

# ASSESSING THE PRACTICE OF PROJECT-BASED JV BETWEEN LOCAL AND INTERNATIONAL CONTRACTORS IN THE UAE

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This paper is about assessing the practice of Project-Based Joint Ventures formed between local and international contractors in the UAE construction industry. This common practice nowadays, provides the means for contractors to quickly add resources to enhance project acquisition. Studies indicate that JVs are among the tools that contractors will need to get together in the face of increasing market demands. Specifically, Project-Based JVs are often used in the UAE Construction industry with an exceptional growth in an attempt to diversify from Oil and Gas. The UAE is very business friendly which makes it attractive for such kind of alliance or partnership for local contractors to get the necessary experience and for international contractors to minimize the risks associated with entering new markets. In this context, studies that evaluate this alliance phenomenon in the UAE construction industry are limited. The few industry-related studies have primarily focused on large, international JVs; yet, many JVs are formed on small and medium-sized projects within the UAE. The paper aims to assess the current practices and understand the many factors involved with forming, managing, and controlling JV partnerships. The research methodology adopted a mix of quantitative and qualitative approaches. First, a closed question survey was disseminated to construction professionals in the UAE in light of the literature findings. Second, two case studies were demonstrated and analysed, then triangulated with the literature and survey findings to remove possible bias and improve the confidence in the collected data. The paper concluded that the JV in the UAE construction industry is mostly formed on project-basis rather than continuous collaboration. The management control mostly used in the UAE construction industry is shared management of activities in a venture with the operations shared between parents. The paper addressed major factors that lead to successful JV in the construction projects of the UAE which are namely trust, correct structure, communication, and partner's commitment. Partners' common objectives do not affect the JV success or failure. Willingness to adapt eliminates conflicts and enhances the JV success prospect.

Keywords: joint venture, partnering, procurement, success factors.

## INTRODUCTION

Construction industry studies indicate that JVs are among the tools that firms will need to successfully get together with future market demands. Owners are well aware that the choice of procurement route has a significant effect on the design and construction of construction projects. Over the past few years, some procurement routes have fallen out of favour due to the rise and fall of the economy. This includes framework agreements, specifically JV which is somehow a new form of procurement

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which has taken extensive times to come into general use, despite being addressed in the Latham report (1994). This paper will mainly focus on local and international contractors forming the JV to execute projects in the UAE.

The construction industry in the UAE is witnessing exceptional growth in the past few years. In 2006, the construction industry recorded a real growth rate of 19.7% on-year, while the sector is expected to expand at a slower pace of 10.4% until 2012, as given by the UAE-based investment bank, Al Mal Capital, in its annual report (Cited in *Emirates Business* 24/7, 2010). The study will concentrate on assessing the practice of Project-Based JV in the UAE Construction Industry from the contractors' perspective, aiming to identify the main project-based JV structures in the UAE construction industry, examine the significant factors in JV partners formation and selection and investigate issues related to construction JVs ownership, control, and management. The paper also investigates the factors affecting JV relationships in construction projects between local and international contractors in the UAE and evaluates the primary factors that support the successful application of JV arrangements.

## **JV STRUCTURES AND FORMATION**

### **JV Structure and types**

There is no model for a JV structure as each JV contract has multiple issues and jurisdictions involved and the contract documents should be specially modified to suit the JV under consideration. Normally in the Gulf Region, the structure is likely to take the form of a contractual alliance or limited liability company into which the JV partners will invest. The joint scope can be local or international. According to Chen (2005), three of the entry modes for international markets are related to JVs: strategic alliances, JV project, and JV Company. JV in this paper is defined as a combination of two contractors who agree to share the responsibilities, profits and losses of a construction contract on a project basis and will be terminated when the project is completed.

Kale (2013) addressed three types of JV: Integrated, Non-Integrated and Combination types. An Integrated JV is shaped when the JV partners work together and share resources to deliver the project. No distinction can be drawn between the acts of any of JV partners. In the case of a Non-Integrated JV, the overall responsibility for the contract usually has to be negotiated by a JV board. Separate sections of the work are then subcontracted out, with each of the partners taking over the responsibility for running their own technical and administrative elements of work. The Combination JV is used for large projects which is a mix of the two types where each member takes on specified scope of work and responsible for the profit or losses associated with that scope of work. However, the member also agree to act as partners with respect to a portion of the necessary work, which may include sharing the preliminaries and general condition necessary for each member's separate scope of work, as well as the actual performance of portion of the work of the project.

### **Partner Selection**

Some studies indicate that one of the major decisions when seeking a JV arrangement is the careful selection of the JV partner. This is further increased in the international perspective as partners themselves are from different jurisdictions and the foreign culture of each JV member becomes an added aspect of unfamiliarity. Adnan and Morledge (2004) stated the partner selection criterion is a critical success factor for JV projects. Beamish and Lupton (2009) highlighted that the JV partnering process

continues through the whole JV partnering process, from assessing the strategic logic for creating the venture, through the partner selection, negotiating the terms, and finally, the implementation and continuous management of the JV.

Beamish and Lupton (2009) stated that the concerns on selection of partners focus on shared objectives, common trust, willingness to collaborate and having necessary skills and resources. Rowan (2005) mentioned that prior to the selection of a JV partner; firms should adopt criteria that will guide their undertakings. The main criteria considered by Rowan when an organization is looking for possible partners to go into JV partnership are Skills, Experience, Financial Stability, Partner's Willingness to form JVs, and finally Same Spoken Language to avoid communication problems. Adnan *et al.* (2011) identified critical factors in JV partner selection criteria related to the Reputation, Experience, Personal Knowledge of the Partner Organizations, Commitment, Inter-partner Trust and Human Resources Management.

### **JV Formation**

A good understanding of the laws that will apply to the JV is a key to identify the most appropriate structure of the JV (Minja *et al.*, 2012). The GCC countries are civil law jurisdictions, with codified statutes, that are still evolving to meet the demands of global trade. In the UAE, JV formation and contract signing is even more significant given the fact that there are many international contractors, not licensed to engage in business in the UAE, but working on local projects by forming JVs with local companies. In general, the JV form option should be selected according to the resources contributing to the JV to serve its purpose of formation. It should be noted, however, that the amount of control over the JV agreement might be one of the major concerns of a partner when forming a JV.

### **JV Management and Control**

Control in JVs has been traditionally modelled by relative degree of ownership. However, new work on JV forms, networking and other organizational models suggests that ownership may not be the best means of control in every situation and may be a minor issue in domination (Mjoen and Tallman, 1997). As stated by Killing (2012), the primary problems in managing JVs arise from the fact that there is more than one head. That's probably what makes control issues in JVs at the centre of management conflict between the JV partners. So the control here is not only the influence on the partners own JV management, but also the ability of an owner to implement control over the other partner JV management.

The level of Partners involvement in the decision making process of daily operations of the JV is the primary question in JVs management. JVs are difficult to manage as partners usually have different managerial skills, beliefs, values, and traditions, which make them competitors as well as collaborators (Ozorhon *et al.* 2010). It was found that 31% of JVs end up with disputes between partners and more than, half was caused by JV site team. That is why; the management control type should be carefully selected to avoid disputes and management pitfalls. Ozorhon *et al.* (2008) identified the factors which significantly contribute towards achieving good relations between partners involved in JVs such as commitment, communication, and trust.

### **JV Success Factors**

It is important for companies that consider entering into a JV to examine strategies applied in order to find out what makes them successful or unsuccessful and why they work differently in different situations. Key factors include the necessity of honesty,

trust, and commitment for the success of the JV. Factors also include settling disputes by focusing on what is best for the JV rather than individual partner objectives (Beamish and Lupton, 2009). Sillars (2004) stated that once a project is procured, the culture match between partners is a major factor to ensure JV success. Beamish and Lupton (2009) added that JVs with similar organizational cultures had a higher probability of success. Other researchers claimed that organizational and innovative capabilities, the existing market strength, and competitive advantage, may be potential determinants of success and satisfaction with a JV.

Given the time limits of project-based JVs, the initial level of trust between partners may determine the overall success of the partnership. Also, partner selection and analysis may have an ultimate impact on the potential success of the project-based JV. According to Ozorhon (2008), organizational fit between partners, compatible technical and managerial resources affect the success of JVs. Results from the study of Minja *et al.* (2012) showed that highly ranked key factors for success in JVs are willingness, financial stability and competitiveness of required task. Such success factors are yet to be examined in the UAE if applicable to the success of JVs through the empirical study of this paper.

## METHODOLOGY

The research design is inductive adopting a mix of quantitative and qualitative methods to enjoy the advantages of both approaches. Multiple sources of evidence were used to collect information, mainly literature review, questionnaires and case studies. A closed-question survey was disseminated to construction professionals in the UAE to compensate for the poor literature on the project-based JV in the UAE construction industry. Two case studies were fully demonstrated and analyzed then triangulated with the literature and survey findings to remove possible bias and improve the confidence in the collected data.

## QUESTIONNAIRE SURVEY

The questionnaire was disseminated via email to 118 experienced practitioners in the industry and the response rate was 44% which is satisfactory. Table (1) shows the sample response rate among respondents. 60% of respondents have more than 10 years of experience while 75% of the respondents' companies have been operating in the UAE for more than 15 years. This might indicate some bias in the results towards local contractors' perspective; therefore, careful interpretation was carried out.

*Table 1: Sample Response Rate*

Respondent	Sent	Received	Response Rate %
Law Firms	10	4	40%
Consultants	17	8	47%
Contractors	54	16	30%
JV Contractors	37	24	65%
Total	118	52	44%

## JV Formation in the UAE

Respondents were asked to select the type of JV they are familiar with. 67% of respondents believe that JVs in the UAE are formed on a project-basis. This indicates a relationship that lasts for the duration of the project and might turn into continuous

collaboration basis depending on the success of the JV in executing the project. On the contrary, only 9% believe that JV is based on a continuous collaboration. 20% of the respondents consider the use of both formations in the UAE. Results indicate that some companies may collaborate with the same partner in quite few projects depending on the level of success; however, the results validate literature findings that JVs in the construction industry are well thought-out to be project-based rather than continuous collaboration. It should be noted, however, that there are some other formation arrangements mentioned by respondents about more specific contractual arrangement.

**JV Types**

Respondents were asked to rank the mostly used JV types in the UAE. The Authors used the Relative Importance Index (RII) to rank the results which is calculated as follows:  $RII = \frac{\sum W}{A \times N}$  Where; W = weight given to each factor by respondents, A= highest weight, N = total number of respondents.

The responses from table (2) show that Integrated type is mostly used followed by the combination of both types and the least used is the non-integrated type. The RII for all three types did not reach a high ranking. In addition, the results from the previous question on JV formation contradict with the findings here that integrated JVs are mostly used given the suggestion by Kale *et al.* (2013) that integrated JV types are usually used when JV partners have strong and lengthy relationship.

Table 2: JV Types in the UAE

JV types mostly used in the UAE	RII	Rank
Integrated (Jointly Managed JVs)	0.71	1
Combination of an Integrated and Non-Integrated JVs	0.66	2
Non-Integrated (Separately Managed JVs)	0.60	3

**Factors affecting the selection process of JV partners**

Results on ranking the factors affecting the selection of JV partners show high RII for Partner’s Financial Stability, Partner’s Experience, while Similar Business Philosophy and Spoken Language were the lowest in the ranking as shown in table (3). The results are mostly consistent with the criteria considered by Rowan (2005). The financial stability is the most significant factor to ensure low potential for default and avoid partner’s risk. Also, Partner’s experience is highly important to reduce transaction costs and enhance the effectiveness of the JV operation, specifically in large and complex projects where partners prefer to avoid any disputes and unsuccessful relations.

Table 3: Factors affecting JV partner selection

JV Partner Selection Factor	RII	Rank	JV Partner Selection Factor	RII	Rank
Partner’s Financial Stability	0.87	1	Partner’s Track Record in JVs	0.76	6
Partner’s Experience	0.86	2	Partner’s Commitment	0.76	7
Reputation	0.85	3	Similar business philosophy	0.72	8
Inter-partner trust	0.81	4	Spoken Language	0.63	9
Competitiveness of required task	0.80	5			

**JV Partners’ Ownership**

52% of respondents agree that the best approach of JV ownership that both partners have equal share of ownership. This would mean greater stability because the partners

are equally committed to the JV as argued by Beamish (1985). However, 31% prefer that the partner from the host country to have dominant ownership but it can be argued that, this approach might be advantageous for the local contractor as it helps increase stability avoiding the managerial costs inherent in a JV as well as potential conflicts between partners (Killing, 2012). The rest of respondents prefer to retain the ownership with the foreign contractor who have high level of international experience and key resources, but this might result in a conflict between partners

### JV Partner's Trust and Commitment

Around 68% of the respondents agree that higher trust amongst JV partners leads to partners achieving their objectives, whilst 4% disagree with this statement only. More than 90% of the respondents agree that JVs with higher levels of relationship commitment lead to partners achieving the goals of the JV project. Only 2% disagree with this which implies that commitment is a significant factor through the whole JV relationship which is in line with the findings of Beamish and Lupton (2009).

### JV Management Control

The outcome from results shown in table (4) indicates that shared management of activities in a venture is the highest ranked management control used in the UAE with the operations shared between parents, followed by split management of activities where the scope of work is split between partners such as civil and MEP works. However, the parents' involvement is minor which keeps the control with an independent group employed under the JV.

Table 4: Type of management control mostly used in the UAE

Type of JV Management Control	RII	Rank
Shared management for all activities	0.72	1
Split management of activities	0.67	2
Dominant management for all activities by one of the partners	0.58	3

### JV Success Factors

Results from table (5) show that respondents give high rankings to all factors mentioned except the common objectives factor which doesn't seem to support JV success. Again, trust is an important factor, followed by the correct structure which will be suitable for both partners to manage the JV successfully and avoid disputes. Common objectives is not a factor of success given that partners do not necessarily share the same objectives, specifically, the local/international JV where both partners have different reasons to JV apart from the typical project objectives to complete the project respecting time, cost and quality constraints.

Table 5: JV Success factors in the UAE

JV Success Factors	RII	Rank	JV Success Factors	RII	Rank
Trust between partners	0.90	1	Partners' commitment	0.85	4
Correct structure	0.88	2	Interaction between colleagues	0.80	5
Communication	0.88	3	Common objectives	0.78	6

## CASE STUDY

Two case studies were demonstrated with factual data along with views from individuals after the following projects were completed and handed over to their respective clients. Case-1 was a UAE-Japanese JV for a value of \$ 40,000,000 leisure

project and Case-2 was a UAE-Korean JV for the \$76,000,000 project and both projects were located in Abu Dhabi, UAE.

### Case Study 1:

This case study represents a successful JV and shows how a Japanese firm and its local partner successfully managed their JV project in the UAE. This four-storey cast-in-situ circular building, flanked on either side by a water cascade which is one of the world's largest and most spectacular, customized water features is located in Abu Dhabi City. One of the main challenges was to finalize the project on time to make sure that other phases of the overall project are not hindered or delayed. The case is for the Mechanical and Electrical Works project whereas the local company was responsible for the Electrical part only while the Japanese partner was responsible for the Mechanical Works.

Data collected from the project documents as well as interviews with the project team and the following key information was gathered:

- The legal form was project-based JV contract.
- Integrated JV structure was deployed with both companies jointly managing it and jointly taking decisions.
- Partners have equal share of ownership.
- Split management of activities was the management control agreed by both parties.
- Both companies were committed to the project from the start to finish.
- Problems, if any, were immediately highlighted in senior management meetings to reach agreements on how to overcome the problems.

One of the senior managers of the local company stated that the reason behind entering a JV is that the client (semi Government Company) required a high experienced organization with a global reputation to do the job. In addition, the Japanese company have financial stability and strong 'know-how' experience. While the assistant project manager of the Japanese partner stated that the well-established local partner in the UAE with strong local experience and industry connections was the reason for JV agreement. It can be seen that government policies sometimes have a role in forcing local contractors to enter into JV agreements. However, the partner's financial stability, complex projects, and combined experiences and resources seem to be the most demanding reasons.

When the interviewees were asked about management control decisions, both companies were responsible for their own decisions because of split management JV control. The Japanese contractor had to get approval from overseas on some decisions which did take time. The local company was able to make decisions very quickly. The local company had their General Manager in the JV Management Committee while the foreign company had assigned managerial staff with less prominent positions. They did, however, have more management on site which increased their costs dramatically. Therefore, some of the urgent decisions were taken by the local contractor. This shows that the involvement of partners in decision making process on major day-to-day operations of the JVs could be difficult to make them competitors as well as collaborators in such situations (Ozorhon *et al.* 2010).

For the local company, the project was successful and when the interviewees were asked about the essence of success, one manager mentioned it's finishing the project

on time with good profit. Another manager said that it was profitable and they have learnt a lot from the Japanese contractor while the third manager said the client was happy with the finished product and with this project in their profile, they have been able to secure works in projects with both Mechanical and Electrical scopes. As for the Japanese contractor, feedback was not that good as they spent so much on their increased staffing levels, hence, they lost money on the original project contract. They did however, say it was a learning curve for them and they learnt a lot from the local contractor and gained local experience. Also, they have successfully gained some compensation with their approved extension of time claim. The above clearly shows how successful JV achieves win-win scenario where the expertise of the international contractor benefited the local contractor, while the international contractor managed to gain significant local experience and access to local work opportunities.

### **Case Study 2:**

This case study represents an unsuccessful JV. The project was delayed and both JV partners suffered financial losses. The case provides useful lessons for construction companies of the risks that they could face in undertaking a JV. The project was designed to include a five-storey technical and support building integrated with a 110-meter-high visual control tower. The finished building will be equipped with state-of-the-art navigational and meteorological equipment. The project had some principal objectives and challenges which were to create an architectural landmark for Abu Dhabi International Airport.

Data collected from the project documents as well as interviews with the project team and the following key information was gathered:

- The legal form was project-based JV contract.
- Integrated JV structure type was deployed.
- Ownership was decided at award of contract and agreed mutually. Korean contractor had 80% ownership while Local contractor had 20%.
- Dominant management control by the Korean contractor was used in the project due to the level of ownership with the agreement to counter signature (authorization) from the local contractor on all decisions.
- There were many cultural conflicts between the partners in the project.

When asked about the major reasons for seeking a JV in this project, the local partner's manager mentioned they wanted to maintain the relationship with the client they were used to work for, although the project is beyond the expertise. Therefore, they decided to minimize their exposure and share the risk in this complex project. Also, branding was another reason as the structure was an iconic building. As for the Korean partner, they looked for a JV with a local contractor for the reason that, they did not have the necessary experience in the UAE construction industry.

This indicates that the foreign contractor is using the JV as mode of entry to new markets as described by Chen (2005). For the local contractor, it is used to acquire talents and resources, share risks, and undertake large and complex projects which is consistent with Ping *et al.* (2009) suggestion that JV is critical to local contractors in complex projects in developing markets who do not have enough capability or the required technology. As stated by the Korean contractor, there was a huge cultural conflict with their partner, project subcontractors and clients.

Communication was not proper and interaction between partners was not good enough which indicate the main reasons behind the failed JV. The local contractor stated that they have not considered cultural factors in the JV negotiation process as other important factors in their opinion were fulfilled, including partner's financial stability, experience, and reputation. Specifically, financial stability seems to be the significant factor for JV local contractors.

There was clear JV management issues noted from the interviewees when asked about decision making. Local partner was used to seek decisions from the management in head office whilst the Korean partner was used to refer to their Head office in Korea to make decisions which took long times, hence delays occurred as they possess the majority of control and ownership. On the other hand, although, the Korean contractor had dominant ownership as stated above, all decisions, even minor ones should have been mutually agreed with the local contractor. This represents some "hidden" control as expressed by the construction manager of the Korean contractor which has also caused some delays on the project. Therefore, the ownership in this project proved not to be the best means of control and was a minor issue in domination as suggested by Mjoen and Tallman (1997).

## CONCLUSIONS

JV in the UAE construction industry is mostly formed on a project-basis rather than continuous collaboration as the contractors in the UAE prefer temporary relations in construction contracts. Integrated JV type was found mostly used in the UAE and the least used is the non-integrated type. One of the most important decisions when entering into a JV arrangement in the UAE is the careful selection of the JV partner. Key factors for JV partner's selection are Financial Stability, Experience, Reputation, and Inter-partner trust. Also, when the partners have equal share of ownership, greater stability is attained because the partners are equally committed to the JV. The level of international experience will affect the company ownership as the more critical the strategic resources transferred to the venture are to the parent, the more likely the parent is to desire the highest possible level of ownership which might result in disputes. The management control mostly used in the UAE is the shared management of activities in a venture with the operations shared between parents. Split management of activities for which partner has competence is mainly used when the scope of works is split between partners. Decision making management of the foreign contractor represents a source of delay whenever a critical decision needs to be taken as the foreign contractors usually take long time to seek head office advice. Management control difficulties can be increased because of cultural differences which contribute to conflicts. Major factors that lead to successful JVs in the UAE are namely trust, correct structure, communication, and partner's commitment. Partners' common objectives do not affect the JV success or failure. Willingness to adapt eliminates conflicts and enhances the JV success prospect. It should be noted however, that due to the lack of experience of some survey respondents about JV arrangement as well as the insufficient feedback from case study interviewees about significant relevant matters, there was some vague arguments on JV success factors.

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