Risk control

Joint Venture Risks

In partnership with

HDI

In partnership with

GALLAGHER BASSETT

GUIDE. GUARD. GO BEYOND.

Risk Management Partners
rmpartners.co.uk

Joint Venture Risks

What is a Joint Venture?

A Joint Venture is a commercial arrangement between two or more companies to achieve a common goal. The Joint Venture will end upon completion of the project or as set out in the Joint Venture Agreement.

The companies collaborating in the Joint Venture will need to agree upon how the Joint Venture will be established. They could form a separate legal entity (private limited company) or the parties may enter into a contractual agreement for the Joint Venture (general or limited partnership).

Once the form of Joint Venture has been agreed upon this will be outlined in the Joint Venture Agreement, which will set out how risks will be shared between the parties and detail the scope of the project.

The Benefits of Joint Ventures

If the Joint Venture is formed and managed correctly then it can offer very compelling benefits including:

- Shared investment and expenses
- Enhanced access to technical expertise
- Enhanced capacity
- New market / industry penetration
- New revenue streams
- Intellectual property gains
- Synergy benefits
- Enhanced credibility and reputation
- Reduced exposure to competition and pricing pressures
- Improved economies of scale[1]

The Risks of Joint Ventures

However, if the Joint Venture is not formed or managed correctly, some major risks to the enterprise may be realised including:

- A lack of clarity regarding the obligations and responsibilities of each of the partners
- A clash in the management styles, ideologies and techniques of different partners, leading to frequent conflict
- A shift in priorities by one of the parties
- An imbalance of the capital and the resources invested by the partners leading to frequent arguments and conflicts of interest
- Ineffective resolution of conflicts[2]

Of course, no party within the Joint Venture intends for it to fail, because the costs in real terms may be very significant. However, all parties within the Joint Venture will recognise the finite lifespan that is often associated with such activities. Due to the many risks involved, all Joint Venture parties should consider at the outset the circumstances in which the joint venture will be terminated.

It is preferable for a joint venture to terminate by the mutual agreement of its partners. However, consideration needs to be given to the following questions: What happens if one party wishes to exit unilaterally? What happens if during the life of the joint venture a party fails to deliver on or breaches its obligations, or if the parties fail to agree on a matter requiring their mutual consent?

Other factors to consider include contingency arrangements, winding up arrangements, sale of assets, and the transfer of interests.

Good Practice

Ensuring clarity of responsibilities is essential for managing joint venture relationships.

Establishing and communicating arrangements that are in place between the Institution and any Joint Venture Company / Partner will ensure that management teams within both organisations understand each other responsibilities.

Developing clear governance and reporting structures will enable all parties to demonstrate that compliance areas are being fully managed reducing the risk of incidents or enforcement action.

If any unfortunate situation should occur, then having arrangements in place will allow institutions to quickly respond reducing any impacts to either party and protect against any possible reputation damage that maybe caused.

The Insurers View

Joint Ventures are not automatically covered by HDI's Liability policy wording. When an institution enters into a Joint Venture it should be declared to HDI so insurance cover can be considered.

HDI would need to know following arrangement details:

- The purpose of the Joint Venture – what is the nature of the project
- The institutions services being provided to the Joint Venture
- Details of the insurance arrangements agreed between the parties involved

— Copy of the contract / Memorandum of Understanding / Joint Venture Agreement

Conclusion

Joint ventures will usually seem destined for success at the outset of the enterprise. Two organisations join forces in what appears to be an ideal match. The parties maintain complimentary competencies and / or assets.

Collaboratively, ambitions can be achieved that may not seem possible independently.

However, to maximise the potential success of the Joint Venture, all parties need to clearly consider the potential risks which may affect the enterprise from the planning stage to ensuring that it can effectively navigate through times of challenge and turbulence.

Insurance cover is also a key consideration at the planning stage of any potential Joint Venture.

References

1. Corporate Finance Institute, Joint Venture (JV), available at: https://corporatefinanceinstitute.com/resources/valuation/what-is-joint-venture-jv/
2. Prowse Chowne, Benefits and Risks Associated with Joint Ventures, available at: https://www.prowsechowne.com/blog/benefits-and-risks-associated-with-joint-ventures

Further information

For access to further RMP Resources you may find helpful in reducing your organisation's cost of risk, please access the RMP Resources or RMP Articles pages on our website. To join the debate follow us on our LinkedIn page.

Get in touch

For more information, please contact your broker, RMP risk control consultant or account director.

contact@rmpartners.co.uk

Risk Management Partners

The Walbrook Building
25 Walbrook
London EC4N 8AW

020 7204 1800
rmpartners.co.uk

FP976-2024