

THE ACADEMY OF ELECTRICAL CONTRACTING

**Paper Presented by
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NETWORKING FOR JOINT VENTURES

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Association memberships of all types provide excellent networking opportunities to expand business into new areas, and manage risk on new projects. One path association members can take to facilitate business is a joint venture.

OPPORTUNITIES

NECA contractors often are presented with opportunities for business development that appear to represent risks the contractor feels are too great for the company to carry. These opportunities might be projects larger than those previously performed; might require financing or bonding beyond current capabilities; or might be in a location outside the normal work area, requiring a new, unfamiliar, or widely expanded workforce. Sometimes, projects come at a time when the company does not have – and cannot obtain – the additional expertise needed to perform.

Contractors might be torn between a good customer's desire to expand into another city, state, or country; and his commitment to ongoing local projects – the combination of which would create a risk the contractor is unwilling to undertake. In some cases, "out-of-town" building teams unfamiliar to the contractor may be taking the lead on projects in his normal market. The uneasiness caused by these unknown quantities may be more of a risk than a contractor wants to take on alone.

THE JOINT VENTURE OPTION

One of the main reasons a contractor might consider a joint venture is to control these risks. By sharing the management, staffing, financing, planning, and bonding of a project, the risks are reduced, and often, place the project within the contractor's "comfort zone." Such a business arrangement also allows the contractor to build projects much larger than the usual and can be an excellent way to build the size of the business.

A key benefit of joint ventures is to have more control over work performed in new areas. The ability to access a "known" workforce in an unfamiliar locale, thereby reducing one of the major risks for the contractor, opens another door of opportunity. In fact, most contractors enter the joint venture business so that they can follow a

customer and perform the customer's work anywhere with a degree of risk comfort. Joint ventures can also be a means of strengthening the construction team by helping fill management, engineering, or estimating gaps.

SOURCES OF PARTNERS

Fellow NECA members are an immediate source of potential partners. By networking with other contractors at association meetings and functions, both nearby and around the world, prospects for partnership can be developed over time.

Peer groups in which one might participate are also an excellent source of potential partners. The added knowledge of another's company operations and finances facilitates some of the necessary steps required to set up a joint venture.

International Association members whom a contractor has met at various meetings – or whom other acquaintances know – can be a great help should the opportunity arise to go to another country, or when international projects are brought into one's area.

Another source of partners is introduced by the customer when he wants a specific electrical contractor to be included on the job. This preferred electrical contractor could be looking for the same advantages discussed already, that would prompt the creation of a joint venture from both perspectives.

RECOMMENDATIONS

Once a decision has been made to form a joint venture, it may or may not be a good idea to make a public notification of the business relationship. While the client, A&E, bonding companies, banks, suppliers, and possibly even general contractors or construction managers involved in the bidding process may require explanation, there also may be cases in which some of these entities would use this information to the detriment of the joint venture in the bidding process. Basically, you have to know who your friends are, and in which cases notification is required. Use your best judgment when deciding to which entity you will make the joint venture public.

In contrast, as soon as it is practical, the partners should draft a Joint Venture Agreement set-

ting out the specific details and guidelines that will govern this business undertaking. It is my recommendation that, once drafted, the Agreement be designated to take effect upon successfully obtaining a commitment for the project. All bidding and other related expenses up to that point should be borne by the individual participants.

The following are my recommendations for the minimum contents of the Agreement. There will probably be other items to consider based upon the type, location, and duration of the specific project.

- A. A method must be included to determine who will be the final authority for this joint venture. I recommend a Management Committee, made up of a top management representative from each participating company, be appointed and this Committee be designated to have overall control and final say on the details of the joint venture relationship.
- B. A method of dispute resolution should be spelled out – for example, an arbitration procedure – should agreement not be reached on any business of the joint venture.
- C. Define the scope of the project that will be governed by this Joint Venture Agreement. Will it cover any work that either party might be able to obtain at this work site? Will it expand to other physical locations on work related to this original project? What about IBS or VDV work that only one of the partners might be able to obtain, and in some cases, might be obtained after the original project is completed?
- D. A decision about and statement concerning ownership and risk sharing will be a major part of the Agreement. Is this a 50-50 win or lose? Or is there some other percentage breakdown of ownership? This decision will also determine the financial and bonding costs incurred by each participant.
- E. An individual to manage the job site should be selected by the Management Committee and that ONE PERSON (Project Manager) should have total control of the project – both field and office. This person will

probably have been selected prior to the establishment of the joint venture, since that may have been one of the deciding factors requiring the formation of the joint venture.

- F. The Project Labor Superintendent should have complete control of the labor force and answer only to the Project Manager. This person may have also been selected early to fill a gap in one of the partners' assets. While there might be an advantage if this person were from the area supplying the labor force, the overriding factor in selection should be experience and performance on similar projects.
- G. Other on-site personnel and home office personnel who will have duties on the project should be designated, and provision for their expenses spelled out. Engineering, clerical, purchasing, CAD, and estimating personnel (as required) will need to be considered, and the chain of command established – including who hires or provides each individual.
- H. State what method of financing and banking will be used for the project.
- I. The method of tooling on the project can be determined at a later date and be added as a Management Letter of Understanding, or as a part of the Agreement. Decisions on who furnishes tools (individual partners? Or does the joint venture purchase or rent tools?) and at what rates tools are acquired or valued should be put into writing. Also, a decision should be reached about the disposal of tools and other joint venture physical assets at the end of the project and/or when the joint venture is dissolved.
- J. Licensing, inspections, safety, and other governmental compliance issues should be addressed in the Agreement.
- K. Details about joint venture closeout and shutdown – including final accounting, warranty work, and long term product liability – should be addressed in the Agreement.
- L. A provision for continuation of the project by one partner in the event of default by the

other partner should be included. Keep in mind that this provision has to be legal in the project's location. I recommend that legal counsel be obtained on this matter.

- M. Another very important legal item is to include appropriate language that limits the liability of each partner to the specific project, so it does not include any of the partners' other business. Again, legal counsel is needed for this item.

In the realm of international joint ventures, some of the following recommendations should be considered, in addition to the above:

- A. A complete review of the laws governing the country where the project is located must be undertaken so that you are well-versed in how to comply with those laws.
- B. A determination of how this project will be financed and how payments will be obtained by the partners must be outlined in writing.
- C. Be completely aware of what liabilities are attached to the international partner, both during the project and over the long term.
- D. Provisions for special logistics involving tools, manpower, professional licensing, and material procurement must be addressed and planned for appropriately. Local Chamber of Commerce offices (or the equivalent), local universities that have foreign trade specialists, and governmental agencies might be very helpful in setting up an international joint venture.
- E. The final all-important item to consider and codify for international projects is how and when the foreign partner can get the money out of his country and into yours.

CONCLUSION

This is not intended to be the last word in joint venture work. Joint venturing is a viable and successful method for obtaining work for many electrical contractors. It makes risk more controllable; it offers opportunity to expand size, talent pool, and experience; and it offers access to a known work force in an unknown locale. This kind of networking opportunity and experience can become a great asset to the NECA contractor who is poised

to take the business to the next level within the boundaries of manageable risk.

Networking within groups like NECA, as well as other association affiliations, can be a tremendous first step along the path that joint ventures can offer for business opportunity. Look to your fellow association members as a very good source for potential partners when you have the opportunity to participate in such a project.

William "Ben" Cook, Jr., NECA's President from 2002 through 2005, successfully championed the concept that NECA contractors be the industry representatives on local and state licensing boards and the spokesmen before regulatory and legislative bodies dealing with matters of interest to the association. Prior to his presidency, Ben was vice-president of NECA's Fifth District and has been involved in the electrical industry for over 40 years. He holds an engineering degree from Texas A&M University. While serving three years active duty in the Air Force, he obtained a second degree in meteorology from Penn State University. Cook then worked for five years at Texas Utilities. Ben left to join the NECA staff as the assistant chapter manager for the Southeast Texas Chapter. He went on to work as chapter manager for the Western Oklahoma Chapter until 1975 when he began at Oklahoma Electrical Supply Co., which he now co-owns and serves as Chairman of the Board. In addition to his many years as a part of NECA staff, Ben has served both as president and governor of the Eastern Oklahoma Chapter. He also served on the Negotiating Committee for many years and held a place on the Management Development Committee for two terms.