CHAPTER 15

PUBLIC–PRIVATE PARTNERSHIPS AND HYBRIDITY

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15.1 Introduction

Public–Private partnerships (PPPs) combine the resources of government with those of private agents (businesses or not-for-profit bodies) in order to deliver societal goals. The forms taken by public–private partnerships include contracting-out of services, business management of public utilities, and the design of hybrid organizations for risk sharing and co-production between government and private agents. PPPs give rise to a series of ideological and managerial choices. These concern the relationship between private actors and the state, the extent to which businesses and not-for-profits should substitute for government, and the costs and benefits of different public–private solutions (Linder and Rosenau 2000). The way in which these choices are constituted and resolved is a function of the particularities of differing political and cultural contexts. In Australia, New Zealand, Scandinavia, and the UK, PPPs introduce a significant disjunction to the tradition of public provision through a social democratic welfare state (Castles et al. 1996; Savitch 1998). This contrasts with the US where historically there has been closer involvement of business in the provision of government (Moulton and Anheier

2000; Salamon 1981). In Asia, the notion of public–private partnership is difficult to translate to societies whose cultural and political traditions do not easily accommodate the western distinctions between private sector and state (Common 2000). PPPs in the Indian sub-continent, Africa, and Latin America are associated as much with meeting basic needs through small-scale initiatives as reforming large state owned enterprises in the light of internationally directed structural adjustment policies (Batley and Larbi 2004).

Conceptual clarity is a prerequisite of any discussion of public–private partnerships. The terms public, private, and partnership are overworked, individually and collectively, and their meanings are contingent on context (Linder 2000; Pollitt 2003). In western Europe, the phrase public–private partnership refers specifically to a mechanism for spreading risk, gaining off-balance-sheet financing, and increasing innovation in the design, construction and operation of infrastructure-based projects (Commission on Public Private Partnerships 2001; Reeves 2003). The US interpretation, however, is broader and covers a variety of instruments through which government involves businesses and not-for-profits in the realization of public policy goals (Beauregard 1998; Milward and Provan 2000; Rosenau 2000). This chapter uses the term public–private partnership in a generic sense to refer to the ways in which government and private actors work together in pursuit of societal goals.

PPPs arise from the make-or-buy decisions that governments face. Governments can choose to realize societal goals directly, through public employees and collectively controlled facilities (the make decision), or indirectly by means of business and not-for-profit organizations (the buy decision) (Osborne and Gaebler 1992; Williamson 1996). The buy decision leads to a choice between the five main forms of public–private partnership discussed in this chapter, namely public leverage, contracting-out, franchising, joint ventures, and strategic partnering.

The development of these relationships between state and private actors gives rise to the phenomenon of hybridity. This refers to an organization that has both public and private orientations (Ferlie et al. 1996; Koppell 2003; Joldersma and Winter 2002). Hybridity is associated with an indistinct boundary between public and private interests as a result of the close engagement of business and not-for-profits in the governmental process. Public–private partnerships, therefore, generate a series of questions that relate to the legal, ethical and financial conditions for public management.

The chapter has four sections. The first step is to explore the political and theoretical rationales for public–private partnerships. This leads into an analysis of the five types of PPP. The third section discusses the impact of PPPs in terms of cost/quality and organizational hybridity. The final section draws out the main conclusions of the analysis and identifies challenges for the future governance and management of PPPs.

15.2 Explanations for Public–Private Partnerships

PPPs do not emerge as a matter of whim or fancy. They are institutions rooted in a specific political and temporal *milieu* (Peters 1998). At particular moments they seem to offer the solution to public policy problems. This is illustrated by examining the make or buy decisions of UK and US governments over the past two centuries. During the nineteenth century these governments undertook infrastructure procurement by franchising to private companies the right to design, finance, build, and operate schemes for power, water supply, and other public utilities (Pietroforte and Miller 2002). During the twentieth century UK governments expanded their direct involvement in public provision, leaving private actors to play specific functional roles, for example in the construction of government-designed facilities (Middleton 1996). In the US, however, business contractors continued to be an indispensable part of the workings of Federal government, with Light (1999) estimating that four times as many people were retained through grants and contracts as were direct employees. This third-party government (Salamon 1981) includes the contractual relationships between government and not-for-profits, especially in social welfare provision (Smith and Lipsky 1993).

Governments around the world made greater use of private actors to design, manage, and deliver public policy during the latter part of the twentieth century. This was motivated variously by the prescriptions of New Public Management, reform programs introduced as a result of government ideology or pressure from international agencies, and social, economic and cultural changes (Batley and Larbi 2004; Clarke and Newman 1997; Halligan 1997). The policy instruments employed ranged from competitively tendering public services through to the sale of state-owned enterprises. However the adoption by governments of market approaches did not follow a single logic. Batley (1996) analyzed private sector involvement in the provision of public services in Latin American, Africa and Asia and concluded ideology was not a significant driver. The prime motivation was the pragmatic of gaining investment through compliance with international donor agencies' structural adjustment demands. In Australia, Domberger and Hall (1996: 134) note variation in the adoption and form of competitively tendered contracting and conclude: "historical factors, local circumstances, political ideologies and economic situations have all played a role." The prevailing political economy in Western Europe has not generated a strong impetus to expand contracting or externalization, other than in the UK which tends to be an outlier in its enthusiasm for marketization. The administrative law tradition in Germany meant that marketization was slow to develop (Jann 2003; Wollmann 2001) while in France the traditions of state technocratic control and integration of public and private enterprise had a similar effect (Durant and Legge 2002). However the impetus of economic liberalization in the transitional states of eastern Europe has resulted in extensive use of contacting-out to reform public services and stimulate private activity (Devas and Horváth 1997).

This evidence enables us to locate the adoption of public–private partnerships within a set of responses to public management reform that are differentiated by national context (Pollitt and Bouckaert 2000). The marketization wave in a number of advanced economies during the latter part of the twentieth century was associated with neo-liberal governments who adopted prescriptions arising from the rational choice view of public officials as budget-maximising bureaucrats rather than neutral proponents of the public interest (Horn 1995; Lane 1995). This ideological stance has undergone some change, for example during the Clinton and Blair administrations in the US and UK respectively, but the emphasis on the positive contribution of business and not-for-profits has been sustained. Its intellectual justification is provided by Third Way politics (Giddens 1998, 2000). This offers a perspective that moves beyond the old alternatives of market or state (Table 15.1). It stresses interdependencies and mutuality, a stakeholder society in which a variety of interests are brought into the governmental process (Newman 2001; Falconer and McLoughlin 2000). The language of public–private partnership in this context symbolizes a disjunction from the more ideologically driven discourse of contracting and privatization, as Linder (2000: 25) observes:

> [Public–private] [p]artnerships have been viewed as a retreat from the hard-line advocacy of privatization. From this perspective, they serve a strategic purpose, enlisting the support of more moderate elements that are less opposed to state action on principle. Partnerships are accommodationist; they hold back the spectre of wholesale divestiture and, in exchange, promise lucrative collaboration with the state.

Table 15.1 The third way, social democracy and neo-liberalism

Social democracy	Neo-liberalism	Third way
Class politics of the left	Class politics of the right	Modernizing movement of the center
Old mixed economy	Market fundamentalism	New mixed economy
State domination over civil society	Minimal state	New democratic state
Internationalism	Conservative nation	Cosmopolitan nation
Strong welfare state	Welfare safety net	Social investment state

Source: Newman (2001), after Giddens (1998)

15.3 Forms of Public–Private Partnership

Five different forms of public–private partnership can be distinguished. Some are predominantly state-led, while others are based on a presumed mutuality of interest and risk-taking. Their institutional forms can be further distinguished in terms of time scale, financing, and partner relationships (Table 15.2). In this section we explore the key features of each and the main lines of debate about their application to public policy problems.

15.3.1 Public Leverage

Public leverage occurs where governments use their legal and financial resources to create conditions that they believe will be conducive to economic activity and business growth. Schaeffer and Loveridge (2002) use the term "leader-follower" to capture this approach, since government is encouraging and inducing private sector decision makers to align with public policy goals. Public leverage has a particular significance in regeneration strategies for disadvantaged localities (Boyle 1993; Walzer and Jacobs 1998; Jacobs 1999). Governments around the world have packaged together infrastructure improvements, financial incentives, business support services, and other measures to promote economic regeneration in a locality. Place marketing within an overall policy to attract footloose capital often supports this approach. This strategy may make sense from the perspective of a single jurisdiction, but there is a danger of over-supply of government inducements at the regional, national and global level as localities compete between themselves. Public leverage also occurs where government wishes business or not-for-profits to be the means of realising a goal that might otherwise be achieved through public bureaucracies. An example is US Federal government subsidies to private developers of housing schemes for low-income families (Macdonald 2000). This arm's length leverage avoids the need for government itself to develop and manage public services.

15.3.2 Contracting-Out and Competitive Tendering

Contracting-out involves separating the purchaser of a service from the provider. Government concentrates on the former, defining what services are to be available and to what standard, and then contracts out the provision to a business or

Table 15.2 Forms of public–private partnership

Dimensions	Public leverage	Contracting-out	Franchising	Joint ventures	Strategic partnering
Purpose from government's perspective	To create conditions attractive to private sector investment and business development.	To achieve cost reductions, efficiency gains and quality improvements in public services. To reduce the workforce management responsibilities of public managers.	To transfer management of public enterprise to commercial sector.	To deliver projects where government has commonality of interest with business or not-for-profits. To enable government to gain access to private capital off the public balance sheet To transfer risk to the private sector.	To enable government to gain significant cost and business process gains over the medium to long term. To integrate business and not-for-profit actors into the public policy process.
Mechanism	Government prepares land for industrial development, provides tax breaks, offers subsidies, etc.	Provision of public service under contract by business, not-for-profit or another public agency, often utilizing competitive tendering against the existing public provider.	Business or not-for-profit is granted licence by government to deliver the service, within public interest regulatory framework. In the case of infrastructure provision, the assets may revert to government after a fixed term.	Contract between government and private partners covering capital works and subsequent operating costs.	Long-term and open-ended relationship between public and private actors based on trust and mutuality rather than formal contract, but may include elements of contracting-out, franchising or joint venture.
Funding	Public.	Public.	User fees, possibly with additional public subsidy tied to provision of uneconomic but socially desirable services. User fees provide basis for access to capital funds through the market.	Private, with government refunding costs over the long term.	Public, but may include private.
Timescale	Medium term. Open ended.	Short to medium term. Fixed period contracts.	Medium to long term. Fixed period franchise.	Long term. Fixed term contract.	Long term. Open-ended relational contract.
Partner relationships	Government seeks to attract business partners.	Public purchaser; private or not-for-profit supplier.	Private provision under public regulation.	Government commissions and specifies the project outcomes, and commits to repaying costs. Private partner finances, and/or builds, and/or manages, and/or operates the facility.	
Example	Economic regeneration areas.	Contracted out refuse collection and social care services.	Railways in the UK.	Construction of major infrastructure projects.	Civic partnerships.

not-for-profit organization. Contracting-out is the logical outcome of a competitive tendering or market-testing process in which the public provider is deemed not to offer the best solution. Fiscally prudent politicians and academic advocates of rational choice theory identified possibilities for efficiency gains by competitively tendering municipal services such as refuse collection, street cleaning and road maintenance. Cost reductions were expected to arise from changes in working practices, employment conditions, and management overheads as a result of exposing the de facto monopoly of the public provider to contestability (Domberger and Jensen 1997; Walsh 1995).

A further potential benefit from the use of competitive tendering is improved service quality. The process of competitive tendering requires the public sector client to specify the nature of the service they wish delivered in order to be able to evaluate bidders' offerings and monitor the performance of the successful supplier. This involves a fundamental change in government's perspective from the traditional input orientation concerned with staff, money, and other resources to a focus on the outputs and outcomes to be achieved (Walsh 1995). There are, however, enduring problems in defining the qualitative aspects of a service, especially where service users are ill-defined (as in the case of recipients of a street cleansing service), are not able to offer an opinion (such as those in receipt of medical advice), or are vulnerable and dependent on public provision (for example, people receiving care for mental health problems) (Stewart and Walsh 1994).

The ability of contracting-out to realize its benefits depends on two conditions—market competition and government capacity (Van Slyke 2003). The need for a competitive market may seem an obvious point, but this does not always exist in services where governments wish to offer contracts (Milne 1997). Government capacity relates to the imperative to be a "smart buyer" (Kettl 1993). Procedures, staff skills, and culture must be transformed from the hierarchical mode of supervising direct service provision to that of service design and contract management. This requires a range of skills, including negotiation, contractor management, dispute resolution, and service auditing, that traditionally have been little valued in public organizations. There are also particular issues for government in monitoring and taking timely action in respect of social welfare and health services where contractor failure can be highly significant politically and in terms of the well being of the individual.

From a theoretical perspective, contracting-out places government and supplier in the roles of principal and agent respectively (Lane 1995). This apparently simple relationship contains significant complexity. There are strong incentives on the successful bidder to minimize their costs and maximize their revenue. Possibilities for opportunistic behavior arise due to the information asymmetry between contractor (who knows what work has been done and to what standard) and the client (who is at one remove from the delivery process) (Kavanagh and Parker 2000). The ability of a contractor to control (at least partly) the quality, quantity,

and timeliness of the data provided to the client is a powerful resource in the relationship and raises particular problems in social welfare contracting because the service package is more open-ended (Mackintosh 1997). It is also clear that the introduction of contracting can redirect the mission of not-for-profits toward government's service-delivery objectives (Van Slyke 2003; Deakin 2001).

The reality of contracting-out for public services is more complex than the normative theory indicates. Opportunism, information asymmetry, and complex principal–agent chains, combined with pressure to reduce the client-side overhead, compound the problem. The complexity of contracting-out increases as one moves away from basic municipal services into professional, health, and social welfare provision, where short-termism is counterproductive to the public good. The bureau has been the transaction-cost efficient way of delivering such services, even if it is X-inefficient because of the weakness of constituency interests and the problem of natural monopoly (Horn 1995; Lane 1995). The contemporary public management discourse privileges public–private partnerships over bureau solutions. Consequently the weaknesses of the contracting-out model require a search for alternatives routes to the engagement of private actors in public services.

15.3.3 Franchising

Franchising involves government awarding a licence to a business or not-for-profit to deliver a public service in which the provider's income is in the form of user fees. Savas (2000: 80) sees the difference between franchises and contracts in this way:

> With franchises, as with contracts, government is the arranger and a private organization is the producer; however, the two are differentiated by the means of payment to the producer. Government (the arranger) pays the producer for contract service, but the consumer pays the producer for franchise service.

The licence may require the private agent to develop infrastructure, in which case it would normally transfer to public ownership at term (Pietroforte and Miller 2002).

Under franchising, government is reallocating its monopoly rights to a private entity (Ghere 2001*a*). The process of allocating these rights may be undertaken competitively and require potential providers to bid a cash value to acquire the franchise. This was the position with the provision of train services in Great Britain after denationalization (Pollitt and Smith 2002). Government auctioned franchises to operate bundles of routes for a fixed time period. The successful train operating companies were then responsible for providing rolling stock and delivering a service subject to price and performance regulation. The customer revenue stream flowed to the franchise holder, but there were also public subsidies to maintain services on socially desirable routes.

Franchising has a particular benefit in the case of a monopoly public-interest service whose revenue is sourced from user charges and where government does not want to develop and/or operate the service directly itself. The monopoly features of the service make privatization (i.e., sale of ownership into the market) undesirable.[1] Franchising provides a means of transferring operational responsibility to the business sector, with government taking on the role of an arm's length public-interest regulator. In the case of a new service or facility, franchising also transfers some risk to the private sector.

15.3.4 Joint Ventures and DBFO Partnerships

Joint ventures occur where two or more parties wish to engage on a collaborative project in a way that retains their independence (Schaeffer and Loveridge 2002). They enable the co-ordination of important decisions by independent actors in respect of a project that is close-ended in terms of its scope and the commitment of partners' resources. The joint venture may be managed through a partnership agreement or a separate corporate entity—a special purpose vehicle (SPV). Joint ventures are now used extensively to realize public goals for infrastructure provision and renewal, including schools (Ball et al. 2000), public transport (Klijn and Teisman 2003), hospitals (Froud and Shaoul 2001), roads (Reeves 2003), air traffic service (Goodliffe 2002), economic sectors (Samii et al. 2002), and prisons (Schneider 2000). These are typically referred to as public–private partnerships in the European context[2] and as Private Finance Initiative (PFI) in the UK.[3] The generic nomenclature is DBFO (design–build–finance–operate).

DBFO involves government stating its intentions in output terms and then entering into a long-term contractual relationship with a company or consortium who undertake to design, finance, and build the facility, and manage and deliver some of the services associated with it (typically, maintenance, cleaning, and security). Government pays for the output over the medium to long term through a shadow toll or other revenue formula. The particular solution in any individual case will be a permutation of these DBFO elements and its lesser variants—e.g. DBF (design–build–finance) and DBO (design–build–operate). For example, the private partners might design, finance, and build a facility, which would then be redeemed by the public sector through a long-term debt arrangement (the turnkey method) (Pietroforte and Miller 2002; Wakeford and Valentine 2001).

DBFO joint ventures offer three potential benefits to government. The first is that the separation of the capital financing of a public project from its ongoing funding does not add to public debt. The infrastructure is treated as incidental to the output, with the benefit that it will not be reflected on the public sector balance sheet (but see below). However the Commission on Public–private Partnerships (2001) warns that the provision of capital by the market brings an assumed benefit

of greater diligence in project management and avoidance of cost overruns that may not be borne out in practice. The second motivation for government is to encourage innovative solutions since the project is specified in outcome terms. Daniels and Trebilcock (2000) caution that the less crystallized the project, the greater the risk that creative design will increase the costs of the project and bias the selection process. The third purpose of DBFOs is to transfer the risks of the project to the private partners. Risks include those associated with planning and design, construction, availability and performance, and residual value (Kirk and Wall 2002; Reeves 2003). Van Ham and Koppenjan (2002), however, point out that the private partner also bears unique risks including political discontinuity and high transaction costs due to unfamiliarity with public policy processes (Table 15.3).

15.3.5 Strategic Partnering

Strategic partnering between public and private agents involves a situation in which there is boundarylessness in terms of the distinctions between the constituent parties (Ashkenas et al. 2002) and where there are "permeable organizing practices that are intended to yield mutual beneficial outcomes" (Grimshaw et al. 2002:482). Schaeffer and Loveridge (2002) stress the open-ended nature of strategic partnering, the full sharing of risks and rewards, and the evolving substantive content of the action that arises. The assumptions underlying strategic partnering contrast markedly with those informing contracting-out. Trust-based relationships cement a collaborative endeavour between the organizations and

Table 15.3 Risks and barriers in joint ventures

	Public parties	Private parties
Risks	Substantive risks Financial risks Risk of private discontinuity Democratic risks Political risks	Construction and exploitation risks Risk of high transaction cost Policy risks Risk of political discontinuity Administrative risks Social risks
Cultural and institutional barriers	Long-term orientation Not geared to exploitation and cash flow Political primacy handicaps partnership	Short-term orientation Fixation on returns and cash flow Lack of understanding of political and public processes

Source: Van Ham and Koppenjan (2002)

replace the primacy of legal instruments and associated client suspicion of contractor guile (Coulson 1998; Lane and Bachmann 1998; Smith 1996).

From a theoretical perspective, strategic partnering provides a means of reducing the transaction costs of service specification, supplier procurement, and regulation that can arise under contracting-out (Lane 2001). Klijn and Teisman (see Table 15.4) summarize the differences between contracting-out and long-term partnering in this way (2000: 85–6):

> Contracting-out is characterized by a principal-agent relationship in which the public actor defines the problem and provides the specification of the solution... Partnership, on the other hand, is based on joint decision-making and production in order to achieve effectiveness for both partners. Relational transparency, or in other words trust, is crucial.

However Teisman and Klijn (2002) warn that strategic partnering schemes can flounder and regress to traditional contracting-out approaches because the institutional norms of government are not sufficiently adapted to this way of working. These conclusions, however, are based on a managerial analysis of strategic partnering. An examination of the political science literature reveals substantial evidence for macro-level strategic partnering between government and business, especially through ongoing corporatist relationships between public and private actors at the citywide level (Austin and McCaffrey 2002; Beauregard 1998). These take place through informal networks that at particular moments give rise to formal partnerships (Lowndes and Skelcher 1998; Pierre 1998*b*). Regime theory provides an

Table 15.4 Comparison between contracting-out and long-term partnership

Contracting-out	Long-term partnership
Government and company in principal–agent relationship	Government and company involved in joint decision making and production
Government defines problem, specifies solution and selects company to deliver	Both parties develop joint products that contribute to their interests
Benefits are efficiency	Benefits are effectiveness
Key to success is unambiguous specification	Key to success is developing processes for interweaving goals, efforts and products
Project managed with strong requirement to monitor contractor	Process managed with strong emphasis on dialogue and joint problem solving
Contractual transparency, including rules covering tendering, selection of company, service delivery and inspection and monitoring	Relational transparency, involving building enduring and trusting relationships which integrate organizational actors', efforts to work towards common goals

Source: adapted from Klijn and Teisman (2000: 86)

underlying explanation of how such stable governing coalitions oriented to public purpose emerge in urban areas. The process is one in which government merges its capacity to act with those of business and other key groups in the locality, giving the coalition direction and co-ordination in pursuit of mutually beneficial goals (Stone 1989; Stoker 1995). Regime theory is based on research in US cities where the structural conditions for governmental action tend to be different than in the Europe case, for example US metropolitan areas are more jurisdictionally fragmented and in some European states (e.g., the UK; the Netherlands) national government plays a greater role in stimulating governing coalitions at the local level. Consequently there is debate about the wider applicability of regime theory (John 2001). Nevertheless strategic alliances have been established between public and private actors in urban areas, providing an infrastructure of cooperation across sectoral boundaries (DiGaetano and Lawless 1997; Harding 2000).

15.4 Evaluating Public–Private Partnerships

This assessment of public–private partnerships concentrates on two issues. The first concerns the proposition that greater involvement by private agents in delivering public goals increases efficiency and service quality. The second issue involves the impact of public–private partnerships on the governance and management of the public service, especially in the context of hybrid organizational forms.

15.4.1 Cost and Quality Impacts of PPPs

There are two broad sets of financial analyses. Savas (2000), a leading proponent of marketization, reports a range of studies of contracting-out across US government services that found 20, 30, and 40 percent cost reductions[4] when compared with previous in-house provision. These changes arise from reductions in staffing, employment conditions, administrative overheads, new management regimes, and other factors. Support comes from Domberger and Jensen's (1997) analysis of competitive tendering in the UK and Australia where mean savings of around 20 percent are reported. Other studies produce more modest cost reductions and highlight the variance within the overall percentage. Walsh and Davis (1993) analyzed eight services in which there was compulsory competitive tendering and found that expenditure had reduced in some and increased in others. They note that some cost increases were due to the service specification process revealing to local politicians that standards were undesirably low. Boyne (1998: 698) argues that the rational choice theories informing marketization "over-emphasize bureaucrats' desire for budget maximization but also under-emphasize the constraints on their ability to achieve this aim," echoing Dunleavy's (1991) earlier critique.

The evidence on PPP as a stimulus to innovation is mixed. Ball et al. (2000) studied a project to build a school and reported that the client already had a fixed view about its design. In contrast, an evaluation of two prison PFI schemes identified innovative solutions in relation to construction and the control and monitoring of prisoner movements (National Audit Office 1997). The evidence on cost is clearer but still contentious. The Commission on Public Private Partnerships (2001) report a study that estimated cost reductions under PFI of between 10 and 20 percent. However Pollock et al. (2002) challenge the value-for-money methodology employed by the UK government for PFI and provide data to illustrate how important notional risk transfer is in validating the case for private financing (c.f. Ball et al. 2001). Joint ventures can produce rigidities in the budget of the public agency responsible for funding the scheme, with Grimshaw et al. (2002) reporting that a hospital board found 20 percent of its annual revenue budget ring-fenced to meet the costs of the PPP contract into which it had entered. Finally, changes in accounting rules can increase costs. This applies particularly where a PPP scheme is presented as a means of purchasing public services without the cost impacting on public debt or government's balance sheet (Reeves 2003).

Judgments about the impact of public–private partnerships on service quality are more difficult to reach. The definition of service quality itself is problematic given its multidimensional and sometimes subjective properties (Pollitt and Bouckaert 1995) and little research on the quality impact of PPP has been undertaken. However some conclusions can be offered. The first observation is that problems of information asymmetry, limited government capacity and regulatory capture might be expected to lead to quality shading, the propensity for contractors to sacrifice performance in order to maintain profitability in a competitive market. This hypothesis was tested in a small-scale study of cleaning contracts and found not to apply, although the authors recognize that the findings should be taken as indicative rather than definite (Domberger et al. 1995). The second conclusion is that the use of contracting-out, franchising, and joint ventures reduces the vertical integration of a service. For example, contracting-out in schools place educational matters and janitorial services within different management structures, even though both contribute to the quality of education received by pupils. Similarly separation of responsibility for track and train services has proved a major problem in the performance of the UK's rail network. The irony is that this decoupling of vertical integration comes at the time when governments also recognize the benefits of greater collaboration between organizations in order better to deliver public policy goals (Sullivan and Skelcher 2002).

15.4.2 Hybridity: The Public Governance Impacts of PPPs

Public–private partnerships are part of a wider process through which business models are imported into the public sphere (Ferlie et al. 1996). The new organizational forms that emerge are hybrids—"organizational arrangements that use resources and/or governance structures from more than one existing organization" (Borys and Jemison 1989: 235). PPP hybrids have both public and private characteristics and are commonly referred to as quasi-governmental, although this term also encompasses organizations such as regulatory agencies and arm's length public bodies that are more firmly located within the public realm (Moe 2001; Skelcher 1998). It is frequently easier to define hybrids by exclusion (not government, not private sector) than by inclusion, although an individual body may also claim publicness in one context and privateness in another (Moe 2001). Koppell (2003: 12) defines a quasi-governmental hybrid body as "an entity created by... government... to address a specific public policy purpose. It is owned in whole or in part by private individuals or corporations and/or generates revenue to cover its operating costs." However there is an empirical problem of applying this definition to a highly differentiated class of organizations where "each is unique in terms of history, purpose and organization" (2003: 2; see also Joldersma and Winter 2002).

There is a tension within a hybrid between public accountability and commercial acumen (Thynne 1998*a*; Wettenhall 1998). This raises three empirical and normative questions. The first question concerns the degree of constitutional oversight of this emergent class of organizations. This is limited for several reasons. Hybrid quasi-governmental bodies emerge through pragmatic and *ad hoc* processes and in a multiplicity of forms (Guttman 2003; Skelcher 1998). They are frequently a function of executive rather than legislative decision and thus comprise a judgment about technically appropriate means rather than public policy ends (Moe 2001). The choice of public–private hybrid is validated by the discourses of public management reform and marketization, especially in the post-New Right era of collaborative public policy realization, and by the "emotional connotation" of the term partnership that "conveys an image of egalitarian and conflict-free decision-making" (Schaeffer and Loveridge 2002: 185). The creation of effective constitutional oversight requires as a first step the clear demarcation of this class of organizations, but this is problematic.

The second question relates to the accountability of hybrids. The procedural regularity and transparency that informs the normative practice of government is tested by the involvement of private actors with their conventions of commercial confidence in pursuit of competitive advantage. Indeed the choice to create a quasi-governmental body offers government the advantage of reduced public accountability (Moe 2001; Thynne 1998*b*). Such private actors may well be public spirited and interested in advancing societal goals, but the accountability structures within which they operate are fundamentally different to those applying in the government service. Democratic government operates through public deliberation and the regular testing of authority through elections. Hybrids are largely immune from these processes and this leads to problems in securing accountability (Broadbent and Laughlin 2003; Whorley 2001). Boards are appointed and frequently conduct their business in closed session (Skelcher 1998). Regulatory control is variable in its effectiveness (Koppell 2003). This critique leads to the question of whether a different form of accountability should be applied to hybrids. Ghere (2001*b*) argues that public managers involved with PPPs have a personal responsibility to assure that the entity is connected to community values, but recognizes that this is likely to be in the context of the private commodification of services that were formerly perceived as in the public realm. This suggests that stronger institutional means for accountability are necessary in order to assert the publicness of a hybrid.

The third question concerns the extent to which involvement by government in a hybrid compromises its impartiality, especially in undertaking its regulatory role (Schaeffer and Loveridge 2002). There is a danger of subordinating public responsibilities to private goals, especially where government carries the final political and fiscal risk (Seidman 1988). Because government is the guarantor, market incentives on the PPP are reduced and there is a corresponding need for effective regulatory oversight to assure the public's policy and fiscal interests are served (Moe and Stanton 1989; Rubin and Stankiewicz 2001). Problems of governmental capacity are even more pronounced in developing and transitional states, leading to problems of fraud, corruption, and non-compliance by providers and thus undermining the economic benefits of competition (Batley 1996; Mills and Broomberg 1998). However there is also evidence from France that there can be strong PPPs in the context of overall governmental control of policy (Nelson 2001).

15.5 Conclusion

Buying through a PPP predominates over making through a bureau as the preferred model of public service delivery in the early twenty-first century. The roots of PPPs go back to nineteenth-century relationships between government and private actors that in some nations were dislocated by the growth of welfare state bureaucracies during the twentieth century. In recent years the forms of PPPs have extended from the early models of contracting-out municipal services to encompass longer-term possibilities based on relational contracting. Evidence about the impact of PPPs is emerging, although it is important to separate out the transitional effects of this changing mode of governance from the medium term consequences arising from the new institutional settlement.

The central justification for PPPs rests on the benefits that arise from the combination of public and private resources in pursuit of public policy goals. Notions of complementarity, synergy, and positive-sum outcomes are key elements of the discourse. Trust is presented as a medium that cements the exchange between government and private actors, resolving the conflicting motivations of purchaser and supplier within the old model of contracting-out and the consequent transaction problems of opportunism with guile and information asymmetry. This powerful image appeals to the conceptions of social order and benefit that are intrinsic to the value base of public managers. Better to work together with business and not-for-profits over the longer-term, the argument goes, than to face the problem of regulating short-term contracts where suppliers engage in rent-seeking behaviour.

There are, however, four questions that public managers need to address in the decision to engage in joint ventures, strategic partnering, and trust-based relationships. First, does the rhetoric of common interest between the parties occlude important differences of value and motivation? For the public sector, relational contracting offers the benefit of identifying a preferred partner with whom to work towards societal goals over the long term. This contrasts with the position for the private sector where partnership is a significant business strategy based on an assessment of market conditions and driven by considerations of competitive advantage (Faulkner and de Rond 2000). The ability to gain first mover advantage by establishing an early foothold in a new or expanding market for public services provides companies with an opportunity to create a more secure business environment and to exclude competitors from a close and long-term relationship with government. Second, with what do the partners trust each other? The notion of trust is integral to the normative value set of the public sector and is reinforced through institutional arrangements that provide transparency about the decisions governments make and the processes employed. The same cannot be assumed of the business sector. Confidentiality is as much a part of the core value set of business as transparency is to that of government. From a business context, the building of trust is a process that leads to the cementing of a deal. It is not an intrinsic value. Brereton and Temple (1999) argue that collaborations between government and private actors lead to a shared public service ethos that emphasizes outputs rather than procedural regularity. Ghere (2001*b*), however, takes a less sanguine view and points to the erosion of governance integrity in local communities as the key issue arising from the use of PPPs.

The third question concerns the extent to which governments have capacity to engage in PPPs. The institutional arrangements in a specific locality—the level of governmental capacity, style of political leadership, quality of managers, and so on—is a key variable in determining the success or otherwise of a public–private partnership (Batley 1996). These are sometimes difficult to resource under conditions of contracting-out; they become even more important within longer-term and relational PPPs in order for the public partner to be an effective player in the enterprise. In their absence, the danger is that the public interest is sidelined. The fourth and final question is: how do PPPs articulate with democratic institutions and processes? Creating public–private partnerships is a highly political venture, but those that have been established are generally opaque to public view and outside the realm of democratic discourse. They occupy a managerial world in which *ex post facto* scrutiny is the primary means of accountability. The paradox is that this is occurring precisely at a time when popular democratic engagement is high on the agenda for many governments. Values of active citizenship stand in contradistinction to the relocation of services from democratically controlled bureaus into the nether world of quasi-governmental hybrids.

The challenge for politicians and public managers when they set out along the road to longer-term PPPs is to retain forms of democratic leverage over hybrid organizations. The effective combination of resources to meet societal goals requires the active participation of government and private actors but also the wider civil society. There is little evidence that democratic considerations have made a significant impact on the governance arrangements for PPPs. Retaining the publicness of a PPP is essential in order to provide democratic steering and societal accountability for its delivery of public policy goals. This relates to the wider debate about the design of democratic institutions in a public policy environment that is characterized by complexity and polycentrism (Koppenjan and Klijn 2004; Skelcher 2005). The failure to engage with these issues will undermine the public dimension of PPPs. The business case for a PPP, therefore, needs to be matched by institutional arrangements for its continued public governance.

Notes

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1. Privatization is used here in the European sense of sale of public assets, rather than the US sense of contracting-out.
2. Readers will note that the term public–private partnership as used in this chapter assumes a much broader meaning.
3. Private Finance Initiative refers to a specific policy instrument used by government to encourage private capital financing of public investments and associated provision of services. Somewhat confusingly, it has recently been relaunched as Public–Private Partnerships (Commission on Public–Private Partnerships 2001).
4. The literature on contracting-out can be quite partial. Consequently the term cost reduction is used here since this is what studies are, in the main, measuring. The terms savings or efficiencies need to be treated with care since they may include changes in service levels or quality standards (Walsh 1995). Readers are also cautioned against the inference that competition is the only means through which efficiencies can be gained (Busch and Gustafsson 2002).

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CHAPTER 16

DECENTRALIZATION

A CENTRAL CONCEPT IN CONTEMPORARY PUBLIC MANAGEMENT

CHRISTOPHER POLLITT

16.1 Introduction

For the last quarter century or so, decentralization has been virtually unassailable. Almost everyone has been in favor of it, from the centralized French (Guyomarch 1999; Cole 2003) to the already decentralized Germans (Wollmann 2001); from the majoritarian British (Pollitt, Birchall, and Putman 1998) to the consensual Danes and Dutch (Kickert 2000: 30; Christensen 2000); from the West (USA, see Osborne and Gaebler 1992: ch. 9) to the East (Japan, see Yamamoto 2004), and from the North (Horvath 2000) to the (European) South (Italy, see Carbone 2000) and, indeed, the global south (New Zealand, Boston et al. 1996: 81–2). Since the 1992 Maastricht Treaty the European Union has enshrined the doctrine of "subsidiarity"—which in most of its many interpretations has something to do with decentralization—in its arrangements and since the 2001 white paper on European Governance the EU Commission has been officially in favor of decentralizing regulatory functions to autonomous agencies (on subsidiarity see Middlemas 1995; on agencies, Vos 2003). Decentralization plays a central role (pun intended)

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