



E-PARCC

COLLABORATIVE GOVERNANCE INITIATIVE

Syracuse University

Maxwell School of Citizenship and Public Affairs

Program for the Advancement of Research on Conflict and Collaboration

Managing a Public-Private Joint Venture: The PTB Case Teaching Note

Brief introduction to this case

This case narrates the story of a regional development initiative pioneered by a regional savings bank and a local town hall. Together with other public and private actors, the bank and the local government set up a public-private joint venture in the local area aimed at developing strategic projects to both stimulate and foster economic activity and initiatives. The case focuses on the interaction between the private and public sides of the partnership and on the difficulties which can arise when collaborating across sectors.

The county where the joint-venture operates is “Bages”. Located approximately 50 kilometers inland from Barcelona, Spain, Bages encompasses 35 towns, all of which are under 10,000 inhabitants except for its capital, Manresa, which has a population of 70,000. Bages County spans 1,300km².

The case (approximately 4,200 words) explains and presents the initiative and takes the reader to a flashpoint when conflict erupts between the public and private sides. The case includes an optional second section (approximately 2,200 words) which describes how the situation unfolds. Specifically, the second section narrates the disentanglement and management of the previous conflicts. It can only be used after the first has been read and discussed.

This case was an honorable mention winner in our 2009-10 “Collaborative Public Management, Collaborative Governance, and Collaborative Problem Solving” teaching case and simulation competition. It was double-blind peer reviewed by a committee of academics and practitioners. It was written by Angel Saz-Carranza and Albert Serra, Institute of Public Governance and Manage, ESADE-Ramon Llull University, Barcelona, Spain and edited by Martha Haddad Ketcham. This case is intended for classroom discussion and is not intended to suggest either effective or ineffective handling of the situation depicted. It is brought to you by E-PARCC, part of the Maxwell School of Syracuse University’s Collaborative Governance Initiative, a subset of the Program for the Advancement of Research on Conflict and Collaboration (PARCC). This material may be copied as many times as needed as long as the authors are given full credit for their work.

Learning objectives

At the end of this case discussion, the participants will be able to:

- Understand public-private cooperation in general and economic development joint ventures in particular
- Distinguish the different perspectives of public and private sectors and how these affect cross-sector cooperation
- Choose the optimum form to structure the public-private of cooperation
- Identify possible obstacles to the public-private cooperation
- Manage cooperation across sectors, overcoming its difficulties and taking advantage of its opportunities

Session plan

Students should come to class having read the first section of the case.

Divide the class into working groups to discuss the questions.

Overall, this discussion should be divided into three different parts:

- Approximation to the case,
- The problems at PTB, and
- What to do

Part 1: Approximation to the case - What is PTB?

How was PTB created?

The following factors seem important in aiding and contributing to PTB's creation:

First, a change in leadership at the savings bank and town hall. New, younger leaders take over at the two leading local institutions: Manresa Savings Bank and Manresa Town Hall.

Second, pre-existing relations include informal conversations among local businessmen and local mayors, as well as formal interaction with respect to the Manresa Technological Center and the local hospital.

Finally, there is a shared understanding, both by public and private actors, that the territory is declining economically: Businesses in the area provide little added value, the region is losing talent, and public administrations have scarce resources to face challenges.

Learning points: Factors that induce partnership formation are: previous experience among major partners; a shared understanding of the problem; and new reinvigorated leadership.

What does PTB want to do?

PTB's mission is to develop strategic projects to enhance the region's economic development.

Why do the different parties take part? What are the actors' motivations and the requirements to participate? Why do local administrations join? Why do businesses join?

Inter-organizational cooperation in general and cooperation between public and private sectors in particular is on the rise. The main reason is the sheer complexity of a society full of "wicked problems" (Rittel and Webber 1973) which often means that no player can reach its goals alone. This is particularly relevant in this case. Neither the public nor the private sectors can undertake regional development on its own. Accordingly, inter-organizational and inter-sector cooperation is needed to obtain the meta-objective of regional development. Moreover, there must be goal compatibility between the parties (Yan and Gray 1994).

Businesses understand that their bottom-line cannot be improved in an economically declining area. Thus, in this case, they illustrate a type of "enlightened self-interest" (Keim 1978). Additionally, if businesses want to contribute to the territory's economic development, they have to do it together with the main players in the field, namely, public administrations. Contrarily, town halls understand that they need the private sector to undertake economic development projects especially in terms of financing. Income stemming from local taxes is insufficient to carry out such projects.

Learning points: Motivations among partners may be different but they must be compatible.

How is PTB structured? Why? What are the requirements to participate? Why do they establish a 10% annual return with an initial 5-year delay in profit distribution? Why do small town halls have a seat on the board?

PTB set itself a minimum return on investment of 10% annually, but with an initial 5-year delay in profit distribution. The reason behind this was to signal a dual message: this is definitely a for-profit business, but it has social clauses such as the 10% return (far below the equivalent in venture capital firms) and an initial 5-year delay in profit sharing.

To take part, the minimum investment is €30,000, making it accessible to all actors. However, to ensure their commitment, the minimum contribution to be on the Board is €500,000.

PTB is thus set up as a business with shareholders. It has more than 40 shareholders and 21 board members.

All in all, PTB has €15M in total capital, 76% private and 24% public. However, the second biggest share initially belongs to Manresa Town Hall. Manresa Savings Bank holds the largest share.

The other town halls together, though contributing less than €500,000, nonetheless have a seat on the Board. This reflects the town halls' non-economic power.

Manresa Town Hall plays three distinct roles in PTB. First, it is the President of PTB's General Assembly due to the political dimension of economic development (PTB's mission). Second, it has two seats on the board: One as the main public shareholder (represented by the city's Water

Company which is used as a tool to participate in PTB and thus circumvent the administrative constraints typical of town halls), and another as the entity ultimately responsible for urban planning in the county's largest city (represented by Manresa's Councilor of Urban Planning). Town halls are the main regulators of economic development and related issues, such as licenses and re-zoning authorizations.

Finally, it is worth noting that PTB's staff, the General Manager and assistant, do not come from any of the other partners. They are hired directly by PTB and work for PTB. Thus, partner interaction occurs at two different levels: with the Board of Directors and in a regulator-regulated relationship between a public-private economic development company (PTB) and the regulators themselves (the town halls).

Learning points:

- *PTB's structure tries to incentivize the members' commitment;*
- *PTB's structure reflects the social dimension of PTB's mission;*
- *The non-economic power of town halls is reflected in PTB's structure;*
- *Manresa Town Hall plays various roles: leader, shareholder, and regulator.*
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Why an institutionalized partnership? Why a joint venture?

The objective here is to reflect on when a public-private cooperative effort is institutionalized into a third organization, paralleling business literature discussions on the distinction between alliances and joint-ventures. It is worth recalling Powel's (1990) typology of inter-organizational governance:

Key Features	Market	Hierarchy	Network
Normative basis	Contracts and property rights	Employment relationships	Complementary and mutual adjustment
Means of communication	Prices	Routines	Relational
Conflict resolution mechanisms	Resort to courts	Administrative fiat	Reciprocity and reputation
Commitment among organizations	Low	Medium – high	Medium – high
Dependence between organizations	Independent	Dependent	Interdependent

A joint venture is a hybrid between network and hierarchical governance models: it is a network which is structured into a hierarchy. While partners are independent of each other and interact in ways beyond simple market relations, they structure their relationships through a newly configured organization, i.e., a hierarchy which they own. An interesting question is why and when partners decide to set up a hierarchy to channel their relationships.

From the business literature, Child and Faulkner (1998) and Gulati (1988) argue that a joint venture is set up when:

- Collaboration is focused on a new business area;
- There are specific assets that need to be managed separately;
- Results are measurable and production tasks definable;
- There is a need to bind the partners together;
- When it's a legal requirement (e.g., in China);
- There's great uncertainty;
- There are appropriation risks;
- There's a need to signal union;
- Partners need to remain flexible;
- Coordination costs are high; and
- There is a low level of trust.

The European Commission (2003) specifically refers to public-private partnerships and proposes that these be institutionalized into a third organization when the public partner needs to:

- Build its own experience and
- Control the partnership.

Learning points: The reasons for setting up a joint-venture as compared to a contractual alliance.

Part 2: Problems at PTB

At this point the discussion should focus on the problems arising in the public-private company.

What challenges does PTB face?

Despite waxing public-private cooperative ventures, the figures show that most inter-organizational attempts to work together fail. This reveals that cooperation is fraught with difficulties. Failure to collaborate effectively is often attributed to a lack of leadership and management skills. Indeed, recent studies conclude that how cooperative initiatives, partnerships,

alliances and networks are managed and led are more important determinants of their success than the initiatives' structural characteristics and initial conditions.

Conflict arises between public and private parties as they disagree on what land to redevelop and on project speeds. The PTB case, as a whole, also reveals conflicts with some parts of civil society and the media. This is due to environmental issues and a NIMBY-type conflict regarding the construction of a prison on a piece of property sold to the regional government by PTB's former Chairman. In addition, inter-town hall competition and conflict arose and blocked PTB's technology park project as two bordering cities did not agree on the precise border between the two.

What are the sources of the problems?

All cooperation requires bridging diversity among the parties to create a minimum level of unity for collective action. (See Ospina and Saz-Carranza, *forthcoming*; O'Leary and Bingham 2007, 2009). Thus, the unity/diversity tension within the collaborative initiative emerges. The greater the diversity, the more intense the tension. The greater the unity, the less intense the tension.

Unity in a joint venture must be high because of the higher integration among parties as well as the high stakes at risk for each shareholder. The joint-venture studied, due to its ambitious mission, also requires greater unity.

Simultaneously, diversity is high in a public-private cooperative project because of the added differences between the public and private sectors (See: Nutt (2005), Poole *et al.*, 2006, and Rainey & Bozeman, 2000). Differences arise due to intrinsic sector characteristics and due to the characteristics among the respective sector managers.

Sector differences include:

	Public organization	Private organization
Focus	Management of organization & territory	Management of organization
Ultimate goal	Public value	Bottom-line
Primary stakeholder	User, taxpayer, beneficiary	Clients
Major intra-organizational divide	Political-technical	Executive-labor
Production	Multi product	Single product
Pressure	Political pressure	Competitive pressure

Empirical differences between public and private managers include:

	Public	Private
*Control over personnel, procurement, and budgeting	-	+
*Income as a source of motivation	-	+
*Public good, integrity, personal sacrifice as sources of motivation	+	-
*Level of dissatisfaction and disappointment	+	-
**Negotiation as the main decision-making tool	+	-
**Networking and analysis as the main decision-making tool	-	+
**Perception of risk regarding the budgeting processes	-	+
***Union-related management problems	+	-
***Top management associations	+	-
*Rainey & Bozeman, 2000; **Nutt, 2005; ***Poole <i>et al.</i> , 2006		

Without being properly managed and understood, differences generate conflict. The concrete differences generating conflict within PTB include:

- Economic (efficiency) vs. political (social acceptance) rationales;
- Faster vs. slower paces and short-term vs. long-term timeframes;
- The wholeness of business organizations vs. the multidimensionality of public organizations (vertical and horizontal administrative fragmentation); and
- The negative stereotyping of each other.
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The biggest barriers to public-private partnerships are the opinions the two sectors have of each other. These views are partial at best and wildly distorted at worst. Stereotypes of cynical politicians, mindless bureaucrats and ruthless businessmen are disturbingly common. The distinction between technical and political spheres poses a serious problem for public-private collaboration in the regional development field given that a government – in this case, Manresa Town Hall – acts as both judge and plaintiff. It acts as judge because it handles most of the planning applications. This role is played by the administration’s technical staff. However, it also acts as plaintiff – in PTB’s case, Manresa Town Hall is the second largest shareholder.

Thus, Town Hall lends PTB political support for measures that are then checked by the administration’s technical staff for compliance with planning regulations. Such situations create confusion and frustration in business circles which fail to grasp the differences between public administration functions. PTB’s current CEO is acutely aware of the need to understand this aspect of the public sector: “Political will and the priorities of town halls’ technical staff are

often out of step, but you have to deal with the latter and try and make sure everything stays on an even keel.”

Another issue at play is the “publicness” (Rainey and Bozeman 2000) of PTB, both due to its membership and to its mission (economic development). The conflict over environmental issues and the NIMBY-type conflict around the prison construction project demonstrate how society at large deeply scrutinized this company. Moreover, in relation to the prison conflict, the society’s reaction to the media attacking PTB shows how society does not distinguish between Torras’ actions as PTB Chairman and those he took as an independent citizen.

Inter-administrative relations (Agranoff 2007) also appear as a source of conflict. The technology park is to be built between two different cities, in an area both town halls claim to be theirs. Given that a technology park is a source of income (as companies move in and pay local property taxes), neither party wants to let go.

Learning points:

- *Public-private joint ventures are expected to intensely experience the tension between unity and diversity; diversity due to sector differences increases the challenges these ventures face.*
- *Because of the “publicness” of public-private joint ventures, they are under intense social scrutiny.*
- *Joint ventures involving more than one town hall will experience competition between administrations.*

Part 3: What to do next

The last part of the discussion should focus on what PTB’s management should do to redress the situation.

What should be done?

This can simply be left open to discuss with participants. The key idea is that collaborative interaction must be managed, in particular when the diversity/unity tension is intense. Key readings regarding collaborative management may be referred to: e.g., Huxham and Vangen (2005).

An alternative is to distribute the second part of the case and discuss how PTB managers actually reacted. The actions they took to successfully overcome difficulties included:

- Communicate with stakeholders,
- Involve the social context, and
- Generate learning spaces.

A fundamental point concerns the management of the partnership’s internal and external contexts. The crises mentioned in the case arise in connection with PTB’s less well-informed

members and stakeholders. PTB took a giant leap forward when it began informing all its stakeholders – for example, the town halls holding minority stakes – and managed the political context. The contributions made by internal players vary, but it is vital they all be kept fully informed of what is going on. Although the smaller town halls make a fairly modest contribution to PTB’s funding, they are vital to politically and socially legitimize PTB’s initiatives. PTB staff work hard at keeping all the partners informed.

With regard to external management, a major change took place when PTB became aware of the impact diverse social and political events had on the company. The political management measures taken by the company included: setting up a panel of experts to legitimize the Technology Park; managing the media to avoid the kind of “shocking” headlines that irked both private and public players; visits to other technology parks with representatives of various sectors; and the transparent, public selection of the park proposal by a broad-based jury.

Learning is important to manage a mutual lack of knowledge as it allows for unity to be forged through common frameworks, shared values and trust. PTB created such shared learning forums. Learning about the other parties and how they see one another is something all those interviewed mentioned.

Additionally, we can point out that these practices were successful because they contributed to several factors known to play a part in successful cooperation:

- They generated common meaning-making (Weick 1995),
- Built trust (Hardy et al. 1998),
- Built legitimacy (Moore 1995), and
- Bridged diversity (Ospina and Saz-Carranza *forthcoming*).

Learning points: Collaborative interaction must be managed, especially when the diversity/unity tension is intense, by:

- *Communicate with stakeholders include the social context and create learning spaces;*
- *Within these learning spaces, generate common meaning-making among the partners, build trust and bridge diversity among the parties, and create legitimacy for the joint venture.*

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