Public-Private Joint-Ventures: Mixing Oil and Water?

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Abstract

The use of public-private partnerships (PPPs) is one of the most distinctive features of strategic management in the public sector. However, PPPs can take many varied forms, and can present quite different managerial and organizational challenges. One of the most significant, yet understudied, forms of PPP to emerge in recent years is the Public-Private Joint-Venture (PPJV). Unlike Contractual PPPs, in which public organizations tightly specify the service to be provided under contract by private sector organizations, PPJVs involve the creation of a new institutional entity that is governed by all parties in the alliance. This article examines the distinctive character of PPJVs and draws upon documentary and case study evidence to evaluate the ways in which the mixing of public and private within this important collaborative form can be managed best.

Key words: Collaboration management, joint ventures, management dilemmas, public-private partnerships, public-private sector differences.

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Introduction

Joint production of public goods and services by the public and private sectors has become a common strategy for responding to the contemporary challenges facing governments across the world. As a result, observers of the public management landscape are witnessing an increase in the variety and complexity in the forms of collaboration between the public and private sectors (Skelcher, 2005). However, research in the field of public-private collaborations is still developing and has yet to fully examine the myriad organizational forms that have emerged during the last decades. In particular, despite the long history of the study of multi-firm alliances in the management literature, scholarship on the formation and management of cross-sectoral organizational alliances has not developed at the same rate (Fischbacher & Beaumont, 2003). Mixing the distinctive environments, goals, structures and values of public and private organizations within public-private partnerships is likely to add further complexity to the already complex task of alliance management. Understanding and managing sectoral differences may therefore hold to key to making a success of public-private alliances. In this paper, we explore the ways in which such differences shape the management of an understudied form of public-private alliance – the Public Private Joint Venture (PPJV).

PPJVs are a highly distinctive structure for strategic alliances between public and private sector organizations. They are separate legal entities formed by one or more public organizations and by one or more private companies in which the revenues, expenses, and control of the enterprise are shared among all the involved parties. Accordingly, PPJVs can be distinguished from other collaborative forms of public-private cooperation by two main features. The first is that PPJVs entail the creation of a new entity, and are not merely the result of a contract. The second characteristic is that the new entity is jointly governed by the collaborating public and private organizations, with the relative degree of representation of each sector on the board of the new organization typically determined by the public managers responsible for their inauguration.

During the past twenty years, PPJVs have been used for public purposes as diverse as the management of local waste disposal (Bovaird, 2004) or to enhance R&D in high science-content technology industries (Martin & Scott, 2000); and are increasingly regarded as a means for the creation of public value within the education and health sectors across Europe (European PPP Expertise Centre, 2012). It is somewhat surprising, therefore, that so little scholarly interest has been taken in the nature or use of PPJVs or how to manage them successfully, despite their increasing use as a tool of public governance across the globe (Castro & Janssens, 2011). What is so distinctive about PPJVs? And, what are the main challenges faced by managers of PPJVs? More specifically, how can differences between the public and private sectors be overcome in order to successfully manage PPJVs? In the following section, we reflect upon the distinctive nature of PPJVs, delineating them from conventional contractual concessionary types of public private partnership. Thereafter, we explore the challenges posed by mixing sectors in PPJVs, drawing on case studies from different countries to assess the ways in which sectoral differences can be successfully managed.

The Distinctiveness of PPJVs

During the past two decades, conventional bureaucratic solutions to the problems of government have increasingly been found wanting. Influenced by the tenets of New Public Management (NPM), governments across the globe have implemented a swathe of initiatives designed to tap into the human and material resources of the private and voluntary sectors. Within this context, PPPs have emerged as one of the most popular, though controversial, modes of bringing cross-sectoral expertise to bear on complex social issues (see Hodge & Greve, 2007). Not only are PPPs deemed to be a new organizational form capable of meeting the challenges faced by today's public managers, but their increasing use is also attributable to the tangible benefits that they arguably bring to all the parties involved in the collaboration ranging from improved service quality, risk sharing, and cost savings, among others (Bennet et al., 2000).

PPP forms have been classified from different standpoints (see Weihe, 2008). Some classifications have considered the aim of the project as the key marker of differentiation. For instance, Hodge and Greve (2007) identify five main goals of PPPs: 1) Institutional co-operation for joint production and risk sharing; 2) Long-term infrastructure contracts (LTICs); 3) Public policy networks; 4) Civil society and community development; and 5) Urban renewal and downtown economic development. However, other analysts (OECD, 2008) have focused on the formal side of the collaborations, by specifying which responsibilities are assumed in the project (such as design, build, own, operate, maintain, and transfer). Although these approaches to studying PPPs identify important aspects of the operation of such mixed organizational forms, they don't furnish a clear typology of the actual organizational characteristics of PPPs. One useful framework for exploring the nature of PPPs is that adopted by the Commission of the European Communities (CEC) (2004) to understand the alternative PPP arrangements used by member states for the delivery of public services.

In order to clarify the legal rights and responsibilities surrounding the use of PPPs, the CEC helpfully distinguishes between contractual PPPs (henceforth, CPPPs), in which the relation between the public and the private sector is based solely on contractual links, and PPJVs, in which public and private organizations cooperate by creating a new organization to be governed by all parties in the alliance. The formation of CPPPs entails the private sector agreeing to undertake the provision of one or more public services under contract; these tasks can include the design, funding, execution, renovation or exploitation of a particular service. CPPPs therefore typically take the form of a concession model, in which the public sector signs a long term contract with one or more private organizations to develop and manage a project (Hammerschmid & Ysa, 2010). By contrast, for PPJVs, one or more public and private organizations, respecting the premises of a PPP, create a new organization where all the parties share the authority to make strategic and operational decisions as a kind of joint venture[1].

Joint ventures are described in the management literature as an agreement between two or more organizations to invest equity in the pursuit of a common interest, typically as an alternative to acquisitions, supply contracts, licensing, or spot market purchases. Critically, joint ventures entail the formation of a common legal organization that pools resources from two or more firms until the goals of the venture are achieved (Kogut, 1988). Accordingly, joint ventures have been attributed with a *substantial, continuing cooperation between otherwise independent organizations* (Harrigan & Newman, 1990, pp. 419). This distinctive feature of a joint venture is not unique to alliances between private firms. PPJVs too involve substantial and on-going collaboration between formally independent public, private and non-profit partners.

The main characteristics of PPJVs are: firstly, that they require the creation of a specific form of legal agreement; second, that the goals of the new organizations have to be agreed by all partners; third, that they entail a more active participation and commitment on the part of private firms since they share in the governance of the alliance; and, fourth, that power and authority have to be distributed equitably among the parties (Commission of the European Communities, 2004). Table 1 summarizes the main features of classic public sector contracting, Contractual PPPs, and PPJVs.

[Table 1 about here]

PPJVs can only be developed in countries that allow for private sector participation in the management and ownership of public assets. As a result, they are often assumed to be most prevalent in liberal market economies, such as the UK, the United States and Canada, which have increasingly opened up public assets to the private sector (Whitfield, 2010). However, the use of PPJVs also has a long history as a means for managing water and santitation provision in Spain and Latin American countries (Castro & Janssens, 2011). Generally speaking, PPJVs are new companies created by public authorities in which the public partner retains a majority share, with multiple private partners providing services and/or finance, and holding minority shares. Typically, though, the board of directors for PPJVs is composed largely of private partners, since these are usually more numerous than the public authorities involved in the alliance, sometimes leading to a situation where the public partner is in effect a "silent partner" with little active input into the strategic direction of the partnership (Castro & Janssens, 2011). However, as with any sort of partnership arrangement, the actual allocation of economic ownership and voting rights varies greatly, often being contingent on the legal framework of a given country.

Within the UK context, three main types of PPJV arrangement have emerged in the past twenty years: the company limited by shares; the limited partnership; and, the limited liability partnership. Each of these arrangements exhibits subtle differences in the opportunities for private partners to reap financial rewards from the venture and for public partners to steer the alliance in the event of management deadlock (as summarised in Table 2). In fact, in the UK, there are now examples of hybrid forms of interlocking PPJVs that involve more than one of the main partnership arrangements identified by the UK

Treasury (Shaoul, Shepherd, Stafford & Stapleton, 2013). Whatever the nuances of the alternative arrangements for the allocation of economic ownership and decision-making rights, it remains clear though that the management of PPJVs is a complex task for public authorities, and one that brings to the fore questions about the complementarity of the public and private sector.

[Table 2 about here]

Managing sectoral differences in PPJVs

PPPs are generally thought to have the advantage of merging the strengths of the private sector – innovation, financial capacity, knowledge of technologies, and entrepreneurial spirit - with the social responsibility, environmental awareness, and local knowledge of the public sector (Bennet et al., 2000). In constructing PPPs of any form however, public managers face multiple challenges associated with managing sectoral differences, ranging from the appropriate allocation of risk to determining appropriate performance measures. Reflecting on the experiences of management in private firms, Hill and Hellriegel (1994) argue that the secret to making joint ventures work is ensuring that the potential complementarities of each partner can be successfully brought together. In the case of PPJVs, this may be an especially acute challenge since they must seek to benefit from partners' organizational complementarities while also mixing the distinctive environments, goals, structures and values of public and private organizations.

Mixing environments

One of the key differences between management in the public and the private sectors is arguably the relationship between organizations and the actors within their environment.

Even though public and private organizations both confront a large and complex map of stakeholders, the influence that this diverse set of actors has in each sector can vary considerably (Nutt, 2006). Public organizations are ultimately held politically accountable by citizens who may or may not actually use the services provided, whereas the private sector is in the last instance accountable to the shareholders who invest their money in businesses. To reconcile the demands of different stakeholder groups, managers of PPJVs must make extensive use of consultative practices that incorporate multiple viewpoints as well as analytical exercises that test how shareholder benefits can be maximized (Nutt, 2006). In the absence of such processes, tensions can arise due to differences between public and private interests, especially for private sector partners accountable both to company shareholders and the PPJV board of directors (see Shaoul, Stafford, Shepherd & Stapleton, 2012).

Despite the potential divergence between public and private stakeholders' views about the utility of a PPJV, it is still possible to find creative ways to maintain a focus on the overarching purpose. The Social Enterprise Knowledge Network (SEKN) (2004) case series highlights how not-for-profit organizations can push private sector partners towards social responsible practices, because firms value the reputation-enhancing effects of involvement with socially beneficial projects. For instance, the joint venture forged in Costa Rica by the Foundation of Housing Promotion (Fuprovi), Repretel and Hereida to provide assistance to those affected by the Hurricane Caesarand the strategic alliance between Danone Mexico and Friendship Home to provide free medical treatment to low-income children suffering from cancer both benefited from the determined advocacy work of nonprofit leaders. Likewise, research on the management of PPJVs in the UK health sector has suggested that public sector leaders must stand up to private interests to minimize the risk of private partners dominating the strategic direction of PPJVs (Agyenim-Boateng, Stafford & Stapleton, 2012)

Another important aspect of the challenges associated with mixing environments in PPJVs is the divergent approaches to managing risk in the public and private sectors. Klijn and Teisman (2003) argue that for conventional CPPPs the political risks of government are not easily reconciled with the market risks of business organizations. According to them, there may be reluctance to focus on outcomes on the part of public organizations and a reluctance to share resources and expertise on the part of private organizations. Thus, the risk environment in PPJVs might, if managed badly, prompt a mutual locking-up of agreements that inevitably leads government to revert to more tried and tested types of co-operation, especially CPPPs. Thus, as the private sector literature (see Wassmer, 2010) suggests, it is essential to establish clear guidelines for the management of risk, which are agreed by all partners. Where such risk management issues are not dealt with up-front, it can result in protracted post-hoc adjustments to sectoral differences. For example, in the case of Galileo, Europe's satellite radio navigation system (Mörth, 2007), the security concerns of the implicated governments regarding the involvement of private organizations eventually prompted calls for extensive renegotiations to ensure that risk was managed effectively. Several commissions were convened to resolve these issues by to developing guidelines that ensured each party was able to achieve its own objectives.

Mixing structures

Organizational structures often exhibit strong sectoral differences, which influence the style of management in public and private organizations. Public bureaucracies are frequently regarded as being rule-orientated because of the need to meet demanding statutory requirements for due process. By contrast, private firms are not subject to the same kind of political accountability pressures and so are thought to be less hampered by bureaucratic oversight (Rainey, 1989). Thus, in theory, when allying with the public sector and dealing with public managers private sector partners may feel unduly constrained by rules and regulations.

Whereas rules and procedures provide public partners in PPJVs with guidelines for the appropriate use of resources, private partners may feel less inclined to be held to the same standards. For example, evidence from the Building Schools for the Future (BSF) programme in England suggests that private firms involved in the BSF scheme have been reluctant to disclose important financial information, citing reasons of commercial confidentiality (Shaoul et al., 2012). This has resulted in a severe lack of transparency around the financial performance of the Local Education Partnerships (LEPs) set up under the BSF programme. To address these types of accountability problem, some commentators argue that private partners in PPJVs should be subject to the same financial reporting requirements as their public sector counterparts (Shaoul, Stafford & Stapleton, 2008).

One of the main structural challenges posed by PPJVs in the UK has been the proliferation of complicated partnership arrangements, which have led to calls for public sector managers to receive training in navigating complex PPJV decision-making structures (Shaoul, Shepherd, Stafford & Stapleton, 2013). A successful example of how to mix public and private structures can be found in the Chinese healthcare system. In an attempt to improve the service provision of Public Hospitals, the Shanghai Local Government promoted a series of PPJVs with the U.S. private company United Family Hospital (UFH). When UFH started to work inside the hospitals, they encountered complex hierarchical decision-making structures which had been unchanged in over 100 years. To overcome the structural barriers to collaboration that this posed, the Shanghai local government invested considerable time and effort in making the private partner aware of the operating procedures and regulations of the Chinese health system. This, in turn, helped to cultivate the commitment of both partners to the venture and building on the knowledge gained from the first pilot experiences, the initiative was then promoted to other Chinese cities such as Beijing, Wuxi and Guangzhou (Liu et al., 2013).

Mixing goals

Maintaining a sufficient degree of alignment between the collective interest and the particular interests of each partner is especially challenging. Even if the content of public and private goals diverges slightly within PPJVs, they can present a problem for the success of the venture. Critically, multiple goals create problems – not because they lead to *confusion and lack of purpose*, but rather because they prompt a *status quo bias* (Ethiraj & Levinthal, 2009, pp. 19), which, in turn, can lead partners to question the very purpose of a strategic alliance. Goals in PPJVs should therefore *act as a guide for decision making and a reference standard for evaluating success* (Farnham & Horton, 1993, pp. 31), but for such goals to be realized managers should not be pressured to meet too many objectives, or deliver instant results.

For PPJVs, it is important that the board assumes collective responsibility for making the alliance work, taking distance from the individual interests of each organization involved. However, this can be very difficult to achieve if the PPJV board is composed of only managers from the involved parties. In particular, private sector directors may experience serious conflicts of interest because they are accountable to the PPJV board for delivering public value for money, but also to shareholders for maximizing profits (Shaoul et al., 2012). In many countries, the public sector retains a majority share in the ownership of PPJVs to ensure that the focus on creating public value is maintained (Castro & Janssens, 2011). However, in PPJVs where private partners hold the majority of shares, such as is typically the case in the UK, alternative strategies for making sure that the alliance stays on course may be needed.

The inclusion of civil society actors in the decision-making processes of PPJVs is one way that the board of directors can seek to reduce the risk that the alliance will become diverted from its original aims (Castro & Janssens, 2011). Likewise, the use of external advisors to the board of PPJVs offers a useful means for the impartial mediation of the goals of the different sectoral partners, by facilitating cooperation and conflict resolution (Krackhardt, 1999). This was the experience of the Business Improvement Districts (BIDs) in cities such as Philadelphia, Washington and New York, where neighbourhood associations, churches and NGOs contributed to the partnership between local businesses and the public authorities to improve the city downtowns (Briffault 1999; Ysa, 2007). At the same time, BIDs have drawn upon legal and management advice from academics, external consultants and the International Downtown Association (IDA). The IDA, in particular, helped the different BID partners to bring their goals into alignment through its best practice benchmarking work, on site tours, and seminars to the boards (Ysa 2007).

Although it is possible to bring very diverse partners together successfully, a major reason for an early dissolution of joint ventures is still changes in the strategic objectives of one or more of the key partners (Cui et al., 2011). In PPJVs, public organizations may alter their approach to the venture in response to political developments, perhaps as a result of elections or wider public policy shifts. For example, the BSF programme in England was shelved by the UK coalition government on taking office in 2010 – though the extant ventures will continue investing funds in school-building for up to 25 more years (Shaoul, Shepherd, Stafford & Stapleton, 2013). At the same time, managerial turnover within the public and private partner organizations can pose problems when personnel, personalities and priorities change. Often complex cross-sectoral collaborations represent an unexpected and possibly unwelcome inheritance for new managerial teams (Plumridge, 2007). This again places a more substantial burden on the respective partners to sustain a broad consensus about the means and ends of the venture than is the case for CPPPs, wherein it is possible to fall back on the original contract specification as a basis for (re)negotiation.

Mixing values

The literature on strategic alliances suggests that the strength of the collaboration between the parties of an alliance relies on their perception of the degree to which the identities, values and cultures of the involved organizations cohere (Child, 2001). Where this cohesion is lacking, there is a corresponding risk of opportunistic behaviour by partners. Evidence from one study indicates that opportunism in strategic alliances is correlated with the scale of the venture and divergence between the values of the partners (Huang et al., 2009). This is a serious risk for PPJVs, since they are frequently developed to accomplish large, complex infrastructure projects (Castro and Janssens, 2011) and, moreover, public and private managers are often thought to differ in their values. For example, through participation in the Galileo project, private partners in the alliance gained access to vast swathes of confidential data on network users, enabling them to potentially exploit the trust of their partners in order to open up new markets for their products and services. This potential risk could only be managed by empowering the CEC to intervene in any situation that could lead to public data being inappropriately exposed (Morth, 2007).

However, even if opportunistic behavior does not occur, the differences among the value-sets of both sectors pose a challenge for the management of PPJVs. According to Public Service Motivation theory (Perry & Wise, 1990), public employees will be driven by their desire to serve the public interest, while private employees will seek to further their organization's interests. In a nutshell, then, the major challenge caused by the mixing of values in PPJVs is to help the members of each organization to switch their mentalities from the "us and them" to the "we" (Sonnenberg, 1992) – something that is dependent upon the degree of trust between partners (Das & Teng, 1998). However, in alliances where public and private organizations need to coexist, trust between the two sectors cannot be taken for granted (Rufín & Rivera-Santos, 2012), especially if the public and private sector actors have not previously collaborated. The transaction costs associated with building inter-organizational trust when starting a PPJV are frequently underestimated and present a formidable barrier to their success (Vining, Boardman & Porschmann, 2005).

One practical example of how to overcome value differences and lack of trust between public and private partners is represented by the approach adopted by the *Projecte Territorial del Bages* (PTB) in Catalonia. A major reason for the success of the PPJV developed by the Manresa Council, the Caixa Manresa (a savings bank) and several small private enterprises from the Bages territory of Spain was extensive dialogue between parties during the first years of development carried out with the express purpose of imparting a sense of collective interest to each of the partners (Saz-Carranza et al., 2009). Accepting that high initial transaction costs are a price worth paying for making the project a success, the public and private partners strove to create a shared sense of purpose from the outset. As a result, not only were the formal relationships and goals for the PPJV clearly specified, but partners indicated that the perceived differences in values among public and private actors had diminished as the project was developing.

Conclusions

Across the globe, public authorities and private organizations are taking part in large, complex projects in a multitude of collaborative formats. However, the differences between the public and private sectors continue to present distinctive challenges to the growth of effective collaboration. The pressure to achieve shared goals through PPJVs is especially great, where public and private sector differences act as a double edged-sword. If badly managed, public-private differences can become an insurmountable barrier to the success of PPJVs, but if managed well they can help both sectors and their key stakeholders to achieve objectives that would be unattainable otherwise.

Our exploration of the management of sectoral differences in PPJVs suggests that the following practices are important determinants of partnership success. Firstly, environmental differences can be overcome by establishing rules and guidelines for managing the collaboration up-front, and by encouraging public sector leaders to proactively defend the public interest and manage private partners' expectations about the alliance on an on-going basis. Secondly, structural differences can be best resolved by requiring that private partners disclose all relevant financial information. They can also be addressed by sharing knowledge about internal decision-making patterns – a recommendation that implies a corresponding need for bespoke training to ensure public sector partners, in particular, understand the complex lines of accountability within

PPJVs. Thirdly, contrasting goals can be brought into closer alignment by involving civil society stakeholders and external experts in the decision-making process and embedding mediation within the work of the governing board. Finally, to ensure that the potentially divergent values of the public and private partners do not problematize the success of PPJVs, it is essential to build-in time for developing inter-organizational trust during the early phases of setting up the alliance.

Each of the recommendations we advance are dependent upon the capacity of public organizations to be more than just "sleeping partners" within a PPJV, which, in turn, places a great responsibility on public managers to work hard to uphold the public interest. The personal qualities that managers of PPJVs need to display when managing sectoral differences have yet to be studied in detail, but are likely to mirror those critical to making any collaboration a success (O'Leary and Blomgren, 2009). Attitudes such as openness to mutual learning, constant adjustment, being able to give up a certain degree of organizational authority, or showing relational leadership behaviors towards the employees are critical to the success of partnerships in general (Bardach, 1998).

As empirical evidence emerges on this important new field of enquiry, new propositions and hypotheses will undoubtedly be developed on how public management theory and practice can best respond to and shape the growing use of PPJVs. The issues discussed in this paper provide the initial outlines for a future research agenda, which seeks to explore how public managers deal with the sectoral mixing that takes place in PPJVs. As governments seek new ways to deliver services and projects in times of fiscal austerity, studies which systematically examine how best to make a success of this emerging organizational form will undoubtedly be of immense value.

Notes

1 The name of these types of alliances varies across countries. For instance, in Germany they are known as "*Kooperationsmodell*", whereas in Spain they are called "*Colaboraciones publico-privadas associativas*". And the Commission of European Communities also identifies it as Institutional Public-Private Partnerships (Commission of the European Communities, 2004).

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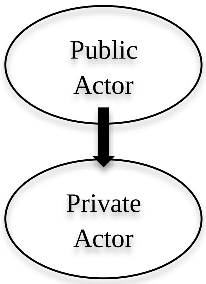
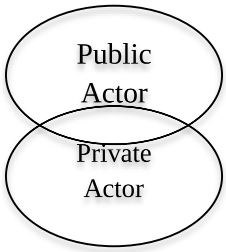
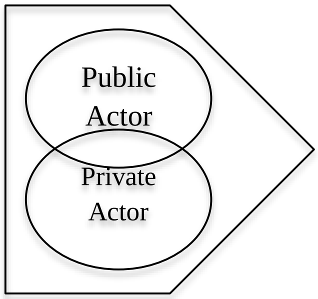
Table 1: Contracts, Contractual PPPs and PPJVs

	Traditional Contract	**Contractual PPP**	**PPJV**
Legal Framework	Based on contractual relations (public contract law)	Based on contractual relations (public contract law)	Creation of a new legal entity (private corporate law)
Goal	Purchase a specific service provided by a private firm	Private sector involvement in public purposes	Cross-sectoral alliance to realise public purposes
Intensity of the collaboration	One-off 	Strategic 	Integrated 
Public-private relationship	Client-Provider	Steering of the partnership by the public sector	Corporate governance arrangements
Example	Contracting external providers	Concession model	Joint entity

Source: Adapted from Esteve et al, 2012.

Table 2: UK Types of PPJVs

JV Model	Main Characteristics	Decision-Making	Examples
Company Limited by Shares (CLS)	The financial responsibility of each involved party is limited to their share's value. Limited companies have also been used as an intermediary for stand-alone partnering contracts.	Generally, 50% or 75% majority shareholders can take major decisions.	NHS Local Improvement Financial Trust, involving Primary Care Trusts, local authorities and capital investment firms
Limited Partnership (LP)	Partners share directly in profit or losses in the proportion in which they invest their capital. LPs permit the existence of Limited Partner(s) and a general partner normally with unlimited liability.	There is flexibility to determine in the agreement the rights to be afforded to different partners and the extent to which partnership law is to be applied. If no agreement is in place, default provisions may be applied that require unanimous agreement from partners.	NorwePP, involving the North West Developmental Agency and the Ashtenne Industrial Fund
Limited Liability Partnership (LLP)	This is a relatively new form of JV - introduced in 2000; it is a hybrid combining the flexibility of a partnership with the safeguard of limited liability.	As for LPs.	Building Schools for the Future programme in England.

Source: Adapted from HM Treasury, 2010.