization will flounder.

Lastly, the CEO must deliberate on how to build the capabilities required to operate within this new construct. While it's not unrealistic to assume that the new project team will possess the necessary engineering and technical skills to deliver the project, it is unlikely that they will have the broader portfolio of organizational, cross-cultural, collaborative and managerial skills needed. While perhaps counterintuitive, this gap is to be expected. Not only are the incoming managers new to the JV, but the JV's systems, processes and culture are usually still in the process of being developed as they come on board. At a minimum, there will always be a learning curve to address, and more frequently than not, a dedicated capability building program must be crafted to effectively develop a world-class team. The JV is well-positioned to do this. Unlike most project organizations that have to handle a variety of project types and sizes, the JV organization has one to focus on. The CEO can ensure that proper effort is made to understand the specific competencies the project requires, and that the appropriate skills, work processes and governance tools are put into place to create a purpose-built, high performance organization.

Step 3—Execute: With the above steps completed, the JV will be able to manage the major phases of the project including:

- development planning and scope definition
- obtaining funding and reaching financial close
- completing the engineering, construction, and startup of the facility
- operating the facility so that revenue targets are attained.

In addition to meeting these technical deliverables, team members must also

- effectively scale the organization quickly
- establish a culture of self performance, and
- continuously adapt and evolve.

These are very different types of work, requiring a loose – tight governance model which provides the JV and project team with sufficient flexibility to grow while at the same time maintaining a rigid link to the parent companies' governance and control mechanisms.

As the project team moves into execution, it must define a model for itself that allows it to be independent while continuing to deliver on parent companies' needs. During execution, the leadership team also needs to think proactively about how to implement its newly constructed culture, processes and systems. Frequently complicated by a fragmented and globally disperse geographic footprint, the introduction of multiple new contractors and sub-contractors, and the fast pace at which the project evolves, it is easy to let the execution of these systems slip and to allow their effectiveness to wane. The JV leadership must establish a disciplined steering committee with direct accountability to the CEO to oversee successful implementation.

Furthermore, it should establish a regular cadence with the (performance) board, using a series of simple performance dashboards to monitor implementation and intervene when necessary.

Step 4—Renew: Perhaps the most overlooked success factor in constructing a successful project JV is to create clear opportunities for renewal. This renewal is both personal, for the individuals in the project team, as well as technical, for the systems and processes that we mentioned previously. While any project professional will readily acknowledge the dynamic and evolutionary nature of a project as it moves through its lifecycle, many frequently fail to recognize that people and systems need to evolve correspondingly. World class project JVs, on the other hand, establish clear breakpoints and formal evaluation steps, during which the leadership team evaluates the effectiveness of its people, tools and processes, and takes steps to inject fresh energy, capabilities and structure into the team where needed.

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While JVs and projects are both uniquely challenging to execute well, there are similarities that enable world-class project managers to effectively build world-class JVs, and vice versa. By recognizing the four critical steps of design and align—build—execute—and renew, enabled by project management best practices, JV CEOs can get the most out of their technical talent, and provide their parent companies with the predictability and performance such major capex investments require. In our next article, the last of this three-part series, we will revisit our case example above and describe how the CEO of the refining project applied the four-part framework to turn the situation around effectively■

About the authors:
Alexander Pease is a partner based in McKinsey's Charlotte office. He is part of the global Energy & Materials practice, and is one of the core leaders of the Capital Productivity service line. Richard Westney is Founder/CEO of Westney Consulting Group.

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