In the fast-paced world of deal making, joint ventures (JVs) are a conundrum. Slow in the making, often with complicated structures and shared management teams, they seem out of place in a volatile era marked by buzzwords that hype agility and nimble strategic moves. Yet there they are, more than 1,500 JV deals completed annually over the past ten years, including around 10 percent of them characterized as large JVs, with an initial value of more than $250 million. Their volume seems likely to endure—more than two-thirds of executives surveyed in 2014 reported that they expect to do more JVs in the future.¹

But JVs are not always embraced without reservation. In fact, we encounter many executives who express significant concerns, often when they’re wrapped up in the uncertainty of JV negotiations. Given how much longer those negotiations can last compared to traditional acquisitions, this is both understandable and alarming. One global conglomerate we’ve observed advises its US-based headquarters to expect JV negotiations to last three to six times longer than M&A negotiations. That’s a long time for doubt to creep in, particularly if the competitive context justifying a venture might shift in the meantime.

How can executives build healthier partner relationships to give future JVs the best odds of success? Our review of a series of long-standing partnerships—supported by our 2014 survey and a
series of structured interviews with JV partners identified three principles that made a difference in deal negotiations: investing more time and effort up front, working harder to cultivate and sustain the JV relationship, and standardizing key processes and learning mechanisms.

Invest more up front
As business negotiations go, JVs are marathons, not sprints. In their rush to complete a deal quickly and begin capturing value, inexperienced JV planners neglect the foundational steps of planning. Commonly, they jump too quickly into high-stakes discussions on specific deal terms such as how ownership is divided, who nominates key leaders, and what intellectual-property protections will be put in place. What they leave aside is an explicit understanding of how well those terms match the objectives of the deal.

In fact, most companies need to invest more time in the early phases of deal planning and preparing for negotiations. Our research has shown that many planners focus more than half of their negotiating time hammering out specific deal terms that should be addressed late in negotiations and only 20 percent of their time on the JV structure and business model, which should be addressed first. In contrast, those same planners believe that the phases of the process devoted to internal alignment and the business model represent 60 percent of the total value at risk, while the phase devoted to deal terms accounts for only 10 percent (Exhibit 1).

That disconnect between time spent and value derived reinforces damaging habits. Deal terms are important, but they are difficult to correctly perceive and negotiate without a clear articulation of broader issues including deal objectives, market considerations, and walk-away points. Negotiators who lack that foundation are poorly prepared to discuss deal terms. The cost can often be measured in time. For example, negotiations slow considerably when negotiators fixate on specific, preconceived deal terms even though other solutions could also work or when they belabor negotiations on all possible considerations instead of covering the most likely ones. Cost can also be measured by long-term damage to the JV. When negotiators fail to examine a potential partner’s deeper motives or to consider the regulatory landscape fully, companies can end up with deal terms that don’t adequately govern an agreement—and that can carry substantial costs.

Exhibit 1
Joint-venture planners spend more time on phases of negotiation that create less value.

<table>
<thead>
<tr>
<th></th>
<th>Business case and internal alignment</th>
<th>Business model and structure</th>
<th>Structuring and deal terms</th>
<th>Launch and operating model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value at risk, %</td>
<td>20</td>
<td>40</td>
<td>10</td>
<td>30</td>
</tr>
<tr>
<td>Time spent, %</td>
<td>10</td>
<td>20</td>
<td>50</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: McKinsey analysis
For example, after a European company formed a JV to manufacture equipment in China, it unexpectedly learned that local regulators would compel it to transfer a larger equity stake to its Chinese partner, which threatened the deal’s feasibility. If the European company’s negotiators had conducted a more rigorous up-front process, they likely would have discovered that requirement. Instead, the venture’s launch was delayed, and the European company’s governance rights were diminished—consequences that might have been avoided.

Companies can avoid or at least mitigate such problems by investing more time in the early stages of planning. One US agricultural company requires extensive up-front business planning to confirm internal alignment and identify the motives of each counterparty. Planners there credit their rigorous preparation phase for making negotiations smoother.

That’s consistent with our experience. We’ve found that companies benefit when they set up internal checks and balances to ensure that these foundational issues are articulated and confirmed internally before negotiations with partners begin in earnest. They should also engage potential partners in early discussions to confirm that they all agree on the goals of a joint endeavor, on their expectations of changes in the market over time, and on how the JV should plan to adapt as the market evolves. One global energy company learned this lesson the hard way when its partners in an existing JV objected that a new venture completed by the energy company would, over time, hurt the existing JV’s business prospects. As a result, a foreign court ordered the energy company to pay extensive damages for an initiative that never even launched.

For most companies, a good starting point is for planners to force a tough and thorough self-review to identify their own objectives, goals, and—even more difficult—their strengths and weaknesses as JV partners. Where possible, they should also convince a potential partner’s leadership to do the same, lest they get mired in internal misconceptions in the future.

Cultivate a trusting relationship
Negotiating JVs differs from negotiating mergers or acquisitions because the end goal is a sustainable, ongoing, trust-based relationship, not a one-time deal. Not surprisingly, a significant portion of our survey’s respondents indicated that the level of honesty and trust between the parent companies had a significant impact on the partnership’s overall success (Exhibit 2).

Positive initial meetings are important to establishing trust, but planners need to do more. Regular and ongoing business and social interactions with critical parent leadership-
team members, including management off-site events and frequent, engaged board meetings, can help maintain trust and communication, reveal the breadth of motivating factors that influence a partner, and nurture a strong relationship even after negotiations conclude. As one energy executive observed, it is frequently only after many hours together in a “smoky room,” spread over the days, weeks, and months of negotiation, that the true motives of potential partners become clear. Understanding partner motives and securing mutual commitment to a deal beyond its financials will help ensure that all parties share the same expectations of ongoing JV operations.

In our interviews, numerous executives expressed concern about nontraditional objectives that may be motivating potential JV partners. These include sharing capital to upgrade facilities, achieving a relationship with a previously inaccessible third party, or increasing employment opportunities for a specific region. Such objectives often work to the disadvantage of a JV partner, as managers at a global conglomerate discovered. They negotiated a deal with a regional player that included transferring core technology into the JV in order to qualify for lucrative government contracts. Conglomerate executives at first applauded the deal, though the planners expressed concern that their partner’s motives might not be consistent at all levels of its organization. The venture subsequently reached a tipping point when, during an industry conference, the regional company’s senior executives boasted that they would start selling products based on the global conglomerate’s technology, but at a fraction of

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**Exhibit 2**  
**Success and failure in joint ventures often hinge on trust and communication.**

<table>
<thead>
<tr>
<th>Components of success,(^1)</th>
<th>Components of failure,(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alignment on parent and partnership objectives</td>
<td>47</td>
</tr>
<tr>
<td>Effective internal communication and trust</td>
<td>44</td>
</tr>
<tr>
<td>Constructive leadership in governance and governance processes</td>
<td>33</td>
</tr>
<tr>
<td>Clearly defined incentives and performance measures</td>
<td>32</td>
</tr>
<tr>
<td>Proactive communication to external parties</td>
<td>28</td>
</tr>
<tr>
<td>Plans for restructuring/evolution</td>
<td>18</td>
</tr>
<tr>
<td>Definition of roles and responsibilities</td>
<td>11</td>
</tr>
</tbody>
</table>

\(^1\) Most selected by respondents from a list of 10 components.  
Source: McKinsey analysis
the price. This forced deal teams on both sides to revisit the partnership’s objectives to reaffirm the relationship’s durability.

Negotiators who understand a partner’s motivation, business needs, and capabilities well before closing a deal will be better positioned to establish a strong, candid relationship with shared, explicit expectations. Thorough research can highlight things that wouldn’t necessarily surface during negotiations but that could affect the partner’s involvement with the JV. For example, one energy company avoided a potential misstep after scrutinizing a partner company’s relationships with distributors before coinvesting in a local manufacturing operation. That analysis made it clear that the partner company’s CEO intended to use his own distribution company to exclusively channel products into a lucrative sales territory. After the energy company escalated its concerns, its partner moved ahead with the venture anyway but did not use the CEO’s distribution company.

**Standardize processes and learning mechanisms**

Unlike dedicated M&A teams that develop negotiating skills over multiple deals, JV teams tend to change from deal to deal, often due to shifting team-member roles and responsibilities or low JV deal flow. That creates little institutional memory around key processes, approaches for managing critical issues, and even partnership-specific negotiating skills. All of these things can be proactively managed, even if deal terms cannot.

Yet our survey of JV practitioners found that less than a quarter have a JV design-and-implementation playbook—the kind of simple tool that most companies with M&A programs have had for years to reduce strain for the internal team and to ease discussions with potential partners. Without that kind of institutional knowledge, inexperienced teams often see JV negotiations as zero-sum games; they rigidly calculate wins and losses on every negotiating point. That leaves them with little flexibility to appreciate the needs of a partner interested in entering into a commercial agreement or reaching consensus on the terms of a mutually beneficial JV. The result can be a weak or ineffective deal. For example, one global company faced challenges investing in a regional JV because it focused too emphatically on legalistic deal terms to protect its own interests. That created an adversarial tone in the negotiations and undermined the collaboration needed to allow both companies and the JV to succeed. It also prolonged the process, to the frustration of the JV partners.

For most JVs, long-term success also requires an agreement process that is transparent and follows patterns of conversation established from the outset. At its core, this simply means communicating with all parties about how, when, and what to communicate. The eventual pattern of communication may vary from deal to deal, and not all parties will like it. That’s OK. Just laying it out keeps expectations aligned, focuses conversations, and reduces time-consuming delays. Otherwise, internal approval processes can cause bottlenecks, and not having the right people in the room can bring momentum to a standstill.

Standardized processes are especially helpful once a deal is under way, when adapting and restructuring can strengthen a partnership and increase financial returns—as long as the relationship is strong and the process has clearly allowed for adaptation. One aerospace partnership ensured all parties continued to agree on the goals of the JV by contractually committing to a standardized annual evaluation process. This included valuing each partner’s contributions to ensure that the risks and rewards for each partner remain consistent with the original objectives of the deal. In the event that one partner’s contri-
butions did not match the other’s, the terms of the agreement required the lagging partner to increase its contribution. Together with a management team in which the CEO position is swapped on a regular basis, both partners have been able to maintain a decades-long relationship.

With so many companies planning to increase their JV activity in coming years, it’s worth investing the time in negotiations and planning to ensure the value of these ventures.

1 Eileen Kelly Rinaudo and Robert Uhlane, “Joint ventures on the rise,” McKinsey on Finance, November 2014, McKinsey.com. This McKinsey Global Survey was in the field from March 11 to March 21, 2014, and garnered 1,263 responses from C-level and senior executives representing the full range of regions, industries, company sizes, and functional specialties. Of them, 982 executives had personal experience leading or managing joint ventures.

2 We interviewed 45 joint-venture managers.

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