



OPERATIONALIZING THE JOINT VENTURE AGREEMENT FOR CHEMICAL JV

THE CLIENT

- Chemical JV
- Partners recently signed the JV agreement and working through the set of issues to operationalize the JV

THE NEED

- Needed help in building out key policies, processes, and second-level structures related to governance, alignment, organization and talent, and financial arrangements and processes

OUR SOLUTION

- Created shared strategic intent framework: clarifying the shareholders' vision for the JV – strategy, operating model, governance design
- Defined key operational interfaces and processes between JV and parents
- Created CEO performance contract and roll-down of key metrics to top team
- Developed management process and accountabilities for commercial agreements, including negotiation roles, escalation procedures and Board reviews
- Designed key governance processes– e.g., annual budget and plan, capex, changes to related-party transactions, board calendar

Secondree compensation models

STAFFING MODELS

How to calculate a secondree's annual bonus?

Same as Parent model <u>International Oil Company</u> (Based on multi-billion dollar JV with NOC)		Parent + JV model <u>Global Chemical Company</u> (Based on billion-dollar cross-border JV)	
Individual performance	20%	Individual performance	50%
Group performance	80%	Group performance	50%

Very limited portion of annual bonus tied to JV performance
Significant portion of annual bonus tied to JV performance

JV Governance posture options

GOVERNANCE POSTURE

Question 1: How far and how fast to move to an integrated JV OpCo structure?

Starting point
→
Steady state

Parallel Project Team Structure

Hybrid Structure – e.g., Heavy Use of Committees

Integrated JV OpCo Structure

Governance	• Project Steering Committee	• Board of Directors	• Board of Directors
Project / Operational Management	• Project Team structure – with most positions dual-staffed by both parents	• Select (leadership) positions filled in JV Co – e.g., CEO, CFO, VP-HR; heavy use of <u>secondrees</u>	• JV Management Team – fully staffed and single, integrated management structure
Board Committees	• Working teams organized around functions – e.g., design, contracting, finance, regulatory affairs	• Significant amount of project/operational oversight done thru committees	• No parallel positions (but may have a "deputy model" in key functions)
Day-to-day decision making	• Typically work from separate locations	• Extensive – and with real power	• Limited – simply confined to truly necessary (e.g., Audit/Finance and HR/Comp)
	• Most people do not "join <u>JVCo</u> "	• Mix of Board members and senior technical specialists from parents	• Composed of Board members
	• None	• Transitioning from parents and committees, to JV CEO and management team on Day One	• Day-to-day control by JV management team; oversight by Board

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