Joint Ventures Create Opportunity and Mitigate Risk

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Teaming up with other contractors can unlock new markets, bigger jobs, broader expertise, or access to labor resources. But contractors should approach these partnerships with a smart framework to ensure smooth results.

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Joint ventures between contractors help to open strong business opportunities. They especially help contractors focus on their strengths by matching up with peers that have complementary resources.

But teaming with other contractors invites complex relationships that need clear lines of responsibility. Matching expertise, capital, and "horsepower" does not always produce a steady and predictable flow of cash or a stable management structure. Contractors should work through several critical business and contractual issues before they enter a joint venture.

The advantages of joint ventures are manifold. These partnerships often provide opportunities for entry into markets that may require more capital or more expertise than a company may possess on its own. Another common reason to enter a joint venture is for non-union firms to obtain union labor, especially when the companies don't want to commit to unions on an ongoing basis.

A joint venture can also be an excellent vehicle for a contractor to enter new geographic regions or to assume less risk or capital outlay. Through a joint venture, a regional contractor can be instantly eligible to obtain work throughout the country. For a national company, taking on a local partner can contribute important ingredients - local knowledge of subcontractors, a local reputation, and access to labor relationships or heavy equipment.

Joint ventures also allow contractors to contribute management or accounting expertise, equipment, bonding capacity, or project financing. For instance, a "sweat equity" partner can share as much as 50 percent of the profit in return for financial backing in order to facilitate a joint project effort.

Despite all of these potential business gains, there's no guarantee that a joint venture partnership will work smoothly. Failing to address basic issues can short-circuit even the best opportunity. Contractors should weigh each of these issues in any prospective joint venture.

- Disparate firm cultures: Joint ventures fail most often because the cultures of the partners do not integrate well. Oftentimes, two or more competitive and hardened general contractors, thrown together under one roof with one set of books, operate on a "survival-of-the-fittest" mentality.
- Bookkeeping and accounting power struggles: When it comes to survival, the fittest tend to control the books, the accounting, and the cash flow. In many ways, the partner not keeping the books is relegated to the role of subservient subcontractor. Before entering a deal, it is essential to map out the details to your favor.
- Stringent financial disclosure requirements: In the wake of the Enron financial scandal, accounting firms must meet stringent audit and disclosure requirements, which can slow the process and increase expense. When it comes to managing the joint venture's financial aspects, the partner with fiscal control has the most protection.
- Diminished insurance-buying power: The ongoing crises related to rising insurance costs - which are exacerbated in New York by the lack of reform in Section 240 of the state's labor law - can work against a contractor that normally has adequate access to insurance. If the contractor enters a joint venture with another firm that has trouble obtaining insurance, their partnership may not be able to secure affordable project bonding.
- Cumbersome prequalification requirements: The potential joint venture partner from out of town must, at the least, be ready to hire legal and political advisors from the area to learn how to comply with local prequalification requirements. A credible and connected local partner can help pave the way. However, be aware that in this era of public accountability, shortcuts to compliance are less frequently available, and delays in meeting local requirements can mean lost opportunity.
- Lack of in-depth knowledge of the market: A joint venture often puts two parties together to enter a new geographic market. In cases where neither partner is local, the lack of familiarity with the area can create problems and inefficiencies that later diminish profits.

It's clear that joint ventures between contractors can create accessibility to new markets or a competitive advantage when merging expertise and financial backing. But the likelihood of success truly increases when firms conduct thorough financial and legal due diligence and when they spell out financial and management arrangements clearly in a comprehensive legal document.

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