# *Designing Public-Private Partnerships; a Practitioner's Guide to Innovation*

**The implementation of public sector policies usually requires an effort to profitably combine public-sector objectives and private-sector initiatives that is by no means easy. This paper outlines a method known as Power-Role Analysis, so-called because it develops a system for the design of public/private partnerships as power structures that fit into complementary relationships between organisations. It uses logical relationships between parallel concepts of power and role to establish four basic forms of association that provide a platform for the design of a wide variety of partnerships and for specifying the management capabilities required for them to work effectively. This overcomes the limitations of the usual strategy of imitation, which consists of choosing the design for a partnership from a variety of existing forms, and enables specialists to innovate and design forms of partnership that meet the needs that they themselves establish.**

*La puesta en práctica de políticas públicas exige por lo general un esfuerzo por rentabilizar la combinación entre objetivos públicos e iniciativa privada que no resulta nada fácil. Este artículo esboza un método denominado Análisis Poder-Rol, llamada así porque desarrolla un sistema para el diseño de asociaciones público-privados en tanto que estructuras de poder incrustadas en relaciones complementarias entre organizaciones. Utiliza relaciones lógicas entre conceptos paralelos de poder y rol para definir cuatro formas elementales de asociación, que proporcionan la base para diseñar una gran variedad de asociaciones y para especificar las capacidades de gestión necesarias para que funcionen de manera efectiva. Se superan, por tanto, las limitaciones de la habitual estrategia de imitación consistente en elegir un diseño de asociación entre una variedad de modelos existentes, permitiendo a los profesionales innovar y diseñar formas de asociación que satisfagan las necesidades que ellos mismos establezcan.*

Politika publikoak abian jartzeak, oro har, ahalegin berezia behar izaten du helburu publikoen eta ekimen pribatuaren arteko oreka errentagarria egiteko, eta zaila da benetan. Artikulu honek Botere-Rol Analisia izeneko metodoa azaltzen du. Sistema honekin elkarte publiko-pribatuak diseina daitezke, erakundeen arteko harreman osagarrietan txertatutako botere-egitura gisa. Harreman logikoak erabiltzen ditu botere eta rol kontzeptu paraleloen artean, elkartzeko oinarrizko lau modu definitzeko. Modu horiek elkarte mota ugari diseinatzeko oinarria dira, baita behar bezala funtzionatzeko beharrezko kudeaketa-ahalmenak zehazteko ere. Beraz, imitazioaren ohiko estrategiaren mugak gainditzen dira (eredu jakin batzuen artean soilik aukera zitekeen elkartearen diseinua) eta, horrela, profesionalek aukera dute berritzeko eta ezarritako beharrizanak asetzen dituzten elkartzeko moduak diseinatzeko.

**Les Metcalfe**
*Durham University Business School*

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## 1. INTRODUCTION

In an era of austerity governments face the challenge of developing new forms cost effective management as well as devising new policies. Dissatisfaction with unrealistic public versus private extremes has prompted a search for more effective and flexible ways of delivering public services. «Partnership» has become a fashionable theme of public management reform as it has become increasingly obvious that neither the state alone, nor the market alone, can provide workable solutions to many problems of managing public service provision. Implementing public policies usually requires a combined effort in which public and private organisations work together. But once one goes beyond political slogans about «public private partnerships» there is confusion about how to achieve a productive mix of public purpose and private initiative. This confusion has both practical and theoretical dimensions. Politicians are more interested in launching new political initiatives than in building the capacities to ensure their eventual success. Researchers have generally followed the process of reform and reported on the progress of reforms - or lack of it - rather offered advice about the direction reforms should take. The shortcomings of theory are important because innovation in practice is urgently needed. And, the lack of a clear and systematic framework to guide the reform process has often led to disappointing results which risk discrediting the whole concept of public private partnerships.

What is missing is a coherent framework to guide the process of designing new organisational structures and developing the management capacities needed to make them work. The aim of this paper is to bridge the gap by setting out a broadly based approach to the analysis and design of public private partnerships that will be of use to practitioners. It addresses two linked issues a) deciding what kinds of partnership are best suited to particular circumstances and b) what management capacities are needed to ensure their effectiveness. Even if practitioners can draw on previous experience and the adaptation of existing partnership models they increasingly confront new situations that call for fresh thinking and the development of innovative solutions. In order to see how theory can help to meet the need for innovation it is useful to draw a parallel between competence in a language and skills in designing organisations.



Competence in a language requires a knowledge of vocabulary and an understanding of its grammatical rules. The combination of vocabulary and grammar enables a speaker of a language to perform the remarkable feat of constructing entirely new sentences that are perfectly intelligible to someone else even though they have never heard or read the precise formulation on any previous occasion. (Perhaps like the previous one.) Such originality and fluency of communication goes well beyond memorising the contents of a phrase book and selecting a sentence that seems about right. Innovation in designing organisational partnerships also requires competences based on knowledge of the options available and an understanding of the ways of assembling them into coherent and useful wholes rather than just the «phrase book» imitation of existing models.

The approach outlined below is called Power Role Analysis because it develops a vocabulary and grammar for the design of public private partnerships as power structures embedded in complementary role relationships between organisations. This is not just an academic exercise. It is directed towards assembling conceptual tools and skills that practitioners can apply to the task of designing new forms of partnership. This synthesis of ideas provides a framework that practitioners can use for developing an innovative range of partnership designs and defining the partnership management capacities needed to ensure that they work.

It has to be said at the outset that while «partnership» has become a fashionable political slogan but it is neither new nor a panacea for problems of public management. Partnerships have a long history in public administration. Governments have long used partnerships as tools for the delivery of public services. Most public policies are managed through networks of organisations rather than being the exclusive responsibility of a single organisation (Metcalfe 1993: Klijn, 2005.). Policy implementation has always depended on the collaboration of organisations at national, regional and local levels of government. If management in general is defined as «getting things done through other people», public management may be defined as «getting things done through other organisations». Public procurement has long been common practice. Defence contracting is a field where governments have always relied on private sector providers for a whole range of purchases from bulk buying clothes furniture and food to high tech weaponry such as tanks, guns, aircraft and ships. However, defence procurement is hardly a shining example of successful partnership management. On the contrary, there is a poor record of cost overruns, long delays in completion and eventual deficiencies in performance. At the heart of the criticisms of defence procurement is the endemic problem of inadequate management of defence contracting within government.

The root of the problem is that there is no generally agreed way of selecting forms of partnership to the very diverse needs that public managers encounter and building the capacities needed to make them work. What is best for purchasing military hardware is not appropriate for managing the construction of roads or promoting regional development. Running a hospital has different requirements from integrating the work of welfare services for the elderly. Coordinating the work of diverse agencies dealing with drug abuse including police, hospitals, social workers and customs services requires partnerships in which the various organisations can discriminate among criminals, victims and casualties. Partnerships with voluntary and community organisations create different challenges from partnerships with businesses (Luzi and Lapenta 2009; Missoni, Castelli, Lapenta, Luzi, Zangari:. 2008), Globalisation and European integration increasingly involve partnerships between national and international organisations (Metcalfe, Missoni, Selby-Smith 2002). In the European Union (EU) the progress of European integration requires the development of very extensive networks of partnerships across all member states. Too often this dimension of integration has been neglected. The current crisis in the eurozone is both consequence and cause of breakdowns in the partnerships on which the management of public finances and the functioning of the euro system depend (Metcalfe 2000, 2004, Metcalfe 2011).

## 2. THE MAIN OBSTACLES TO PUBLIC-PRIVATE PARTNERSHIP

Although the practical importance of partnerships is not in doubt, theory and research have been slow to respond to the need for a clear and logical framework for partnership design and management. There are currently two significant obstacles to progress. The most prominent is the legacy of the ideological dichotomy between public and private sector service provision. While it is no longer the case that institutional choices are restricted to the polar opposites of government bureaucracy and free markets it is still widely assumed that moves towards greater involvement of businesses operating in a competitive market environment leads to greater efficiency and better performance. A recent OECD study, based on international comparisons of government out-sourcing, set out what is, broadly, the current orthodoxy about public-private partnerships (PPPs). It describes PPPs as occupying «a middle ground between traditional public procurement and privatisation». It distinguished no less than fourteen different types of Public Private Partnerships on a spectrum between direct government provision of services and complete privatisation. At the heart of these partnerships are various forms of contractual relationship. The assumption is that partnerships replace hierarchy with contracts negotiated in a (more or less) competitive market environment. This creates greater incentives and stronger sanctions for ensuring good performance by service providers and gives government a clearer basis for evaluating outcomes.



The benefits of this more commercial approach are defined variously in terms of efficient service provision, risk sharing and accountability for results and changing the service culture to one that ensures a «customer orientation». Sometimes such claims may be justified; even if convincing evaluations of results are few and far between. But there are growing criticisms and a sense of disappointment that, in practice, public-private partnerships have often proved difficult to manage and the results have not lived up to expectations. One reason for disappointing performance is that governments are often ill-equipped to play the role of customer. Private sector research on supply chain management shows that the benefits of outsourcing production only accrue to businesses that gear up to play the demanding role of customer and invest in the capacities needed to actively manage the partnership. However, this is at odds with the remarkably tenacious view held inside, as well as outside, government that PPPs transfer management responsibilities to private partners and automatically lighten the managerial load on public organisations. In reality, as discussed below, public organisations acquire different and difficult partnership management responsibilities that call for new competences in designing and managing interorganisational relationships.

### 2.1. **The limitations of imitation**

The second, and more serious, obstacle to progress in making partnerships work is over-reliance on an «imitation» strategy. Imitation draws on a set of existing partnership models and relies on transplanting one that seems the best fit with the particular situation. Imitation has short term political and practical attractions because it appears to offer ready made solutions. It answers the political need to reduce uncertainty and be seen to take immediate action. Political impatience and media deadlines create pressures for quick solutions. Officials like to have ready answers. Often this leads to the involvement of outside consultants who claim to have wide knowledge of «best practice» from elsewhere and the expertise or perhaps the mystique that enables them, rather than practicing managers, to come up with reform proposals.

However, there is always the danger that quick solutions derive more from ideological conviction and preconceived ideas than thorough analysis of particular needs. In addition, implementation is rarely easy. Selecting a partnership model is only the start of a reform process that is mainly about managing change in the ways that organisations work together. As with any organisational change process there are predictable problems in maintaining momentum after initial political enthusiasm has waned and those on the receiving end begin to question the wisdom of imitation. However there is the added complication of coordinating change across organisational boundaries. The success of partnership reforms depends as much on the support of those involved in implementing them as on those initiating them. Poorly explained and clumsily introduced institutional transplants are likely to encounter resistance to change that cannot be simply dismissed as or obstructionism or a «not invented here» mentality.



Aside from these practical problems there are more fundamental flaws in an imitation strategy. One is that imitation restricts the options to forms of partnership that have already been tried. In effect it relies on the wisdom of a previous generation of partnership designers and assumes that today's problems are much like yesterdays'. A related deficiency is that an imitation strategy relies on making valid comparisons among different situations and good judgements about which partnership model should be transferred without providing systematic guidance about how the relevance of previous experience is to be evaluated and assessed. Another shortcoming of imitation is that it does not build capacities for coping with future change. Even if a partnership model matches current needs it does build in flexibility to adapt to an evolving situation. The limitations of imitation are most apparent in the way that past experience is filtered through empirical studies. Even though such studies produce a wealth of empirical material they run into some recurrent methodological difficulties that greatly limit their practical value. They uncover a wide variety of partnerships but have difficulty in making sense of their findings. The following section considers why these deficiencies arise and what can be done to rectify them.

### 2.2. **Classifying partnerships: heterogeneity and hybridity**

The usual way of trying to bring order to empirical diversity is to construct typologies and classifications of partnerships. This is no simple task. Quasi commercial forms of PPP like those covered in the OECD study do not encompass the whole range of partnerships. There are qualitative distinctions among partnerships that cannot be arrayed along a hierarchy-market continuum. In many fields of policy where partnerships figure prominently it is wrong to assume that this requires a «customer orientation». Taxpayers, hospital patients, convicted prisoners, businesses subject to regulation, and social welfare recipients are only a few illustrations of the variety of ways in which governments define their relationships with different publics. Heterogeneity is the keynote. Treating all recipients of public services as customers seriously distorts the meaning of the term and applies mistaken performance criteria.

The heterogeneity of public service users poses an awkward problem of classification for an imitation strategy; how to delineate types of partnerships. The reform process can be greatly simplified if choices only have to be made among a small number partnership models. But, can partnerships be classified into discrete subsets? Skelcher (2005), adopting a broader definition of the subject than just quasi commercial partnerships defined five types, But he then went on to highlight the problem of «hybridity». Many actual partnerships do not fit into standard categories. They are mixtures of different types. Hybridity is more than just an infrequent, irritating, occurrence. Partnerships in practice often display features of more than one «type» and straddle different categories in classificatory schemes. This makes it difficult for practitioners to match partnership models to their own needs.

Attempts to classify partnerships are flawed not only because types are not mutually exclusive but also because classificatory schemes are not exhaustive. Research constantly reveals partnerships that do not fit into any of the pre-existing categories. It is almost a matter of professional pride for researchers to show that their newly discovered cases do not fit into any existing standard category. The usual response is to extend an existing empirical taxonomy by adding more types. However the ad hoc proliferation of categories is self defeating. Faced with this expanding universe of partnership models it is not surprising that practitioners often feel confused and turn to outside advice. But this makes them uncomfortably dependent on management consultants who are faced with the same conundrums and are liable to base prescriptions on misdiagnosis of public management problems if they rely on business management models.

An example that illustrates the difficulties and foreshadows issues explored below is provided by a well-managed European Agency; EMEA the European Agency for the evaluation of new drugs. EMEA is an important institution in the governance of the EU's internal market. It is responsible for evaluating new highly sophisticated pharmaceutical products on grounds of effectiveness and safety and advising the European Commission on whether to approve their use. EMEA is independent of the European Commission conducts evaluations of new drugs that pharmaceutical companies may have spent ten or more years and as much as €200 million developing. A European accreditation is of great commercial value because it allows the company to market its product across the whole of the EU.

EMEA draws on a large network of high level professional expertise to assemble teams that are able to evaluate particular drugs. There are commercial pressures for quick positive decisions but an organisational mandate to give independent advice to the Commission about whether to grant authorisation.



At one point EMEA employed a high profile consulting company with an international reputation to review its working methods. The consultants began by asking for information about its «customers» and its «marketing strategy». The management explained that, as a regulatory body, it did not have «customers» in the commercial sense. In fact doing what the regulated businesses would have «wanted» was quite out of line with its mandate. Treating drug companies as customers would amount to regulatory capture and a dereliction of its duty to protect the interests of the users of new drugs. The response of the consultants was to insist that all organisations existed to serve their customers and there was something seriously wrong with a business model that did not recognise this. The consulting relationship was terminated since they were unable to cope with an organisation that did not fit their conventional business model. EMEA is distinctive in maintaining a professional role vis a vis two client groups, while protecting and promoting the interests of a third client group the eventual users of the drugs approved for use. The EMEA case is an example of the need for an innovation strategy that does not depend on imitation and provides the tools for coping with diversity by constructing models for novel forms of public private partnership.

## 3. POWER-ROLE ANALYSIS

The methodology is termed Power-Role Analysis because it establishes logical relationships between parallel concepts of power and role. These relationships provide the analytical tools for the design of partnerships and the specification of the management capacities and processes needed for effective partnership performance. The basic concepts employed in Power-Role Analysis are familiar in themselves. But there is significant added value in bringing them together and applying them to partnership management problems in an integrated way. The main contribution of Power Role Analysis is to establish a one-to-one correspondence between four types of power and four pairs of complementary roles.

Power Role Analysis differs fundamentally from approaches that use empirical taxonomies. Indeed it denies the utility of classifying partnerships as such and does not directly provide models for partnerships. Instead it provides a set of tools and concepts for constructing partnership models. It defines the power relations and roles that are the building blocks for constructing a great variety of partnerships. Practitioners can combine the elementary components in many different ways to suit the needs of different tasks and situations. Hence, partnership configurations can be very diverse depending on the roles partners play and the power relations that bind them together. While the design principles are easy to grasp because they are few in number, their application to practical public management problems can give rise to partnership models of considerable complexity and diversity. As Holland put it;



> «We've seen repeatedly that much complexity can be generated in systems defined by a few well-chosen rules. When we observe emergent phenomena, we ought therefore to try to discover the rules that generate the phenomena.» (Holland 1998 p 188)

Rather than trying to classify the «emergent phenomena», the partnership models, as an imitation strategy does, it provides the rules or principles that generate them. As Ulam (1974) showed, much more information is needed to describe the resulting systems than to define the rules for designing them. Simple rules generate complex phenomena. Crucially, it is not possible, in principle, to infer the rules from even the most detailed and meticulous knowledge of the resulting empirical structures. This is why an imitation strategy will never reach useful conclusions.

For public managers the message is that Power-Role Analysis does not provide instant solutions in the form of partnership models. It provides something more interesting and useful; the design principles and tools practitioners need to do their own diagnoses and construct forms of partnership adapted to their own specific needs. In so doing it facilitates innovation and the development of new forms of partnership.

Where can we find the generating rules and design principles to guide and direct an innovation-based reform strategy? The point of departure is a fourfold typology of power utilising distinctions commonly made across the social sciences and in the fields of management and organisation theory. Each power base establishes a distinctive bond between partners and provides the medium of coordination between them. The four types of power are: - hierarchical authority, exchange, expert authority and influence. It is immediately obvious that this provides a broader comparative framework than is often assumed in discussions of partnerships. In particular, the inclusion of hierarchical authority as a power base may seem surprising. Hierarchy is often regarded as the antithesis of partnership based on exchange. But hierarchical authority is an integral part of many partnerships that are usually thought of as archetypal commercial partnerships. And, traditionally, public management has always relied on hierarchical relations between different levels of government; national, regional and local. In multi level governance systems policies are implemented through partnerships among organisations at different levels. There is no good reason for excluding these hierarchical linkages from a broad definition of partnerships.

The distinctions among the four types of power are briefly explained below. They differ from each other in the in the kinds of bonds they create between partners. The two forms of authority, hierarchical and expert, embody different forms of unilateral decision-making. Influence and exchange are based on different processes of bilateral collaborative decision-making rather than the unilateral exercise of authority.

- Hierarchical authority is important in implementing policies and conducting routine operations between as well as within organisations. The exercise of hierarchical authority requires willing compliance with standard operating procedures and administrative feedback. This is more difficult to ensure across organisational boundaries than within individual organisations.

- Expert authority is important in many spheres of public policy where the primary concern is client welfare. Professional expertise is needed to diagnose needs and formulate appropriate prescriptions. Doctors, teachers, welfare workers are instances of professionals involved in delivering public services. The exercise of professional expertise requires independence of higher authority rather than subordination to a hierarchical chain of command.

- Exchange is widely regarded as the paradigm for the construction of partnerships. In an exchange relationship negotiations are conducted on a self interested basis to reach agreement on payment for the provision of services. Common values are not assumed. A successful outcome is a mutually satisfactory deal that makes each partner better off according to their own utility function and is often embodied in a contract.

- Influence is a process of joint decision-making that aims to establish consensus on an agreed course of collective action based on shared values and interests rather than a coincidence of separate interests. Whereas exchange requires a quid pro quo between partners, influence relies on the power of persuasion to achieve solidarity and mobilise voluntary commitment to a common course of collective action based on common values.

The four types of power provide a range of ways of structuring working relations between organisations governed by different values and norms. Each type of power is exercised within a distinct pair of reciprocal roles and defines the complementary responsibilities of partners. The table below summarises the pairs of roles within which each type of power is exercised.

Hierarchical authority is embedded in administrator subordinate relationships. Expert authority is embedded in professional-client relationships. The dynamics of the professional client relationship are different from those of hierarchical authority because they are geared to solving the problems of clients or developing the problem solving capacity of the client system rather than maintaining top-down control and ensuring compliance. In the case of exchange, power is embedded in customer and supplier roles and their relationships are governed by a search for mutually beneficial agreements to serve their separate interests. Finally, influence processes are built around the roles of representatives and constituents and relations of solidarity and common interest.



*Table 1:* **EMBEDDING POWER IN PAIRS OF COMPLEMENTARY ROLES**

| EXECUTIVE | PROFESSIONAL | COMMERCIAL | CONSENSUAL |
|---|---|---|---|
| *Hierarchical authority* | *Expert authority* | *Exchange* | *Influence* |
| ADMINISTRATOR | PROFESSIONAL | SUPPLIER | REPRESENTATIVE |
| SUBORDINATE | CLIENT | CUSTOMER | CONSTITUENT |

To begin with it is helpful to consider each of these separately to see what they involve in terms of management responsibilities. The four pairs of roles immediately suggest four clear-cut elementary forms of partnership which, for ease of reference, will be labelled commercial, executive, professional and democratic partnerships.

Commercial partnerships are based on exchange and involve the negotiation of performance contracts between customers and suppliers. This is the form that Public–Private Partnerships are usually assumed to take. Instead of services being provided by government, they are provided to government by the private sector. Often commercial partnerships utilise or simulate competitive market processes in order to secure best value on price, quality, risk sharing and delivery. Commercial partnerships are strongly associated with recent public management reforms. Commercial partnerships rely upon the adoption of business style management methods. A major misconception about this kind of outsourcing of public services is that that it hands public management tasks to private organisations. Commercial partnerships require government as customer to play an active management role. Both customers and suppliers have management responsibilities in commercial partnerships. Government as customer should operate on the principle of caveat emptor in order to safeguard public interests and public money.

Executive partnerships are based on the extension of hierarchical authority across organisational boundaries. They have much in common with the hierarchical relationships between administrators and subordinates in traditional forms of machine bureaucracy. It is the administrative superior that has the main management responsibility for ensuring compliance by subordinates with the policies prescribed by higher authority. The key management issues in executive partnerships centre on combining decentralisation and central control. For example, in regulatory regimes much of the detailed work of policy implementation is delegated to the organisations that are subject to regulation but administrators need reliable feedback to ensure that policies are being adhered to. Executive partnerships are currently unfashionable but they are still an essential part of the public management repertoire and can work well provided there are appropriate investments in management capacities.

Professional partnerships are based on the exercise of expert authority rather than hierarchical authority. Professional partnerships are less prominent in public debate about public-private partnerships than commercial partnerships. But this does not mean they are less important in practice. Professionals and professional organisations are found across the whole range of public management. Specialist knowledge is essential in many areas of public policy. «Knowledge workers» are ubiquitous in government from traditional professions such as law, medicine and engineering to newer groups such as economists, accountants, social workers and information technology specialists. Government employs the services of professionals to provide independent diagnoses of needs and prescribe remedies for the problems of individuals, families, communities, regions or industries.

The professional-client relationship presupposes trust in the integrity as well as the expertise of professionals. Professionals also seek autonomy from both political superiors in order to use their expertise for the benefit of clients. The partnership structure of is different from hierarchical authority because professionals cannot enforce compliance but must secure the informed consent of their client. The establishment and application of professional standards of performance depends on peer-group controls rather than either market pressures or hierarchical prescriptions.

Consensual partnerships are based active participation by members of a group in making and supporting collective decisions to protect and promote shared interests. This differentiates them from exchange-based commercial partnerships where it is sufficient that there is a coincidence of interests that enables willing buyers and willing sellers to do a deal. Consensual partnerships are distinctive in being based on voluntarism, participation and solidarity. They are not confined to parliamentary processes but occur wherever groups seek to represent their interests in the policy process. The role of representatives is to facilitate the process of defining and articulating the common interests of constituents. The exercise of influence and the power of persuasion in consensual partnerships is that it builds a sense of solidarity and joint commitment to agreed policies. Consensual partnerships are important in developing a sense of identity and internal commitment. There is less need for extrinsic sticks and carrots to secure smooth implementation that there is with other forms of partnerships. The integrating function of this kind of partnership is especially important in periods of change and transformation when the erosion of an obsolescent consensus creates a risk of fragmentation and a new basis of collective action is needed. But as discussed below this type of partnership plays an important role.



Representatives have management roles in the maintenance of unity, especially in times of change. The role of representative is to act on behalf of constituents but the relationship is different from that of professional to clients. Where professionals require a sphere of autonomy, insulated from discretion in order to arrive at an independent diagnosis of client needs. Representatives are expected to be accessible and responsive to constituents expressed wishes and demands rather than insulated from them. However a representative is not simply a delegate who restates the views of constituents. Influence is a two-way process of mutual persuasion in which representatives coordinate the search for common ground and endeavour to ensure that their group is able to speak with one voice. Participation in arriving at collective decisions engenders deeper commitments to agreed courses of action. Conversely, neglect of consensus building leads to superficial agreements that easily unravel when they are put to the test of implementation.

## 4. PARTNERSHIPS IN PRACTICE: CAPACITIES AND COMPLEXITY

It may appear from what has been said above that Power Role Analysis is limited because it only offers choices between four kinds of partnership. But this is not so. While the four types of partnership need to be clearly understood as embodiments of distinct design principles, practitioners are not faced with either or choices between them. In practice, partnerships combine two or more of these elementary forms. Power-Role Analysis builds on the assumption that combining types of power and the roles corresponding with them can generate partnership structures of considerable complexity. Integrating different types of power and multiple roles creates additional management problems. A key issue is how to match management capacities to the complexity of the chosen partnership structure.

Actual and potential partnerships are extremely diverse because they combine these four elementary types of partnerships in a great variety of ways. The elementary forms of partnership are the building blocks for more complex partnerships much in the way that atoms and molecules are the components of a variety of chemical compounds. Actual partnerships can take many forms because the four types of power generate different patterns of role relationships and the bonds between partners can themselves be combined in many different ways. The range of potential partnerships is virtually unlimited because in practice partnerships often combine types of power and their corresponding pairs of roles in a great variety of ways. But more complex combinations of partnerships have a cost in terms of demanding more sophisticated management capacities.

From this perspective Power Role Analysis is useful both because it provides the diagnostic tools for clarifying the management capacities needed to ensure that partnerships function effectively and also because it provides the guiding principles in reform processes for designing innovative forms of partnership when existing structures are not fit for new purposes. In doing so it sidesteps the problem of «hybridity» that is one of the serious weaknesses of an imitation reform strategy. One of the strengths of Power Role Analysis is that it recognises the need for integrating different types of power and role relationships in partnerships rather than treating these sources of organisational diversity as aberrations and anomalies.

### 4.1. **Purchaser provider partnerships**

The aim of this section is to illustrate the application of Power Role Analysis to a number of specific cases that are quite familiar in themselves and yet frequently misunderstood. There is a progression in the examples chosen from relatively simple to more complex. The first example is in many ways the archetype of public private partnership reforms where government out-sources service provision to a private sector organisation, usually a profit-seeking business. Ostensibly, Purchaser Provider relationships seem like exchange-based commercial partnerships with government as the customer and business as the supplier. There seems to be a clear and unambiguous shift in power base from hierarchical authority to exchange and a step change in the partnership structure from administrator subordinate to supplier customer. This is the model that informs the OECD study mentioned above. The main elements are clearly stated: «the OECD defines a public-private partnership as an agreement between the government and one or more private partners (which may include the operators and the financers) according to which the private partners deliver the service in such a manner that the service delivery objectives of the government are aligned with the profit objectives of the private partners and where the effectiveness of the alignment depends on a sufficient transfer of risk to the private partners.»

Even if this is a useful first approximation it omits some important facets of most Purchaser Provider relationships. Some government purchasing is like shopping around for the best buy and choosing a standard commodity off the shelves. But a good deal of public procurement is purchasing non-standardised goods and services that are incompletely specified and for which government is the sole or the dominant customer. This kind of purchasing involves public organisations in relational contracting and therefore in managing the contractual relation between buyer and seller before and after a contract is signed (Williamson). Rather than relieving government of management responsibilities it transforms them in important ways. It reduces direct operational management responsibilities but presumes that there are the capacities to handle more sophisticated contract management responsibilities including risk management. Instead of directly micro-managing the production process, in house, government has to manage indirectly through contract design, contract negotiation and contract performance. Neglect of any of these three phases of the purchaser provider relationship or overlooking inconsistencies between them can adversely affect contract performance with costly and politically embarrassing consequences. (As a side note, the OECD report suggests, rather oddly, that these forms of PPP should align public policy objectives with the profit maximisation of the business. The opposite is the case. Profit maximising behaviour should serve the interests of government.)

It should be clear that once relational contracting enters the picture the Purchaser Provider partnership is no longer based simply on exchange. There is a second strand to the partnership; hierarchical authority. A contract establishes a hierarchical relationship between purchaser and provider and therefore adds the roles of administrator and subordinate to those of customer and supplier (Stinchcombe 2000). Government as the executive authority plays the role of administrator and the provider that of subordinate. In this more complex division of labour each partner needs the skills and capacities to play both of their designated roles and also manage the tensions between them. Government not only needs the capacities to negotiate a good deal as an active and informed customer but also to be able to fulfil the administrator role in the executive phase of the partnership.

### 4.2. **Principal-agent: a reformulation**

Problems like those above are often cast in terms of Principal Agent theory. In a model that is popular with economists the Principal employs an Agent to act on his/her behalf. The principal-agent model is claimed to be a very general one. The analysis develops from the standpoint of the principal. The usual formulation of the Principal's problem is how to ensure that the Agent acts in the Principal's interests when the Agent may have interests and an agenda that are at variance with those of the Principal and there are a) information asymmetries (i.e. the Principal cannot really monitor and keep track of what the Agent is doing) and b) imperfect sanctions and incentives (allowing the Agent an area of discretion that may result in non-compliance).The Principal's problem is how to guarantee compliance and ensure that the interests of the Agent do not intrude on the unwavering pursuit of the Principal's objectives.

The usual response to these difficulties has been to look for ways of tightening up task specification, improving information flows about performance to the Principal and matching incentives to desired performance outcomes. This can be caricatured as a «call centre style of management» with detailed specification of required behaviour and continuous intrusive monitoring of performance. (The customary euphemism is something like «Your call may be monitored for purposes of staff training."). These prescriptions and many like them reassert the old assumptions and restate the prescriptions of autocratic organisation theories of the past such as Frederick Taylor's scientific management.

Reformulating the problem using PRA immediately reveals the same underlying structure as the Purchaser Provider model. There are the same intertwined exchange and hierarchical authority relationships with the Principal playing the roles of customer and administrator and the agent the roles of supplier and subordinate. The conventional prescription giving over riding priority to ensuring compliance by a (supposedly) recalcitrant agent means that hierarchical authority dominates. In view of economists' attachment to market exchange, this is rather odd. If pursued in practice, this would mean that reforms based on outsourcing in Purchaser Provider relationships would revert to in-house public provision by government organisations.

Looked at from the Power Role Analysis perspective the problem is to integrate hierarchical authority and exchange in a functioning relationship that recognises that there is an inbuilt structural conflict between the two types of power and consequent tensions between disparate role expectations. These tensions and incipient role conflicts have to be managed as inherent elements of the partnership between Principal and Agent. Public managers need the skills to recognise where the points of tension are likely to occur, understand their structural origins and know how to resolve the conflicts constructively.

### 4.3. **Extending the model: public-private-public partnerships?**

The Purchaser Provider analysis needs to be extended in another direction to encompass the many cases where government is the purchaser of services but not the user of the services purchased. Delicate management problems arise when government is in the position of purchasing services on behalf of others. A triangular relationship between government, service providers and recipients comes into existence with a mix of different types of power relations and overlapping roles. For example, rather than directly provide a range of services for elderly or disabled people a government may commission private organisations to do so. Government purchases services such as home care, cleaning, meals, transport and social facilities that enable elderly or disabled people to live a more independent life in their own homes than they would be able to do without any support.

From a management perspective this goes well beyond what has already been said about purchaser provider relationships and the principal agent problem. First, it encompasses problems of multilateral network management rather than simply a bilateral relationship between purchaser and provider. The key issue here is about contract design and contract management. Does government as purchaser maintains an arms length relationship with service providers by specifying in advance what services are to be provided and contracting with a supplier for them, or to enter into a relational contract that reduces the amount of detailed prescription but requires much more continuing government input into the management of service provision. Whichever option is chosen there is a need to make sure that the organisations involved have the relevant capacities to manage their designated roles and mutual relations.

Second, where there are detailed policy guidelines, executive partnerships are based hierarchical authority and top down supervision. With multiple service providers there are also questions of compatibility between patterns of authority and problems of coordination among the providers of different services. Fragmenting service provision has the attraction of seeming to minimise costs but in the process interdependence among service providers and the real costs of coordination among them are overlooked. Too often outsourcing service provision to several specialised providers leaves questions of responsibility for coordination unresolved with predictably negative effects on service quality.

There is a further complication that has not received nearly as much attention as it deserves. The purchaser-provider terminology obscures the fact that the users of public services are often misdescribed as customers. Users of public services such as the elderly or disabled are not customers shopping around for best buys. They are clients in need of help and support. Following the logic of Power Role Analysis they are involved in professional partnerships with various service providers. The distinction is important. Whereas a customer supplier relationship is guided by profitably satisfying customer wants, a professional-client relationship is governed by the values and norms of professional service centred on serving client needs Customers are assumed to know what they want and their demands are taken at face value. Clients are assumed to need professional help to diagnose underlying problems and find solutions to them. In the case of publicly financed services clients do not pay for the service provided. There is not an exchange relationship between them and the service providers. The relationship is an uneasy combination of client and subordinate with service providers playing the roles of professionals and administrators, seeking both to meet varying client needs carrying out and to administer a standard service in line with legal entitlements.

There is of course a commercial partnership between government and the service providers. A particular difficulty must be noted. Contracting for professional services is complicated because client needs cannot be defined in advance or subjected to top down standard procedures because the structure of client-professional relations has a bottom-up dynamic. In the case of services for the elderly, it is clear that there is a strong professional component in the mix of services provided. This starts from a requirement to diagnose and assess client needs and to adapt service provision accordingly. But these professional client relations are overlain by administrative policy constraints and commercial budgetary constraints. The way the tensions between these disparate definitions of their roles and relationships are managed by the various organisations is conditioned by the terms on government as purchaser provides resources.

A further management complication is that meeting the needs of specific clients requires detailed case by case coordination of a number of interdependent services. Importantly, government has to decide what form of coordination between different service providers is appropriate and who will provide it. More complex patterns of interdependence call for bigger investments in coordination capacities. Where government in its role as purchaser negotiates contracts with several private sector service providers there is a real danger that capacities for managing coordination are under-provided. In this context, coordination is a public good with the familiar obstacle to ensuring that it is adequately provision. The danger of inadequate coordination is especially great when, in the hope of reducing costs, government seeks to fragment a task among a number of competing suppliers. Under such circumstances there are perverse incentives for each organisation involved - whatever their substantive role – to avoid bearing the costs of coordination. The reasons for this shortfall are familiar from analyses such as prisoners' dilemma and the logic of collective action where individually rational actions combine to produce collectively irrational outcomes.



### 4.4. **The private finance initiative**

This section briefly considers an important area of public expenditure where there is extensive private sector involvement and where in the UK there has been considerable controversy about the adequacy of the public private management processes. This is the Private Finance Initiative. The Private Finance Initiative (PFI) can be described as a flagship programme. It is certainly the most ambitious and costly outsourcing programme in British government with billions of pounds involved. It was initiated in 1992 by the Conservative government, and greatly expanded by the Labour government from 1997, and continued by the Conservative-Liberal Democrat coalition government after the general election of May 2010. The core idea was that government could harness business skills and resources to improve value for money in public capital investment. From the beginning the PFI reflected a belief that private sector organisations are better able to take on the management of all phases of capital investment projects from raising the finance, through construction to life time service management and asset maintenance. Businesses had the skills and the motivation to manage capital projects more efficiently than government. PFI projects are examples of public purchaser–private provider partnerships in which management responsibility is substantially transferred to the private provider. In addition, there was a belief that government could off-load some of the risks associated with any capital investment onto businesses.

Furthermore, it was assumed that when they made a profit government would benefit from the taxes from future income streams. Of course, over the lifetime of, for example, a hospital, the government would pay for the use of the assets and the provider would seek to make a profit.

The PFI has attracted controversy from different quarters throughout its existence because of the way it has led to the outsourcing of capital investment projects within a framework of public private partnerships. The PFI is an approach to capital project management for infrastructure projects. The rationale for PFI is that capital investment programmes could be conducted more effectively and more cheaply if businesses provided finance as well as taking responsibility for building facilities such as roads, hospitals, schools etc and also continued to operate and maintain buildings and services for periods of 20 or more years, Hospital, schools and other service providers would then use them under lease.

It is essential to avoid a common misunderstanding about the PFI. As its name indicates it is based on private businesses providing the initial project finance for capital projects but not funding them. In the end, it is government that provides the funding for these projects although there are long time lags before the bill has to be paid and the way in which the costs accrue is tortuous. This is because there was a hidden agenda. The rules of the government accounting system meant that PFI expenditure did not appear immediately on the government's books as increased spending. The structure of public accountability meant that Government could evade restrictions on capital budgets if businesses raised the capital instead. From a political perspective there was the (temporary) advantage for the government of being able to launch capital investment projects such as building hospitals, schools, prisons, courts and roads under the PFI umbrella. Over 700 PFI contracts have been agreed covering a wide range of public assets and services. There are many other projects where PFI funding and management are being considered.

The reality of PFI projects is far removed from the idyllic win-win scenario in which government and business both benefit. Too little attention was paid to ensuring that government had the capacities for managing these outsourced capital projects. In 2011 the National Audit Office (NAO) issued a very critical report on the value for money outcomes of PFI contracts observing that: «In the present public expenditure climate there are legitimate concerns being expressed about the continuing financial cost of PFI for public organizations such as NHS Trusts. Some of government's case for using PFI has not been based on robust analysis, but on ill founded comparisons and invalid assumptions.» On individual projects, the costs and benefits identified. PFI contracts have served the interests of businesses rather than providing value for money to government. Across a wide range of projects government lacked the contract management skills and expertise to ensure good value for money. In many instances public organisations failed to safeguard their financial interests and allowed businesses to exploit deficiencies in contract management. One of the glaring weaknesses was the failure to realise that businesses could evade taxation of profits from PFI contracts by transferring ownership of the companies involved to off-shore tax havens.



But there were other pervasive weaknesses in managing the PFI programme with a persistent failure to recognise that the value for money benefits to government of the PFI programme depends on in-house capacities for managing outsourced functions. Some of these, notably the need for effective contract design, negotiation and supervision, have already been discussed. But in addition the conduct of PFI contracts has suffered from divided responsibilities among government organisations with central government keeping control of key contract design and contract negotiation decisions but passing responsibility for eventually paying the bills to the users of assets such as hospital trusts. Since this imposes legal obligations on them to give priority to meet capital charges it is inevitable that service to patients is bound to suffer. The present government has announced that it will attempt to renegotiate the terms of some of the PFI contracts where it is clear that the rates of return to business are substantially greater than those expected. Moreover, because interest rates have fallen in recent years it has become possible for businesses to refinance projects and increase their return on capital or even sell projects on to other businesses. Rather than transferring risks to business many PFI projects have become «cash cows» providing reliable income streams for decades. In any case if a business finds a contract unprofitable there is a range of ways in which it can escape from it and leave the user to find an alternative.

The uncomfortable fact is that government almost seems to have gone out of its way to make life easier for private sector contractors and more difficult for its own organisations to manage these capital projects. While government has singularly failed to get its act together, the contractor companies have formed a voluntary association; a consensual partnership; to represent their interests and negotiate with government to establish the procedural rules of the game within which substantive negotiations on particular contracts take place. No single Power Role Analysis model could adequately represent this large and diverse set of public capital investment projects covering several different policy fields. The general point is that the model of a mutually beneficial purchaser provider partnership is far too simplistic. It fails to take into account the extent to which successful management of these important projects depends on strengthening governmental capacities especially capacities for managing coordination among the various organisations involved.

The complexities of partnership management in the PFI process are best considered from a contract management perspective. In contract management the key evaluation criteria are in the interrelated areas of contract design, contract negotiation and contract implementation. Contract design sets the governance framework of roles, incentives and sanctions for contract management and assigns the responsibilities of the organisations involved. Contract negotiation is the process of agreeing and specifying in detail the terms of cooperation between contracting partners. Contract implementation involves monitoring and maintaining the conditions for contract fulfilment as well as supervision of actual performance. These three phases of contract management are interdependent; decisions in each phase have implications for the others. But in many instances they were not coordinated within government. Indeed, they were often deliberately separated and assigned to different organisations that applied different decision-making criteria.

Since government is engaged in many PFI contracts there is, potentially, a great deal of scope for learning from experience. But little evidence that enough use has been made of the opportunities available. Whether one considers individual projects or the PFI programme as a whole the evidence is that government lacks the requisite capacities and has made inadequate efforts to develop them. The reasons for this are beyond the scope of this paper. Often, responsibilities for contract design, negotiation and implementation have been divided among different organisations and decisions on each have been based on disparate criteria with inadequate coordination. In consequence the private sector contractors have done much better out of PFI than has the government.

## 5. CONCLUSIONS

Public Private Partnerships have become a major theme of reform in recent years. This is widely regarded as a step forward in improving performance. The growing importance of outsourcing public service tasks and functions makes it imperative that governments are well equipped to manage partnerships with other organisations. Public Private Partnerships are promising route for reform because they provide a way of escaping the sterile privatisation debate and offer a wide range of ways in which governments can work in cooperation with business and other non-governmental organisations. But the results of partnership reforms in practice have often been disappointing. While they have opened up a large array of options it has not been easy for policy makers to decide what form of partnership best fits particular circumstances. Partnerships have not been fit for purpose either because of mismatches between the partnership models selected and the goals of policy or because not enough has been done to build the capacities to manage them effectively.

To an important extent these failings have been due to over-reliance on an imitation reform strategy. In the interests of speed reformers have sought to base reforms on existing partnership models which appeared to provide instant answers to organisational questions. Political pressures for quick responses and a desire for ready-made solutions have favoured the adoption of, for example, purchaser provider models as means of securing better performance in service delivery, efficiency savings, risk reduction and accountability. But these efforts have constantly run up against the limitations of imitation as a reform strategy. While a great variety of different forms of public private partnership exist, an imitation strategy does not provide a systematic framework for evaluating them and selecting the one that is most appropriate. This would be less of a problem if partnerships could be classified into a number of well defined types. But attempts to construct empirical taxonomies regularly run into the problem that actual cases do not fit neatly into a set of mutually exclusive and exhaustive categories. Moreover faced with a bewildering array of different partnership models there are no clear diagnostic criteria to help public managers decide which best fits the needs of a particular situation. On top of this there is the inherent conservatism of imitation. It restricts the range of partnership options and assumes that previous experience is an adequate solution to future problems.

This paper proposes an innovation reform strategy as a more coherent and productive alternative to imitation. The aim is to provide public managers with the means of designing innovative partnership solutions. Innovation does not provide instant solutions instead it provides practitioners with conceptual tools and design principles that enable them to formulate novel solutions to emerging problems. Hence, innovation requires the investment of time and effort in diagnosing needs, designing partnerships structures and developing the management capacities needed to make them work effectively. But it has the advantage reformers are not restricted to cut-and-paste adaptations of yesterday's solutions.

The basis for an innovation strategy is radically different from that of imitation. The conceptual framework for innovation is provided by Power Role Analysis. The basic ideas are quite simple but create the potential for designing a great variety of partnerships. Power Role Analysis is based on the information theoretic concept that a small number of well-defined common principles can combine to produce structures of great variety and considerable complexity. They provide the generating rules that innovative practitioners can apply to the task of designing their own partnership models and constructing the relationships among partners that are needed to make them work in practice. It is hypothesised that four fundamental types of power and four pairs of complementary roles underlie four elementary forms of partnership; commercial, executive, professional and consensual. While they can each be considered in isolation, these four elementary forms of partnerships provide the building blocks for generating more complex partnership structures. And, those found in practice are more likely to be combinations of two or more types of power embedded in corresponding pairs of roles. Power Role Analysis also adds something important that imitation-based reforms ignore or discount. It provides the tools for defining the management capacities that are needed to ensure that different forms of partnership function effectively. All partnerships require capacities for managing interdependence between role partners, but complex forms also require more sophisticated capacities for conflict resolution and managing coordination to handle interdependence between partners playing multiple roles and bound in different types of power relation. If there is one generalisation that may be made it is that compared with imitation, an innovation strategy is less likely to underestimate the capacities that governments need to manage public private partnerships successfully.

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