Partnership: issues of policy and negotiation

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Partnership: Issues of Policy and Negotiation

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Introduction

"Partnership" has become one of the code words of our times in the field of public policy generally, and local economic development in particular. Central government has promoted public-private partnership as the solution to inner city economic decay, as a way of producing non-municipal housing for let below market rents, and as the structure for developing both policy and practice in training. Local government has seen public-private joint ventures as a partial solution to acute resource constraints, and sometimes as valuable in their own right. Partnerships involving non-profit organisations, charities and community groups have become an important form for producing services such as special needs and other "social" housing, and community care schemes.

Being a partial euphemism and a token of political negotiation, the concept of "partnership" contains a very high level of ambiguity. Advocates point to the mutual benefits of joint ventures: the "synergy" created by collaboration between partners with different assets and skills and compatible aims. Critics point to schemes labelled "partnerships" where the benefits appear to accrue chiefly to one side of the venture, where partnership seems another word for privatisation of public policy and assets, or where the costs of collaboration appear to out-weight its benefits. Furthermore, because of the political and financial premium placed by government policy on the joint venture form of policy and practice, a great deal of political debate is going on, not between advocates and critics of partnership, but "within" the concept, concerning its potential meanings and effects.

As a result, there is of course real ambiguity and conflict within partnership schemes themselves. Such schemes are rarely well defined one-off deals between partners with clearly differentiated goals, but rather sites of continuing political and economic renegotiation. It is the purpose of this paper to try to capture some characteristic aspects of this conflict and renegotiation in a number of recent partnership schemes. This is done in the hope that it will assist particularly public sector partners to think clearly about the issues and trade offs involved in the design and evaluation of joint ventures. In particular, the arguments below are intended to contribute to the effort, evident in many local authorities, to turn the pressures of partnership to the service of a new "developmentalism" at local level and within the local state.

The ideas in this article were developed out of a set of case studies of public-private and public-private-voluntary sector partnerships, undertaken during 1989-91. (1) The examples are all drawn from that research, but some details of the cases have been changed to disguise their origins.

Theorising "partnership"

Theoretical frameworks for understanding partnerships are not well developed. Some researchers implicitly define partnerships as any schemes with funding or involvement from more than one agency (Sellgren, 1990). Others have seen little need to go beyond a definition of partnership as "cooperation between actors", where by the "actors" agree "to work together towards a specified economic development objective." (Bennett and Krebs, 1991, p.82) In the study just quoted, models of partnerships are classified in a descriptive
manner by their institutional form, and according to sector from which the apparently
dominant partner is drawn.

For the research on which this article draws, we also chose cases initially on the
basis of institutional characteristics, selecting schemes taking a range of joint venture forms
crossing the public/private/non-profit boundaries. We were looking for sustained joint
working, rather than the one-off deal, and for schemes where there was some claimed
additional "social" benefit which could not have been generated by a purely public or
charitable project nor by a purely commercial project. These criteria exclude many schemes
called "partnerships", such as those where we found the concept expanded to cover a
private sector contractor supplying services for payment; a planning gain deal involving no
joint working arrangements; or a land sale for private housing with no social housing
element.

The use of additional social benefit as a criterion of "partnership" derived from two
theoretical assumptions implicit in a good deal of the literature on partnerships. These were,
first, that the scope for partnership is defined by the existence of potential synergy arising
from differences between partners. The concept of synergy in this sense derives from the
corporate strategy literature (2), and refers to the additional benefits of companies acting
together rather than severally. That such synergy exists to be exploited (and fought over)
then becomes a necessary condition for partnerships. The second assumption was that in
public-private partnerships (as opposed to commercial joint ventures) one participant at least
represents or pursues (or should pursue) non-commercial ends and interests. In other
words, public-private partnerships are thought to be distinguished by complex and potentially
competing objectives: they have social as well as commercial ends.

Debate on partnerships over the last few years has questioned both these
premises. Some "partnership" schemes, it has been argued, consist mainly in subsidy to
commercial interests from public funds in order to (re)establish markets (Brindley and Stoker
1988). Where this fails, leverage is low and little additionality is achieved. Alternatively,
profits resulting, for example, from bringing together public land and planning powers with
commercial funds, may accrue solely to commercial interests, because of public sector
connivance or "capture". The original "growth coalition" literature in the United States
(Molotch 1976, see also Lloyd and Newlands 1988) focussed on private sector coalitions
dominating local public policy in an analogous fashion. Similarly, critiques of the London
Docklands Development Corporation have focussed on the benefits to large scale property
and commercial interests, versus the costs to community interests and indeed to local small
business, (for example, Docklands Consultative Committee 1990). The central theme here is
that public institutions in joint ventures may serve private interests, and give up, overtly or in
practice, what CLES (1992) calls any "social remit".

Picking up these concerns, the political literature on partnerships has focussed on
the issue of representation of community interests and the extent of effective pursuit of social
objectives. The US literature has explored the scope for progressive coalitions, directly
incorporating community partners (3). Phil Cooke (1988) argued that British "growth
coalitions" have tended to be driven, not by local capital, but by progressive local
government officers and members "not wholly ensnared by the profit motive" and motivated
by concerns of social justice. The CLES report cited above encapsulates such concerns in
the concept of "social regeneration". In parallel, studies of private sector corporate strategy
and business roles in partnerships stress the breadth of "stakeholders" in private
businesses, the over-simplification in the idea of a well defined, narrow commercial
objective, and the medium term interests of business in taking up some social regeneration objectives (4)

This literature suggests a danger in assuming that the character and objectives of the partners in joint ventures are known and distinct. Instead, it points us to what practitioners already know: public/private partnerships are complex, sometimes messy, processes which take place over time. When they are large, as regeneration partnerships sometimes are, their evolution affects the nature and objectives of the partners themselves. Hence partnerships are one, quite important, site where broader processes of social and economic change are fought out. Analysis therefore has to be multidimensional to be useful: it needs to help participants and observers to identify the various kinds of things which are "going on" within a scheme at any time. In particular, it should aim to help negotiators identify trade-offs between various levels of negotiation. The rest of this article seeks to contribute to that aim.

The next sections offer three "models" of partnership. These are not about formal structures or institutions of partnership. Instead, they are simplifications or partial formalisations of the different processes at work within partnerships, which hold them together and make them "work" in the participants' terms. They draw directly on the ways in which participants describe joint ventures.

**Partnership model 1: Synergy**

"Pooling the resources of the private and public sectors is the way to achieve real success in the inner cities" (HMSO, 1988)

The synergy model might be called the "ideal" partnership model, or the public face of partnership. It is the model implied by government statements about public-private partnerships to regenerate the inner city, as in the above quotation from the 1988 inner cities White Paper. The basic concept of synergy has already been defined. Many of the formal definitions and justifications of partnership draw implicitly on this concept.

The underlying idea where the concept of synergy is applied to cross-boundary partnerships is of two distinct economic sectors, each with identifiable pools of assets and capacities, and with clear and distinct (but not wholly mutually exclusive) objectives. The model (Diagram 1) therefore envisages a joint venture between a profit seeking commercial firm and a "public interest" organisation of some kind (a governmental organisation, a non profit charity) with non-commercial (social) objectives. The essence of the joint venture is the creation of additional profits, through the combining of the different assets and powers, and an associated negotiation process over the distribution of those profits, partly to increase the returns to private shareholders, and partly to serve social ends.
Diagram 1  Synergy

This model possibly has particular resonance in Britain because of the continuing strength of our conception of the cultural and economic difference between public and private sectors. (The sectors seem to be perceived as much less culturally distinct in, for example, France). It also appears to have a convenient political clarity, with each side "sticking to their knitting" (in the words of one private sector director), and mutual benefits for all.

A large number of partnerships can be interpreted in this way. One private sector manager involved in setting up redevelopment partnerships talked of the need to be able to answer, for each partner, the question, "what's in it for me?". The property-led regeneration partnerships in the late 1980s were all predicated on the expectation of a large element of additional profits to be extracted from the combination of public sector land assets and private investment capital. Much of the evaluation has therefore centred on the extent of such additional benefits, and their distribution: that is, the "synergy" model has underpinned most critical evaluation.

Since the property slump, this form of synergy has virtually vanished, and the "social" arms of property developers, set up to pursue it, have largely been abandoned. But slumps also open up new opportunities: low land values and a need for cash flow by construction companies potentially offers the public sector new leverage for its cash, to balance the new claims to subsidy. The City Challenge bids tend to take an optimistic view of the potential profitability of leveraged private cash; however, government regulation prevents the public sector from rebuilding its assets as it should be able to do in a depression.

Partnership model 2: Transformation

"We are ... using our powers to put other people's deals together... and also doing deals of our own." (Chief Executive, Conservative controlled shire district)

"Partnership . . . means people seeing the chance of an entrepreneurial 'turn'... " (Chief Executive, Labour controlled shire district)

While much of the public language of partnership fits the synergy model, no participants in the regeneration game doubt that there are also some reasonably overt agendas. This model tries to capture some of the concerns about partnership and the nature of the public sector referred to above.
In addition to public-private collaboration, another theme of the 1980s and 1990s has been the effort by central government to reform the public sector on a more market-like model. One vehicle for such a transformation has been the bringing of the private sector into the public: whether through private contractors, private sector members of policy boards, or joint ventures. Simultaneously, if much less drastically, there have been a series of public and political pressures pushing the private sector, notably the larger companies, to take a more "social" approach.

**Diagram 2 Transformation**

This is the mutual effort at transformation which the second model of partnership (Diagram 2) seeks to capture. In this model, the public sector is not the public-spirited institution found in the previous model, or at least not wholly so. Instead, the public sector has mixed objectives. While publicly holding to socially desirable objectives, in practice, this public sector is also ingrown, tending to self-serving internal objectives, using resources inefficiently. Voluntary sector bodies may similarly become self-centred on internal objectives, serving a self-perpetuating group rather than a wider public interest.

Finally, in this model, the private sector too is rather hide-bound. As seen from a public perspective of long term economic development needs, private firms appear to be pursuing short term, narrow private aims, to the exclusion of longer term planning. They then become dissatisfied with the overall economic outcomes, and tend to blame the government for economic decline.

In this model, then, "partnership" becomes a mutual struggle for transformation. The joint venture is a vehicle of this struggle for both sides. The private sector is seeking to bring private sector objectives into the public sector, to shake it up, get it to seek more market-oriented aims, to work more efficiently in its terms. The public justification offered is that this will be in the long term public interest. The public sector, conversely, is trying to push the private sector towards more "social" and longer term aims, justifying this in precisely the same terms.

A very neat example of this type of conflicting perception was provided by a discussion at a Training and Enterprise Council where the ideas in this paper were presented. TECs have private sector-dominated boards and are working closely with private sector companies and training providers. One TEC staff member put forward the, clearly passionately held, view that the TEC’s job in working with the private sector was to change that sector’s method of thought and whole approach to training. Private companies had to move away from their existing unwillingness to train, and a general short term approach to their workforce, towards a longer term perspective.
This caused the TEC Chief Executive to recount a conflicting perception. He had had a recent discussion with an eminent local businessman, who had opined that the reason for the TECs' creation had been the mess the civil service had made of training. Now that private business dominated the TEC board, and hence ran training, he thought that maybe the public training funds would finally be properly managed according to private sector needs.

In this "transformation" model, therefore, each partner in a joint venture is not merely trying to work with the other and find common ground for mutual benefit. Each is also trying to move the objectives and culture of the other more towards their own ideas. This struggle for mutual transformation is only partly overt, rarely openly debated within schemes, but emerges quite clearly in exchanges such as the above and can be a strong part of participants' motivation.

Acknowledgement of transformatory effects is common in discussions of the impact of joint ventures within local authorities: the above quotations about the deal-making culture are illustrative examples. Conversely, business secondees in, for example, business-education compact schemes, acknowledged the extent to which they too had broadened their ideas and mis- laid old stereotypes which blocked creative thought about education and training.

These efforts at mutual transformation cannot be resolved. They are a continuing aspect of what is being negotiated, a continuing driving force of both conflicts and creativity within partnership schemes. Its effects, furthermore, are unpredictable. Critics have rightly noted the negative effects these pressures can have on local authorities' openness and accountability, because of the secrecy and top-down decision making encouraged by the deal-making culture. But the conclusion to this paper, and Lucy de Groot's analysis of City Challenge in this issue, both suggest that the transformatory pressures can also have more positive effects on local authorities' role and legitimacy.

**Partnership model 3: "budget enlargement"**

"Look, local authorities are in partnership schemes to raise money. If they could raise more funds themselves, they would not be undertaking joint ventures. These schemes are second best ways of achieving our aims. " (local authority Chief Housing Officer)

Finally, there is a third implicit model in many public/private partnerships, which has been reinforced by the current eco- nomic depression. Many joint ventures are held together very strongly by a common external objective, of which the most frequent is the extraction of a financial contribution from a third party. This is the process which this model (Diagram 3) seeks to capture.

**Diagram 3  Budget Enlargement**

- **Public sector institution suffering from financial constraint**
- **Private company seeking public subsidy or risk reduction**
- **Joint venture aimed at attaining funds from third party**
On one side this time we have a public or charitable institution with limited funds. On the other we have a private sector institution which can see an opportunity but needs some subsidy to make the risk worth taking, or wants the risk reduced. In this case, one or both sides wants more cash. One may try to extract it from the other party. Such "budget juggling" and risk shifting is a common part of joint venture negotiation. But equally common is for both partners to join up to extract subsidy from a third party, most often central government or the European Community.

Such mutual "budget enlargement" is a common form of "glue" for joint ventures, especially local schemes seeking a common interest among local partners. Diverse partners in City Challenge are brought together by this aim. Access to central government subsidy was an overt aim of many private developers establishing partnerships during the property boom of the late 1980s. Similarly, many local government elected members agree to establishing joint ventures because they see this as the only method of gaining a hearing from central government: concessions and grants are increasingly open only to authorities with a private partner to speak for them. Non-profit organisations are similarly essential lead-partners for local authorities seeking to maximise central government financial input into social housing or community care schemes. And in regeneration schemes, the European Commission increasingly seeks a lead private company for large schemes, alongside local authority involvement, to help to ensure effective project management and completion.

Ambiguity and conflict
The models just outlined are not alternative types of partnerships. On the contrary, elements of all three of these models appear to have been present in most of the partnership schemes we studied.

The effect of this is that an institution involved in joint ventures of this kind faces three different types of pressures.

1. Working with people with different objectives; trying to understand those objectives and trying to identify common ground or areas of compatible interests.

2. Coping with pressures to become more like the other partner, in other words, to change one's objectives and organisation to fit the other partner's.

3. Seeking to extract gains against the interests of the other party, a pressure which can be mitigated by identifying common interests vis-a-vis a third party's interests or resources.

Whilst both sides experience these pressures in any joint venture, they are likely to be particularly problematic for public sector and other non-profit organisations which may be in a relatively weak position and feel themselves under attack. Before we turn to implications for negotiation, here are three examples from the economic development field of the different models within the same scheme. (5)

The first example is a local economic development company: a wide variety of these have been set up, despite the restrictions on local authority participation in the 1989 Local Government and Housing Act. They are good examples of joint ventures, in the sense defined at the beginning. Like many, this was an "off-shore" company, set up by a local authority explicitly as a way of bringing private funds into a run down area, by associating those funds with public sector land assets. Begun towards the end of the land price boom, the explicit justification drew heavily on Model 1. Proponents pointed to the constraints on local authority development capital to associate with its land assets; the likelihood that the
public sector land if sold "as is" would generate little return or development because of its poor physical state and insertion into a run-down area; and the likelihood that a joint venture company, drawing on private funding and undertaking development in the context of a broader regeneration effort in a run-down area, could extract considerably more development gain which could then be partially recycled into social benefits via the company. This is an orthodox "Model 1" justification.

In addition elements of Model 2 were present. The local authority saw the company board as a way of getting local private sector businessmen involved in an area they had previously avoided and committed to its regeneration for the benefit of local people. They believed that the private sector had been short-sighted in its approach to the area, and needed to be apprised of the market potential. The private sector manager and board members, on the other hand, saw the company as away of extracting public sector assets from the toils of local bureaucracy, where they had lain undeveloped, and of getting the local authority involved in a more market-led regeneration process.

Finally, both sides saw a joint approach to the Department of the Environment for grant funding as far more likely to pay off then either a local authority request for a relaxation of capital controls ("hopeless") or a solely private sector application for City Grant ("very few applications accepted in this [inner city] area"). So Model 3 was also in operation.

It should be added that the civil service was not passive here. The Department of the Environment was willing to play the Model 3 game, but only in return for considerable leverage over the behaviour of the company, to ensure that its activities were as profitable and market-oriented as possible: i.e. they were intervening in the Model 2 outcomes. In all of this, this pre-City Challenge joint venture contained many of the elements later formalised in the City Challenge process.

The second example is of a looser regeneration partnership for a larger area than the one above. This scheme involved a Memorandum of Agreement between a property development company and a local authority in an area where the collapse of a major industry had taken the local economy down with it. Here, interviews with the private company suggested fairly long term "Model 1"-type aims: they hoped the immediate joint venture would provide an inside track to a wider range of development opportunities, based in access to local public sector assets in the years ahead. The company was in effect investing in workable current schemes with an eye to a good deal more longer term synergy. The local authority was cash-strapped, able to contribute some assets, and seeking as much leverage and local development activity as possible, along with some redistribution notably into social housing via the partner.

Models 2 and 3 were also very much present. The authority began to think in a more "entrepreneurial" way about the value of its own assets and inputs as the project developed. From the private partner's point of view, the transfer of ideas was perhaps over-successful. In particular, local authority staff began to cost their own time more explicitly, and negotiate more effectively for an explicit return to assets and time contributed. Meanwhile the private partner, as often happens, hired someone with a public sector background to feed in an understanding of "social" issues. In this case, the Model 3 "glue" was provided particularly by the effort to bring in substantial European funds by a joint application to Brussels. The central government's additionality rules about the use of European funding (described in Thomas, 1992) provided a shared problem for partners.

The final example is that of a social housing scheme. Many of these took a partnership form during the property boom, since some housing for sub-market rental was
perhaps the most common social return from a joint venture. In this case an authority had a little land, plus some planning permission-based leverage over the price of more land. A developer saw a chance for access to that scarce resource in the southern part of the country, new housing land. In return for planning permission and a land price held below the maximum commercial price by conditions on the planning permission, the developer provided some housing below market price, via a three-way joint venture involving a housing association which would own and run the housing.

Models 1 and 3 are dominant here. The mutual benefits from the land deal are a good example of Model 1, with profits released by the change of use allowed by the local authority planning powers being partly recycled into lower cost housing via the ceiling on the land price. The source of "Model 3" funds in this case was the Housing Corporation, the joint venture with the housing association serving to bring these in. Some "Model 2" elements emerged in the interviews. The local authority conceded that it was learning to do "deals", and to admit the necessity of market-related and out-of-house approaches to housing finance, but rejected any suggestion of inherent benefits in such forms of production of social housing. The private partner however was both developing expertise in the "social" elements of such housing developments, with the hope of building up a dominant role in that perceived market niche, and was also a strong proponent in principle of a "sense of responsibility" and an "enlightened view" of the private sector role in social housing development.

The ambiguity of objectives and complexity of processes within present day partnerships, illustrated by these examples, cannot be resolved. On the contrary, it seems likely that the current pattern of economic and political pressures requires elements of all three models of partnership to be present for joint ventures to "work". (This would not necessarily be the case in a different political context.) Hence, the ambiguity reflected in the combination of these different models has its uses: it serves to obscure conflict, and to allow people to pursue several different agendas at once, compromising where necessary. Such layers of complexity make it hard to evaluate schemes, while nevertheless helping to make them work.

**Negotiating and evaluating joint ventures**

Local authority negotiators in partnership schemes would do well to be aware of these various levels of possible negotiation, not least because there may be trade offs between them. A stronger external objective may substitute for lower levels of potential synergy or considerable "cultural" incomprehension. Dealing effectively with "Model 2"-type conflicts may lessen difficulties in negotiating the distribution of profits between partners. Such negotiation involves a diverse range of skills: commercial and financial, and cultural and institutional. The main purpose of this conclusion is to consider the "transformation" issues in partnership more carefully.

In effect what is "going on" in partnerships is a version of the broader conflict over the future organisation and scope of the public sector. Once one defines the process in this way, the designation of "partnership" for these schemes seems particularly ironic. Local authorities have extended and diversified the joint ventures in which they are involved at a time when they have been under immense political pressure, and when there is a question mark over their very survival. They have, despite or because of this, sometimes seen "partnership" as a tool which might be turned to their advantage: not merely as a source of funding for social objectives they could no longer attain alone, but also as a source of renewed legitimacy and increased chances of institutional survival.

The implication is that local authorities need consciously to manage the internal implications of "transformatory" pressures if they are to turn partnerships to their advantage.
This is one of Lucy de Groot's most important points in her analysis of City Challenge in this issue. In the 1980s, active local authority innovation and leadership in regeneration offered new forms of legitimacy through effective local developmentalism. Government emphasis on inner city regeneration through partnership has left space for such a strategic role of local government, as the Audit Commission (1989 p.47) acknowledged. But to seize this opportunity, local authorities have to turn the transformatory pressures to their own advantage, establishing an active strategic role, rather than letting the partnership process contribute to other pressures for increased internal fragmentation and secrecy.

We could therefore construct a sketch of the successful joint venture between a local authority and a private body. Success would be most likely where the joint venture contained the following elements.

1. It was based on a contract or agreement which was not too tightly specified, to allow mutual accommodation over time.
2. It opened up some market opportunity to the private partner, by the use of some public power or asset.
3. It allowed for market-generated profits to be earned and to be partly redirected to non-commercial aims which would be of some benefit, not merely to the overt social objectives of the public sector partner, but also to its long term institutional viability.
4. It allowed the extraction of some joint benefits from a third party.

These elements allow renegotiation as conflicts emerge and the objectives of the partners change; provide a market rationale; provide the cement of an external opponent; and feed the longer term needs of the beleaguered public partner.

Finally, what are the implications for evaluation of joint ventures? There seems no reason why partnerships should not be legitimately evaluated on the basis of all three models identified. The extent of additionality from collaboration is a valid problem for evaluation, though a difficult issue to assess in practice. Similarly, the distribution of benefits towards social goals needs further investigation. The extent to which partnerships serve to shift the pattern of public spending between agencies and geographical areas, is still under researched. Above all, the internal effects of partnership schemes within local authorities, and the scope for policy to influence the form of those effects, remains an important area for further evaluation and policy analysis.
Notes
From January 1993, Maureen Mackintosh will be Professor of Economics at the Open University.

1 Results of this research are contained in a distance learning package: Horton and Mackintosh, 1992. The research was funded partly by the then Local Government Training Board and partly by the School of Economics, Kingston University. The article owes a great deal to discussion with Rima Horton, but neither she nor the funding bodies are responsible for the interpretation of the research put forward here.

2 See for example Johnson and Scholes 1988; for a recent use in the partnership literature see Carley 1991 p.100.

3 See the Special Issue of Local Economy February 1990, on local economic development in the USA.

4 Slatter 1988 makes the argument about stakeholders at some length; a variety of Business in the Community documents (e.g. BiC 1986) have argued for more social responsibility of business.

5 The research was undertaken between 1989 and 1991, and a number of features of the schemes described have since been made more difficult or blocked by legislation and tightening government regulations.
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