

Memo to a New JV CEO

What does it take to succeed at the toughest job in business?

THE POSITION OF JV CEO is an undeniably compelling career move – a way to build true general management skills, and a rewarding opportunity for personal growth. It is also immensely challenging. To quote one of the 80 JV CEOs we've spoken to this year, "The job of a JV CEO is arguably the toughest in business". For most corporate leaders, favorable external conditions, strong business fundamentals, and requisite skills and experience are the usual determinants of success. But succeeding as JV CEO demands additional, and some different skills and behaviors compared to those required to lead a similar-sized, wholly-owned business unit.

The purpose of this memo is to outline what makes the role of a JV CEO so tough, and highlight the actions and behaviors that the most successful JV CEOs adopt. While most of these actions can be driven by the JV CEO, JV Board members also play an important facilitating role.

CHALLENGES FACED BY JV CEOs

The role of a JV CEO is more challenging than a traditional Business Unit President position on four dimensions:

- ¶ **Strategy:** BU Presidents operate within a clear mandate set by a single corporate parent. JV CEOs are answerable to multiple corporate parents, with differing objectives, investment and risk preferences; and sometimes conflicting views on how the JV should evolve, which product markets it should serve, etc. This ambiguity is compounded by the fact that 30% JV CEOs operate without a performance contract articulating the 6-10 critical indicators that they should focus on.¹
- ¶ **Operating model and commercial arrangements:** Business units usually operate as distinct profit centers, sharing some services (e.g., IT, external relations) with the corporate center. Most JVs also depend on the corporate parents for inputs and services – but their pricing and quality can be a much more contentious matter as one parent could potentially derive asymmetric economic benefits from the provision of services to the JV. In addition, parent employees tasked with providing services to the JV do not often have explicit accountabilities and incentives tied to the JV, which can pressure the JV CEO to constantly ensure that the JV is getting the attention it needs. Finally, since 61% JV CEOs come from one parent, the perception of neutrality in managing these arrangements – vs. acting as one parent's "pawn" – is difficult to maintain.²
- ¶ **Governance:** BU Presidents report to a single line executive, and operate

"I am riding two horses at once. One chooses to trot at precisely the same moment the other wants to gallop."

"Managing upward is not easy – I have six bosses, and am both tortured individually and forgotten collectively."

¹ All data referenced in this section is based on research and interviews conducted by Water Street Partners

² As an example, consider the travails of Andrew Lack, who was CEO of the now terminated Sony BMG joint venture and a Sony appointee. In addition to managing a legal dispute over the "flawed antitrust assessment" of the JV, he had to balance the parents' misaligned objectives (Sony wanted to create "positive synergies" by exclusively integrating the venture with its multi-media empire, while BMG/ Bertelsmann wanted to keep the venture as a standalone independent entity achieving a minimum 10% return on sales); deal with interdependencies (e.g., was Sony profiting more through transfer prices despite the JV's bad results?). And juggle all this, yet "enjoy the support" of Bertelsmann (Sony considered him "exceptionally well suited to run the JV" and that he "met or exceeded performance targets", but Bertelsmann believed that his management style "chafed his colleagues" and the "value of its stake in the JV was being diminished" under him). He was eventually stripped off the CEO title. The jury is still out on whether it was because of "genuine dissatisfaction with his performance" or "an internal political struggle to maintain a balance of power between the parents". See various news articles in the Wall Street Journal, Financial Times etc. over October 2005 – February 2006

within boundary conditions and fiscal authority limits that are generally corporate-wide, known and non-negotiable. In contrast, JV CEOs have to deal with more than one master, each with varying interpretations of formal boundaries and authority limits. Moreover, since JV Board members are experienced in the relevant business/ market, they tend to lean heavily into the JV's operations. As evidence, only 50% JV CEOs have a fiscal authority of at least \$1 MN (or 0.2% of the annual operating and capital budget, whichever higher). Further, some Board members may not be the final decision makers within their parents, adding a layer or more to the already complex decision-making process. To amplify the challenge, senior parent executives, as JV Board members, typically have less incentive to prioritize or strongly performance manage the JV than if it were wholly owned.

“Each of my management team members is a lone ranger defending his parent’s bastion.”

¶ **HR and organization:** BU Presidents are backed by a team of managers whose loyalty is to the same business unit and larger corporation. JV CEOs face one of two predicaments. In secondee-intensive ventures, they have to lead individuals with natural loyalties beyond the JV. These divided loyalties get perpetuated when JV CEOs do not have complete authority to hire, fire and evaluate management secondees – the case in 37% of the JVs in our benchmarking database. At the extreme opposite, if the JV creates an independent organization composed of outside hires, or where parent employees are forced to sever ties to the parent, it introduces the challenge of building a new organization from scratch and makes it harder to recruit high performers who prefer the wider (and less risky) career opportunities offered by the parent companies.

Exhibit 1: Structuring a seconded JV CEO’s compensation – typical issues

Seconded JV CEO	Non-seconded JV CEO	How some JVs address the issue	
Issue	Fact*	JV 1	JV 2
Should pay include a “risk premium” to compensate for JV challenges and complexity?	Less than 5% have a “risk premium” built into compensation (i.e., upside relative to comparable roles in business units that are not JVs)	No risk premium	Risk premium tied to “very hard” operational and financial metrics over a 2-3 year time frame (i.e., upside for hitting targets higher vs. comparable business unit role)
Should short-term incentives be tied solely to JV performance, or also partly linked to parent corporate/ BU performance?	Less than 10% with 100% of short term bonus/ variable pay tied to JV performance and own performance in JV	Tied to Parent A objectives for JV and Parent A BU performance. “Discretionary adjustment factor” by which JV Compensation Committee adjusts calculated bonus by 25% upward or downward based on JV performance	100% tied to JV performance vs. key industry benchmarks
During the secondment, should JV performance be a factor in determining contribution to parent’s long-term incentive plan?	5-15% where JV performance indicators are considered in determining contribution to parent’s long term incentive plan	JV performance indicators not considered. 100% based on Total Shareholder Returns of Parent A (compared to S&P Industrials Index)	JV performance indicators get factored in determining contribution (20% weight)
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* Survey of 30 JV CEOs; Source: Water Street Partners

LESSONS FROM SUCCESSFUL JV CEOs

How do successful JV CEOs counter these challenges?

¶ **By clarifying performance terms and conditions with the JV Board:**

Lessons from cross-border auto industry JV

- As pre-condition to accepting the JV CEO position, got both parents to agree on key performance indicators for the JV at the second level of detail – e.g., what does operational excellence mean (97% reliability, 90% utilization etc.); its relative importance (30% weight) – and incorporated these into a *Performance Contract* collectively endorsed by the JV Board
- Negotiated for 50% of his total compensation being truly performance-based and variable, and linked solely to the performance contract (see Exhibit 1 for the typical issues and choices in structuring a seconded JV CEO's compensation package)
- Clarified that he would be accountable only to the JV Board, not indirectly to other executives in parent companies

¶ **By building a cohesive and accountable team:**

Lessons from integrated mine to metal JV

- Personally translated own performance contract into individual performance contracts for direct reports
- Reviews and determines compensation for all direct reports including secondees
- Worked with each senior seconded's sponsor in the parent to document a career path and professional development plan for their tenure in the JV – and likely role on their return to the parent
- Stands by management team members in their interactions with the Board (e.g., project manager responsible for upgrading manufacturing facility presents to Board only after a detailed presentation to the JV CEO)

¶ **By over-communicating with the parents:**

Lessons from hi-tech consolidation JV

- For important communications, always “cc’s” both parents on emails
- Sends “monthly memo” to all Board members (does not wait for Board meetings), clearly highlighting the JV's performance against key operational, financial and strategic indicators. Also includes his own personal commentary (“management discussion and analysis” rather than a mere “data dump”)
- Talks to Lead Directors from both parents for ½ hour every two weeks – essentially an informal discussion on “how things are going”

“The more the Board knows about what the JV is doing, the more they let me run the business.”

- Has a one-on-one conversation with all Board members before every meeting to understand their concerns, seek guidance, etc.

¶ **By enabling the right balance between oversight and autonomy:**

Lessons from downstream energy JV

- Pushed for a detailed fiscal authority matrix – delineating specific sign-off levels across situations (e.g., for capex over-runs – \$10 MN or 10% of value whichever higher; for disposal of existing assets – \$15 MN), and with a provision to increase based on performance
- For the top ten managerial processes/ decisions of the JV (e.g., annual operating plan, business targets, staffing of senior positions, succession planning, plant shut-downs, product market strategy) asked for decision protocols detailing out who is involved, at what stage; who takes the ultimate decision; frequency of updates etc.
- Works with JV Board Chairman to set the Board meeting agenda, ensuring that the Board spends more than 70% of its time on JV's strategy, risk and performance management, and limits interventions/ requests for updates on the more operational issues (product slate, approval of software packages, etc.)



The good news: While the role of JV CEO is challenging, JV CEOs who embrace the right behaviors and actions (relentlessly managing each parent's perceptions and expectations, doggedly prioritizing make-or-break issues for the JV) enjoy substantial autonomy, can shape a new culture, and use the role as a springboard to more senior leadership positions. ☞

THE JOINT VENTURE EXCHANGE

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Editor: Lois D'Costa
Advisors: Jim Bamford, David Ernst, Geoff Walker

You can contact us at:
Water Street Partners LLC, 3050 K Street, NW, Suite 225, Washington, DC 20007 USA
phone: +1 202 280 2366 email: partners@waterstreetpartners.net

For questions regarding the data, perspectives, or other content in this issue, please contact Lois D'Costa at lois.dcosta@waterstreetpartners.net
For information regarding joint ventures more broadly, please feel free to contact either Jim Bamford at jim.bamford@waterstreetpartners.net or David Ernst at david.ernst@waterstreetpartners.net