Partnering Capacity in White-Collar Public-Private Partnerships

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St. Gallen, November 21, 2008

The President:

Prof. Ernst Mohr, PhD

Preface

The idea to write a dissertation about the partnering capacity in white-collar public-private partnerships first developed during my Master's studies in the UK where I came across these new forms of public service delivery. It was further refined by my professional experience at Bertelsmann arvato, which had entered the public sector market by launching a partnership at the local government level.

Many people contributed to the successful completion of this dissertation whom I hereby thank for their great support.

In particular, I would like to thank my advisor, Prof. Dr. Kuno Schedler. He inspired me to include interdisciplinary concepts and approaches. Despite his demanding schedule he was always available to discuss academic challenges and answer questions. He also helped me to realise my plan to spend time as a visiting scholar at the University of California, Berkeley. I would also like to thank my second advisor, Prof. Dr. Isabella Proeller, for her constant availability in Berlin and her valuable advice in the final phase of the research project.

I would like to thank Bertelsmann arvato, in particular Dr. Christoph Baron, for enabling me to work in a field closely related to the topic of my dissertation. The support I experienced helped me to conduct the empirical research and to write the dissertation in a short time frame.

I am greatly indebted to my interview partners from the East Riding of Yorkshire Council and arvato government services Ltd who not only gave up hours of their time, but were also very open with me about the challenges in their project. I am very grateful for the trust Rainer Majcen and Nigel Pearson gave me by allowing me to research the public-private partnership. I also would like to thank Harry Dodgeon and Sigrid Deissenberger for their valuable feedback during the empirical stage of the research.

Moreover, I am very grateful to Neil Fligstein from the University of California, Berkeley for discussing the theoretical foundations of my research and providing me with a productive study environment.

I am thankful to my friends for their ongoing encouragement, patience and personal advice, especially my girlfriend Elise Hanrahan, whose pragmatic suggestions and English corrections contributed to the consistency and readability of the dissertation.

I dedicate this dissertation to my parents. Their constant support and love made this dissertation possible.

Berlin, December 2008   Mario Walther

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List of Abbreviations

APSE   Association for Public Service Excellence

BAFO   Best and Final Offer

BFS   Benefit Fraud Service

BT   British Telecom

BVPI   Best Value Performance Indicator

Cipfa   Chartered Institute of Public Finance and Accountancy

CP   Creditor Payments

CCA   Comprehensive Area Assessment

CPA   Comprehensive Performance Assessment

CRM   Customer Relationship Management

CSC   Customer Service Network

EA   Enforcement Action

ERYC   East Riding of Yorkshire Council

ESD   Electronic Service Delivery

FA   Financial Assessments

HR   Human Resources

ICT   Information and Communication Technology

IIP   Investors in People

JV   Joint Venture

KPI	Key Performance Indicator
LGC	Local Government Chronicle
MDS	Management Development Service
MP	Mouchel Parkman
OCH	Occupational Health
OHU	Occupational Health Unit
OJEC	Official Journal of the European Communities
OMT	Operational Management Team
P	Payroll Services
P&D	Print & Design
PFI	Private Finance Initiative
PPP	Public-Private Partnership
RV	Revenue Services
SDS	Strategic Development and Support
SF	Student Finance
SLA	Service Level Agreement
Socitm	Society of IT Management
SMT	Senior Management Team
T	Training Services
UK	United Kingdom

Abstract

The UK local government market has experienced a significant surge of partnership approaches to public service delivery since the start of the new millennium. As a result, a new generation of long-term partnerships has emerged which are of an unprecedented size and complexity, typically bundling a broad range of council services and transferring staff from the council to the private partner. These white-collar PPPs deliver corporate and central support services that have been, until recently, the sole domain of local government. Because of the novelty of white-collar partnerships and the sensitivity of the services (e.g. tax collection) delivered, almost no researcher has yet accessed and explored this new phenomenon.

In general, public-private partnerships are difficult to maintain because they are large-scale complex contractual arrangements involving organisations from different sectoral backgrounds. White-collar PPPs are even more complex due to the kind and quantity of services delivered. This gives rise to the question how the ability of local authorities and private companies to maintain their partnerships can be enhanced. This thesis develops a conceptual framework for the partnering capacity of public and private organisations in white-collar PPPs.

Based on extant literature on public-private partnerships, inter-organisational collaboration and capacity development, working propositions were derived to guide the empirical stage of the research process. An interpretive case study approach scrutinised the white-collar public-private partnership between the East Riding of Yorkshire Council and the private company arvato. The study identified eight elements that affected the partnering capacity of public and private organisations: strategy, culture, power, communication, relationships, the contractual framework, the client-management system and the performance management system. Recommendations for practitioners are suggested by identifying 28 partnering capacity strategies in the following three phases: the procurement phase, the settling-in phase, and the stabilisation and development phase.

Zusammenfassung

Seit dem neuen Jahrtausend haben sich in Großbritannien verstärkt neue Formen partnerschaftlicher Zusammenarbeit zwischen privaten Dienstleistern und Kommunal-verwaltungen entwickelt. Dabei ist eine neue Generation von Öffentlich-Privaten Partnerschaften entstanden, die eine Vielzahl von einstigen Kernbereichen der öffentlichen Leistungserstellung gestaltet. Die Mitarbeiter der Kommunalverwaltung, deren Aufgabenbereiche von der Dienstleistungs-partnerschaft betroffen sind, werden von dem privaten Partner übernommen. Dieses Phänomen wurde bislang kaum erforscht, da es relativ neu und der Zugang zu solchen Dienstleistungspartnerschaften schwierig ist.

Dienstleistungspartnerschaften bergen ein hohes Risiko nicht bis zum Ende der Vertragslaufzeit durchgeführt zu werden, da sie langfristig ausgelegte und komplexe Vertragssysteme sind, in welchen Organisationen aus unterschiedlichen Sektoren zusammenführt werden, um komplexe administrative und kundenbezogene Prozesse zu gestalten. Daher stellt sich die Frage, wie die Fähigkeit von Kommunalverwaltungen und Dienstleistern, ihre Partnerschaft beizubehalten, gesteigert werden kann. Diese Dissertation entwickelt ein Modell, das die Partnerschaftsfähigkeit von öffentlichen und privaten Organisationen in Dienstleistungspartnerschaften adressiert.

Basierend auf den Erkenntnissen der Forschung in den Bereichen Capacity Development, Public-Private Partnerships und interorganisationale Kooperationen wurden vorläufige Propositionen aufgestellt, um die empirische Stufe des Forschungsprozesses zu strukturieren. Eine interpretive Fallstudie analysiert die Dienstleistungspartnerschaft zwischen dem East Riding of Yorkshire Council und der arvato AG. Es wurden acht Elemente identifiziert, die die Kooperationsfähigkeit beeinflussen: Strategie, Kultur, Macht, Kommunikation, inter-personale Beziehungen, das Vertragswerk, das Client-Management System und das Performance Management System. Für die Praxis wurden 28 Handlungsempfehlungen abgeleitet, die den folgenden Entwicklungsphasen einer Dienstleistungspartnerschaft zugeordnet sind: Beschaffungsphase, Eingliederungsphase, und Stabilisierungsphase.

1. Introduction

This chapter introduces the empirical context and problem statement of the thesis, its research questions, its theoretical perspectives and the structure of the dissertation. The practical relevance of the phenomenon under study is illustrated by the empirical context. The UK central government's public policy framework gave rise to the emergence of white-collar public-private partnerships. Since the first white-collar PPP in 1998 the total contract value per year increased from £27 million to £289 million in 2005. This dissertation investigates how the ability of public and private organisations to maintain those complex multi-service and large-scale partnerships can be increased. The dissertation calls this ability *partnering capacity*. The unit of analysis is the inter-organisational level of public and private organisations involved in a white-collar PPP. This thesis is informed by the literature on public-private partnerships, inter-organisational collaboration and capacity development.

1.1   *Empirical Context and Problem Statement*

The UK is often perceived as the avant-garde of public sector modernisation because its government strongly promotes managerial and competitive mechanisms (Naschold et al. 1999, Schedler and Proeller 2006). In particular, the New Public Management movement in the 1980s and 1990s shaped the institutional conditions for a successful implementation of organisational models originating from the private sector (Hood 1991, Osborne and Gaebler 1992). This chapter starts with an overview of the Blair government's public policy framework that emphasised increasing efficiency gains by involving private sector organisations in the delivery of public services. The response of some local authorities was to develop innovative public-private partnerships. These white-collar public-private partnerships are then described and defined. Subsequently, the research problem arising from this new empirical phenomenon is outlined.

The central driver for modernising public services was the publication of the *Modernising Government White Paper* in 1999. It challenged all public sector organisations, including local government, to use new technology in order to deliver citizen-centric and joined-up public services (PM and Cabinet Office, 1999). The White Paper advocated partnerships which should facilitate:

> "…working across organizational boundaries to deliver services that are shaped around user needs and policies that take a holistic approach to cross-cutting problems – through […] the development of partnerships at the local and national level." (PM and Cabinet Office 1999)

Although New Labour rejected the Conservative governments' reliance on markets and promoted service models that are said to be about partnerships, networks and collaboration (Ahmad and Broussine 2003, Broadbent et al. 2003, Bevir and Rhodes 2001) Prime Minister Blair's modernisation agenda shares certain aspects with the public sector reforms pursued by the Conservative governments (Martin 2002). Grimshaw et al. (2001) argue that the Blair administrations intended to "extend and refine rather than abandon the project of 'reinventing' government" (p. 411). In 1999, the *Local Government Act* introduced the Best Value Regime which replaced compulsory competitive tendering established by the Conservative governments to facilitate contracting out at municipal level. Martin (2002) notes that the Best Value regime potentially extends the disciplines of market forces to a wider range of local authority services. Following the Best Value Regime, the Office of the Deputy Prime Minister (ODPM) and the Local Government Association launched a comprehensive policy for local government procurement in 2003. This *National Procurement Strategy for Local Government* aimed to improve the procurement process between local authorities and their suppliers. The Strategy recommends a partnering approach between the public and private sector (ODPM and LGA 2003).

In November 2002, the ODPM launched a national strategy for local eGovernment to provide a framework for the transformation of local council services (ODPM 2006). Within this framework, a series of funded National Projects sought to

deliver best practice advice and solutions in key technology areas (e.g.: CRM) and priority service areas (e.g.: planning services) for councils. In April 2004 the ODPM published the 'Priority Outcomes for Local e-Government' to guide local eGovernment implementation and ensure that all councils reached the 2005 target for full electronic service delivery capability. Moreover, the introduction of the *Comprehensive Performance Assessment* in 2002 led to a holistic assessment of the level of local service delivery. Each council is assessed by the Audit Commission[1] and is able to compare its performance relative to other councils (Audit Commission 2006).

The *Independent Review of Public Sector Efficiency* (also known as 'Gershon Review') published in July 2004 required local authorities to make efficiency savings by releasing efficiencies within the back office, procurement, transaction services and policy-making functions (HM Treasury 2004). In addition, all local authorities in England were required to submit Annual Efficiency Statements to the ODPM. In November 2005, the British Government published the strategic paper *Transformational Government* for transforming public services using information and communication technology (Cabinet Office 2005). In 2006, the Chief Information Officer Council published a discussion paper to stimulate conversation across all local authorities about what transformed local government should look like (CIO 2006). The *Varney Report* published in 2006 was commissioned by HM Treasury and ties in with the Transformational Government strategy. It identified opportunities to make public service delivery more accessible, convenient and efficient to meet changing citizen and business expectations (Varney 2006). A timeline of the British modernisation agenda is depicted in figure 1.

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[1] A self-assessment process also includes the local authority.

Figure 1: Timeline of the British Modernisation Agenda

1999	2002/03	2004	2005/06
Modernising Government White Paper	**Comprehensive Performance Assessment**	**Gershon Review**	**Transformational Government**

Local Government Act 1999 (Best Value Principles)	• National Strategy for Local eGovernment • National Procurement Strategy for Local Government	• Gershon (Efficiency) Review • Priority Outcomes for Local eGovernment	• Discussion paper Transformational Local Government • Varney Report

Own Exhibit.

The initiatives mentioned above motivated local governments to dismantle their bureaucratic structures and improve their performance in delivering public services. The realisation of the modernisation agenda often involves private sector companies because the public sector is seen to lack the preferred business expertise. In particular, eGovernment projects require ICT, change management and business process re-engineering skills. A survey by the Audit Commission (2002, p. 16) revealed that 40 % of chief executives thought that they did not have sufficient resources and competence to tackle such projects without private sector involvement.

As a result, local authorities in the UK involved private contractors in the delivery of public services. In Europe, the UK has been at the forefront in terms of both the number and value of PPPs. For instance, in 1999 around 40 % of all PPPs in Europe by contract value occurred in the UK, compared with 8 % in Germany, 4 % in Spain and 9% in Italy, France and the Netherlands combined (Parker and Hartley 2003). An empirical study of UK local authorities published by the Society of IT Management (Socitm) and the Chartered Institute of Public Finance and Accountancy (Cipfa) revealed that the total value of partnership and outsourcing

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contracts across the public sector is £4bn with an average life of seven and a half years (Socitm and Cipfa 2005).

Among these partnership and outsourcing arrangements are a new type of large-scale and long-term public-private partnerships which the dissertation refers to as white-collar PPPs. The dissertation identified 15 white-collar PPPs between 1998 and 2005. These white-collar public-private partnerships are long-term arrangements with an average contract length of 11 years. They involve the transfer and/or secondment of public employees to the private contractors. Between 50 to more than 1000 employees were transferred to private sector companies in each partnership. The average contract value of white-collar PPPs is £208 million, with individual contract values ranging from £30 million to £427 million. The first white-collar public-private partnership was launched in 1998. Hence, white-collar PPPs are a relatively new phenomenon in public service delivery in the UK. The first white-collar partnership was launched by the Sheffield City Council and the service provider Liberata. The partnership covered the following services: ICT, Housing Benefits, Creditors, Debtors, Revenue Services, Cashier and Payroll Services. Figure 2 provides an overview of the market development of white-collar PPPs.

Figure 2: Local Government Market Development – White-Collar PPPs

White-collar public-private partnerships are the most recent development of public-private arrangements. They are new in two respects: (1) they provide white-collar services and (2) bundle various public services. *White-collar* PPPs involve companies for processes that were traditionally considered as the sole and sovereign domain of the public sector. Contrary to the PPPs or PFIs in the 1990s which primarily focused on blue-collar work in infrastructure and construction projects, white-collar PPPs provide services such as revenues and benefits, financial services, ICT, human resources, customer services (call centres, one stop shops) and payroll. Nevertheless, most of the current PPP/PFI projects still cover

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[2] Majcen (2008) and Whitfield (2008) conceptualise traditional ICT-outsourcing contracts as white-collar PPPs. As a result, only a fraction of contracts mentioned by the authors were included in the dissertation. Figure 2 is based on an analysis of the white-collar PPP market which is presented in appendix A1.

[3] The total contract value per year is the sum of the individual contract values per year. The individual contract value per year is the total value of an individual contract divided by the individual contract length.

the following blue-collar areas: roads, highways and metropolitan transport systems, bridges, schools, hospitals, ports, prisons and railways. The government's prime interest is to retain the service which they deliver to the citizens rather than the capital assets required for the delivery. However, this attitude appears to be changing at local government level. Table 1 illustrates the wide range of services provided by white-collar PPPs which have emerged since the first deal in the year 1998:

Table 1: White-Collar PPPs in UK Local Government

Duration of contract	Partnership	Scoped Services	No. of Staff (transfer)	Value of contract
1998-2008	Sheffield City Council & Liberata	ICT, Housing Benefits, Creditors, Debtors, Revenues, Cashier, Payroll	450	£275M
2001-2013	Bedfordshire County Council and Hyder Business Services (HBS)	ICT, HR, Finance, Contract Management, Administrative Support, Call Centre	550	£265M
2001-2011	Liverpool City Council and British Telecom/ / Joint Venture	Revenues & Benefits, HR, Payroll, Call Centre, ICT	850 (seconded to JV)	£300M
2003-2015	Rotherham Metropolitan Borough Council and British Telecom /Joint Venture)	Call Centre, One Stop Shops, Revenue and Benefits, ESD access channels, HR & Payroll Service Improvement plan	550 (seconded to JV)	£150M
2004-2016	Milton Keynes Council and Hyder Business Services (HBS)	Finance, HR, IT, Payroll, Housing Repair, various environmental services, administrative support	730	£200M

2004-2014	Suffolk County Council and British Telecom/ JV	ICT, HR, Finance, Contact Centre, One Stop Shops	700	£330M
2005-2013	East Riding of Yorkshire Council and arvato government services	Revenues, Financial Assessments, Payroll Services, Creditor Payments, ICT, Customer Service Centres, Print and Design, Training, Occupational Health	517	£140M
2005-2020	Pendle Borough Council and Liberata	Customer Services, Benefits & Revenues, ICT, Property, Quantity Surveying, HR	185	£100M
2005-2020	Thurrock Borough Council and Vertex	Administration services, financial services, Customer Services, Engineering and Transportation, Facilities, Human Resources, ICT, Payroll, Procurement and Property Services, Revenues	600	£427M

Own Exhibit.[4] [5]

Service bundling is the second distinctive feature of white-collar public-private partnerships. The provision of white-collar services through outsourcing arrangements can be dated back to the launch of the first white-collar PPP in the year 1998. However, these outsourcing arrangements merely delivered a single service or related ones. The dissertation defines white-collar public-private partnerships as covering multiple and different services. The bundling of services requires a partnership approach to service delivery because the complexity of the various service areas cannot be handled in the rigid setting of a traditional outsourcing contract. As illustrated by table 1, white-collar PPPs include services from at least three different areas of public service delivery. Moreover, white-collar PPPs usually cover front-office as well as back-office services. Services dealing with the customer (front-office services) include e.g. revenues and benefits,

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[4] An exhaustive list is available in appendix A1.

[5] HBS Business Services was acquired by Mouchel Parkman in August 2007.

financial assessments and call centre services. Back-office services provide administrative and support services, such as payroll services, HR, creditor payments and ICT services.

The recent and path-breaking emergence of white-collar public-private partnerships in UK local government constitutes the research topic of the dissertation. As illustrated above, the modernisation of local authorities by involving the private sector is a highly relevant research topic. The emergence of large-scale and long-term public-private partnerships at the municipal level raises new research themes because they bring together two organisations with different sectoral backgrounds. The Socitm and Cipfa study notes that the 'divorce' rate of PPP and outsourcing contracts is rising, with fewer contracts actually lasting until 'death do us part' (Socitm and Cipfa 2005). In the private sector the main reason for the failure of alliances is due to poor or damaged relationships between firms. According to a study of Vantage Partners 52 percent of over 150 managers referred to poor and damaged relationships as the pivotal factor for the failure of their private sector alliances (Weiss et al. 2001). This gives rise to the question how the ability to maintain partnerships between local authorities and private companies can be identified and enhanced.

1.2 Research Questions

The research objective of the dissertation is to develop a conceptual framework addressing the ability of private sector companies and local authorities to maintain partnerships. The dissertation calls this ability *partnering capacity*. The partnering capacity is conceptualised as an organisational capacity[6] and therefore the institutional environment[7] is not the content of the research, but constitutes the context. The thesis explores inter-organisational elements that influence the management of white-collar PPPs at the local government level. The inter-organisational perspective is chosen to examine the partnering capacity because the ability to maintain partnerships depends on both actors. Elements situated at the individual organisations are considered as being part of the partnering capacity if they affect the ability of both partners to maintain the partnership.

The research questions are shaped by the initial literature review and address the empirical phenomenon white-collar PPPs. During the research process the research questions were modified due to the requirements of the emerging conceptual framework. The research addresses the following questions:

(1) Are there inter-organisational elements that affect the ability of public and private organisations to maintain their partnership?

(2) How are the elements of the partnering capacity interrelated?

(3) How can public and private organisations increase the ability to maintain their partnership?

The first two research questions are addressed by the conceptualisation of the partnering capacity framework. Another result of the dissertation is the suggestion of partnering capacity strategies. Based on the framework, feasible and pragmatic actions are recommended which aim to increase the ability of public and private

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[6] For further information on the notion of organisational capacity please refer to chapter 2.2.3.
[7] For further information on the institutional framework please refer to chapter 2.2.1.

organisations to maintain their white-collar PPP. Hence, the partnering capacity strategies address the third research question.

The study does not deal with the advantages or drawbacks of public-private partnerships compared to traditional public procurement (contracting out) as they are discussed in economic theory (Schmidt 1996, Grout 1997, Besley and Ghatak 2001, Hart 2003). Forms of outsourcing, informal PPPs and blue-collar public-private partnerships are not part of the research.[8]

The thesis addresses both the scientific community and practitioners. The dissertation gives suggestions to public and private managers about how to identify and strengthen the partnering capacity in white-collar public-private partnerships. The main contribution to the scientific community is that the study develops a comprehensive construct of partnering capacity for the new empirical phenomenon of white-collar PPPs. Because of the novelty of these partnerships and the sensitivity of the services delivered (e.g. tax collection, customer service) there is almost no academic research on white-collar PPPs. The transfer of the capacity concept from development research to the public administration domain and the inclusion of literature on inter-organisational collaboration are expected to enrich the theoretical depth of public management research.

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[8] For further information on the various types of public and private partnering please refer to chapter 2.1.3.

1.3   Outline of the Theoretical Perspective

There is almost no empirical research on public-private partnerships that deliver corporate and central support services. This is because white-collar PPPs have emerged recently and it is difficult to gain access to those cases. However, related literature enabled to approach this new empirical phenomenon theoretically.

To conceptualise the partnering capacity of public and private organisations, it was drawn on existing research on public private partnerships and capacity development. In addition, the dissertation was informed by accounts of inter-organisational collaboration. The literature on capacity development provided the conceptual foundation for the notion of partnering capacity. This study focused on the organisational approach to capacity development to define the notion of partnering capacity. In combination with the theoretical input of existing research on public-private partnerships and inter-organisational collaboration working propositions were derived (see figure 3).

Figure 3: Outline of the Theoretical Perspective
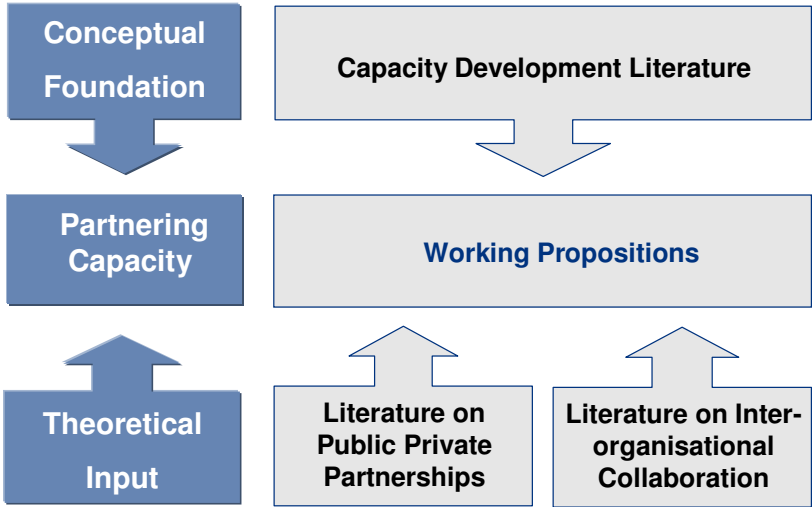
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The working propositions guided the empirical stage of the research process. The literature underpinning the propositions is linked to the empirical findings in chapter 7.2. The working propositions are then modified and new propositions are generated. Around this new set of propositions the partnering capacity framework will be built.[9]

1.4   Structure of the Thesis

The thesis is in three main parts: a theoretical part, an empirical part and the discussion and model development part. The structure of the thesis follows the three successive stages of the research process which includes the pre-empirical stage, the empirical stage and the theory-building stage. The structure reflects the way the partnering capacity framework has been conceptualised. The theoretical part of the dissertation is composed of two chapters (Chapter 2-3) and illustrates the theoretical perspective of the thesis.

The second chapter "*theoretical approaches*" provides an account of existing research on public-private partnerships and capacity development. Chapter 2.1 introduces the context of the research by referring to the rise of private sector affinity in the UK and giving an overview of the different forms of public-private partnerships. Chapter 2.2 highlights the origins of the capacity concept and limits the scope of the research by focusing on organisational capacity development.

The third chapter proceeds with the *generation of working propositions*. Initial ideas pertaining to the partnering capacity concept are developed and discussed by referring to the literature on inter-organisational collaboration and public-private partnerships. These theoretical accounts shaped the development of three dimensions of partnering capacity: strategy, culture and power. Chapter 3.2 analyses these dimensions and derives propositions.

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[9] For more information on the research process, please refer to chapter 4.1.4.

The empirical part describes in three chapters (chapter 4-6) the white-collar public-private partnership between the East Riding of Yorkshire Council and arvato.

The fourth chapter presents the *methodology, data collection methods and data analysis procedures*. The interpretative case study approach including its limitations and the research process is introduced. Furthermore, the research methods – semi-structured interviews, observations and historical documents - are illustrated. The data analysis employs coding procedures to develop a conceptual framework for partnering capacity.

The fifth chapter includes the *case description*. The East Riding of Yorkshire Council, the arvato AG, the bid process and the key elements of the partnership are outlined. The main elements of the partnership are the business process outsourcing of corporate and central support services, joint venture and job creation.

The sixth chapter presents the *empirical results*. The empirical findings are described without referring to the theoretical approaches mentioned in chapter 2 and 3. The findings are organised around the following themes: strategic objectives, contract management, staff transfer and organisational heritage, performance management and the council's retained side.

The discussion and model development part is presented in two chapters (chapter 7-8).

The seventh chapter, the *discussion*, links the empirical findings of the previous chapter to extant literature. The first chapter analyses the organisational domains of the partnership between the East Riding of Yorkshire Council and arvato government services. The mode of governance is assessed and the complexity of white-collar services is analysed. Chapter 7.2 discusses and revises the working propositions. Those empirical findings which are not considered by the working

propositions and are relevant to the research problem are included by stating new propositions. Chapter 7.3 analyses these new propositions. They address socio-processual and structural factors. Moreover, four core management challenges of white-collar PPPs are included in chapter 7.4.

The eighth chapter conceptualises the *partnering capacity*. Chapter 8.1 provides an overview of the propositions which underpin the partnering capacity framework. Chapter 8.2 embeds the partnering capacity elements and the core management challenges in a conceptual framework. Subsequently, chapter 8.3 suggests partnering capacity strategies which improve the ability of public and private organisations to maintain their partnerships.

The ninth chapter presents the *conclusion* and highlights the contributions to theory and practice. The limitations of the thesis are mentioned and suggestions for further research are made.

Figure 4: Structure of the Dissertation

Chap. 1:	**Statement of the Study, Research Questions, Theoretical Perspective**

I. Theoretical Part

Chap. 2.1: **Partnering between Public and Private Organisations** • Context, Definitions	Chap. 2.2: **Capacity Development** • Definitions • Frameworks

Chap. 3:	**Generation of Working Propositions** Dimensions of Partnering Capacity

II. Empirical Part

Chap. 4:	**Research Design** Methodology, Methods, Data Analysis

Chap. 5:	**Case Outline** Actors, Bidding Process, Partnership

Chap. 6:	**Empirical Results** Presentation of Empirical Findings

III. Discussion & Model Development

Chap. 7:	**Discussion** - Linking Results to Theory - Generation of New Propositions

Chap. 6:	**Partnering Capacity** Framework and Strategies

IV. Conclusion

Chap. 9:	**Conclusion** - Contribution to Theory and Practice - Research Limitations - Suggestions for further Research

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2.   Theoretical Approaches

The purpose of the literature review is to limit the scope of the empirical research and position the dissertation within the existing body of literature. Chapter 2.1 starts with an overview of partnering approaches of public and private sector organisations. The context of the emergence of public-private partnerships is illustrated by describing the New Public Management movement. After different forms of sectoral partnering in the United Kingdom are introduced, the main features and types of PPPs are outlined. Other modes of service delivery are then distinguished by drawing on existing research on public-private partnerships.

The second body of literature is analysed in chapter 2.2. This chapter introduces the conceptual foundation for developing the concept of partnering capacity. The research on the notion of capacity and on the different approaches to capacity development is reviewed. The next section focuses on frameworks of organisational capacity development that are particularly relevant to the development of a conceptual framework which will address the ability of public and private organisations to maintain white-collar public-private partnerships.

2.1   *Partnering between Public and Private Organisations*

This chapter provides an overview of the partnering approaches between public and private sector organisations. The practices and ideas of public sector reforms in the UK are introduced to illustrate the context of the emergence of public-private partnerships. This chapter outlines key elements of New Public Management and its implications for the involvement of private sector organisations in the delivery of public services. Subsequently, chapter 2.1.2 categorises different forms of sectoral partnering in the United Kingdom by referring to empirical examples, such as public-public partnering, public-voluntary partnering and public-private partnering. Chapter 2.1.3 focuses on public-private partnering and outlines the

main features and types of PPPs. Public-private partnerships are distinguished from other modes of service delivery.

2.1.1   New Public Management and the Rise of Private Sector Affinity

The ideological and practical roots of the public sector's approximation to the private sector are probably best analysed by the body of literature known as New Public Management (NPM). This section briefly introduces the main features of this approach and highlights the different set of ideas which influenced NPM. Because the dissertation does not compare international settings, it does not include the debate on the convergence thesis (Hood 1995, Rhodes 1998, Christensen and Laegreid 2001) which claims that NPM represents a global paradigm change in the organisation of public services.

In the 1980s and 1990s, academic literature on public sector reforms in the UK focused on the New Public Management associated with the New Right and neo-liberal policies of the Thatcher and Major governments (Heeks 1999, Ling 2002, Hartley et al. 2002). Thomson (1992) describes these reforms as an attempt to shift from an administrative to a managerial culture in the public sector. Similarly, some academic commentators claim that New Public Management represents a paradigm shift in Thomas Kuhn's (1962) sense because NPM contests the classical Weberian bureaucracy which has prevailed in the public sector since the second half of the nineteenth century (Jain 2004, Ho 2002). Osborne and Gaebler (1992), in their book *Reinventing Government*, advocate the transition from bureaucratic to entrepreneurial government. Osborne and Gaebler (1992) argue that government should make policies and take decisions, but need not deliver services itself.[10] According to Schedler (1995) and Barzelay (1992) a bureaucracy is characterised by centralisation and input orientation, whereas New Public Management emphasises decentralisation and output orientation. Table 2 illustrates the main

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[10] This is epitomised in Osborne and Gabler's slogan 'steering not rowing.'

features of the paradigm shift from the bureaucratic model of the classical public administration to the New Public Management.

Table 2: Comparing Perspectives: Old Public Administration and New Public Management

	Old Public Administration	New Public Management
Primary theoretical and epistemological foundations	Political theory, social and political commentary augmented by naïve social science	Economic theory, more sophisticated dialogue based on positivist social science
Prevailing rationality and associated models of human behaviour	Synoptic rationality, "administrative man"	Technical and economic rationality, "economic man", or the self-interested decision maker
Conception of the public interest	Politically defined and expressed in law	Represents the aggregation of individual interests
To whom are public servants responsive?	Clients and constituents	Customers
Role of government	Rowing (designing and implementing policies focusing on a single, politically defined objective)	Steering (acting as a catalyst to unleash market forces)
Mechanisms for achieving policy	Administering programs through existing government agencies	Creating mechanisms and incentive structures to achieve policy objectives through private and nonprofit agencies
Approach to accountability	Hierarchical – administrators are responsible to democratically elected political leaders	Market-driven – the accumulation of self-interests will result in outcomes desired by broad groups of citizens (or customers)
Administrative discretion	Limited discretion allowed administrative officials	Wide latitude to meet entrepreneurial goals
Assumed organizational structure	Bureaucratic organizations marked by top-down authority within agencies and control or regulation of clients	Decentralized public organizations with primary control remaining within the agency
Assumed motivational basis of public servants and administrators	Pay and benefits, civil-service protections	Entrepreneurial spirit, ideological desire to reduce size of government

Adapted from Denhardt and Denhardt (2000, p. 554)

New Public Management encapsulates a diversity of tools and concepts which comprise a "shopping basket" for reformers of public administration (Pollit 1995, p. 133). Hood (1991) identifies seven 'doctrinal' components of new public management: 'Hands-on professional management' in the public sector, explicit standards and measures of performance, greater emphasis on output controls, a shift to disaggregation of units and greater competition in the public sector, stress on private-sector style of management practice and stress on greater discipline and parsimony in resource use. These components have their roots in the private sector.

As pointed out by Hood (1991) and Aucoin (1990), New Public Management is influenced by the assumptions of two different sets of ideas. The first stream of ideas comes from economic theory. Transaction cost theory (Coase 1937, Williamson 1979) and principal-agent theory (Jensen and Meckling 1976) are organisational perspectives constituting the New Institutional Economics which promotes ideas of contestability, user choice, transparency and incentive structures in administrative reforms. Pollitt (1993) adds monetarism (Friedman and Friedman 1980), public-choice theory (Buchanan 1968, Niskanen 1971) and libertarian philosophy (Hayek, 1986) as theoretical sources of NPM. It is emphasised by Pollitt (1993) that these theories portray public bureaucracies as inefficient and budget-maximising. In addition, the growth of government is seen as a threat to the freedom of the individual and a subtle undermining of enterprise and self-reliance of the citizens. In particular, public monopoly is assumed to lead to a lack of efficiency and effectiveness because officials have little incentive to keep their costs down or to innovate the service delivery (Jackson 1982, Boyne et al. 2003). The second set of ideas comes from the managerialist school of thought and is in the tradition of the scientific management movement. This school created a set of administrative reform doctrines which Pollitt (1993) believes to be rooted in Taylorism. The setting of targets, the development of performance indicators to measure the achievement of those targets and an explicit result-orientation are features of this business-type managerialism. Tensions arising from the hybrid character of NPM are noted by Aucoin (1990) and Hood (1991).

The public sector's approximation to the private sector can be illustrated by drawing on Pollitt and Summa's (1997), Pollitt and Bouckaert's (2000) and Rhodes' (1998) conceptualisation of NPM into six key dimensions. The dimensions *marketisation* and *output orientation* are of particular relevance for the research topic. Since the 1980s the Thatcher and Major governments introduced market-type mechanisms within the public sector. As pointed out by Ferlie (2002) *marketisation* leads to a growth of quasi markets which replace the monopolised provision and introduce a provider competition through internal markets. In a quasi-market, the central government raises the funds for purchasing and distributes them to purchasing agents who purchase on behalf of consumers (Propper and Le Grand 1997). The second feature of marketisation is contracting out which was promoted by the introduction of compulsory competitive tendering (CCT) and the Best Value regime in UK local government (Rhodes 1998, Martin 2002). The compulsory competitive tendering regime specified that the contract for providing public services had to be awarded to the most competitive bid (Exworthy and Halford, 1999). Furthermore, a number of management techniques have been introduced to the public sector in order to achieve a greater *output orientation.* In 1982, the Financial Management Initiative promoted a system of targets and indicators which placed an emphasis on the need for every public manager to have defined output targets (Rhodes, 1997).

The practices and ideas stated above paved the way for new forms of collaboration between public and private organisations. Today, public-private partnerships play an increasingly important role for local authorities. Three forms of sectoral partnering are illustrated in the next section by referring to empirical examples in the UK.

2.1.2   Sectoral Partnering in the United Kingdom

The Labour government has promoted the launch of partnerships in the UK since 1997. The partnership approach should embrace all three sectors: the public, voluntary and private sector. To deliver a public service private, voluntary or public sector organisation can be engaged. In order to partner at least two distinct organisations are required to share objectives on the basis of a formal written agreement for a specific period of time.

Public-public partnering is an agreement between public sector organisations that can take the shape of a horizontal or a vertical mode. Horizontal modes are conducted at the same level of government. Vertical modes are intergovernmental agreements between local, state (provincial) or national administrations. A prime example of an initiative addressing horizontal and vertical modes of public-public partnering is the *joined-up programme* induced by the local government modernisation agenda. Joined-up solutions require an integration of public services by working more effectively in partnership between agencies at the same governmental level and between tiers of government (Cowell and Martin 2003, Proeller 2006). As a result, public agencies are required to reorganise their processes and structures around cross-cutting issues, such as life-long-learning, regeneration, community safety and issues affecting particular communities (Cowell and Martin 2003, Morphet 2003). The objective of joined-up government is to offer the "citizens seamless rather than fragmented access to a set of related services" (Pollitt 2003, p. 35). Recent attempts to establish shared services centres by consolidating internal services from back-office functions can be characterised as a form of public-public partnering because they require the involvement of various public agencies (Aguirre et al. 1998, Cabinet Office 2005).

Public-voluntary partnering includes public agencies and organisations stemming from the voluntary sector. The voluntary sector is also referred to as the 'charity sector', the 'not-for-profit sector' or the 'third sector'. Partnerships involve, for

instance, joint teams from health services at the national level and the British Heart Foundation.

Public-private partnering refers to organisational models which involve public authorities and private sector organisations. Common types are outsourcing, contracting out and quite recently public private partnerships. In 2000, *Partnerships UK* was established to promote better and stronger partnerships between the public and private sectors (PUK 2007). A majority stake of the joint venture is held by the private sector. *Partnerships UK* offers support for the development and delivery of Private Finance Initiative (PFI) and other Public Private Partnerships (PPP) projects. The joint venture works solely with and for the public sector. The dissertation focuses on public-private partnering which is introduced in detail in the next chapter.

2.1.3   Beyond Market and Hierarchy: Public-Private Partnerships

This thesis locates public private partnerships between the privatisation of public services and inhouse solutions. Privatisation refers to the sale of state assets or public organisations to the private sector (Rhodes 2000). Hence, ownership and management shifts from the public to the private sector. In the UK, for instance, British Telecom, British Airways and the British National Oil Corporation were fully privatised (Pollitt and Summa 1997). Contrary, in the case of an inhouse solution the public authority delivers a public service without private sector involvement. To understand the distinguishing features of the PPP model figure 5 compares this approach to outsourcing, contracting out, privatisation and inhouse solution.

Figure 5: Classification of PPP: Between Market and Hierarchy
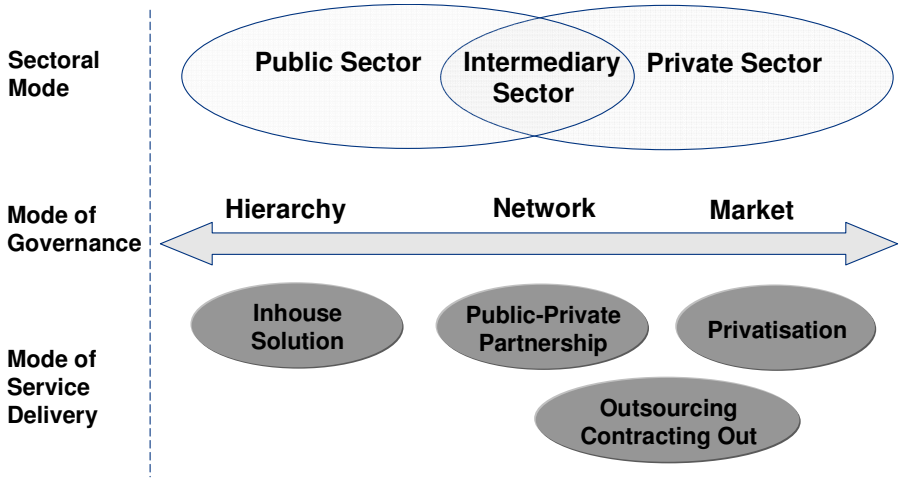
Own Exhibit.

Outsourcing and contracting out are two types of public-private collaboration in which the public authority retains responsibility for a service that is fully or partially operated by the private sector. Schedler and Proeller (2003) distinguish between outsourcing and contracting out by focussing on the consumer of the service. If the public agency procures services from a private company for internal means (self-consumption) it is called outsourcing. If services are directly delivered to customers of the public authority without further processing the authors refer to it as contracting out.

Figure 5 assigns each mode of service delivery (inhouse solution, PPP, outsourcing, contracting out, privatisation) to a mode of governance. As mentioned in chapter 2.1.1, the bureaucracy with its emphasis on inhouse solutions is the traditional organisational form of the public sector. The bureaucracy is usually portrayed to emphasise hierarchy as a mode of governance whereas private sector organisations are based on market mechanisms. Public-private partnerships and certain forms of outsourcing and contracting out are said to employ an intermediary mode of governance, usually referred to as network (Budäus et al.

1996, Naschold 1997, Bellamy and Taylor 1998). Typically, literature presents public private partnerships as exhibiting features of a network (Huxham and MacDonald 1992, Kickert et al. 1997, Klijn and Koppenjan 2000). Contrary to organisations situated in a market environment, networks emphasise the role of relations and normative procedures of conflict resolution (Rhodes 1996, Peters 1998, John and Cole 1998, Agranoff and McGuire 2001). In particular, public-private partnerships are seen as networks because they include actors from different organisational domains who are dependent on each other and therefore engage in joint decision-making (Klijn and Teisman 2003). Certain forms of contracting out and outsourcing, for instance 'soft-contracting' (relational contracting), also employ network mechanisms (Reichard 1998).

However, these classifications are influenced by ideal typical constructs derived from theory. An empirical investigation by Brun et al. (2005) revealed that hierarchical as well as network modes of governance are present in the Swiss federal administration. Moreover, Ysa (2007) points out that public-private partnerships do not necessarily exhibit network features, but may also employ an hierarchical form of governance (symbolic partnerships) or obey market rules (instrumental partnerships).

Ysa (2007) claims that each form of governance is characterised by a specific relationship between the organisations. The market promotes a competitive relationship between the organisations whereas the network is based on trust. The bureaucracy or hierarchy applies command and control structures. In his seminal paper *"Neither Market nor Hierarchy"* Powell (1990) characterised network forms of organisation as reciprocal patterns of communication and exchange. The basic assumption of the network is that the pooling of resources is an advantage for the involved parties. The stereotypical conceptualisation of the market portrays the market as enabling fast and simple communication and being a form of noncoercive organisation. Contrary, Powell characterises the hierarchy as a more structured approach to exchange. It includes an authoritative system of order, clear departmental boundaries, detailed reporting mechanisms and formal decision

making procedures. Powell's (1990) stylised distinction between market, hierarchy and network is illustrated in table 3.

Table 3: Comparing Market, Hierarchy and Network

Forms / Key Features	Market	Hierarchy	Network
Normative Basis	Contract - Property Rights	Employment Relationship	Complementary Strenghts
Means of Communication	Prices	Routines	Relational
Methods of Conflict Resolution	Haggling - resort to courts for enforcement	Administrative fiat – Supervision	Norm of reciprocity – Reputational concerns
Degree of Flexibility	High	Low	Medium
Amount of Commitment Among the Parties	Low	Medium to High	Medium to High
Tone or Climate	Precision and/or Suspicion	Formal, bureaucratic	Open-ended, mutual benefits
Actor Preferences of Choices	Independent	Dependent	Interdependent
Mixing of Forms	Repeat transactions, Contracts as hierarchical documents	Informal organisation, Market-like features: profit centers, transfer pricing	Status Hierarchies, Multiple Partners, Formal rules,

Adapted from Powell 1990, p. 300.

Public-private partnership has become a 'buzzword' all around the world and a synonym for public sector modernisation. However, the term PPP remains elusive. In the UK the terms 'outsourcing', 'contracting out', 'network' and even 'public-private partnership' are frequently used synonymously by practitioners and researchers. Often collaborations are a mixture of different types. The collaboration

between the East Riding of Yorkshire Council (ERYC) and the private company arvato, for instance, is based on a business outsourcing contract, yet exhibits typical features of a public-private partnership. Moreover, there is a certain utility to keeping the term partnership vague. Tomlinson (2005) points out that the elusive nature of the term partnership creates space for negotiating the norms and practices of partnership working.

There are differences between outsourcing and partnership approaches pertaining to goals and governance. Klijn and Teisman (2000) note that outsourcing is characterised by a principal-agent relationship, whereas PPPs require a joint decision making and production. Outsourcing is directed at efficiency gains whereas partnership arrangements especially concern increasing effectiveness. The difference between outsourcing and public-private partnerships is illustrated in table 4.

Table 4: Comparing Outsourcing and Public Private Partnership

Outsourcing	Partnership
Government and company (or consortium) are involved in principal-agent relationship	Government and company (consortium) are involved in joint decision making and production
Government defines the problem, specifies the solution and selects a private company that can produce results in a cost-efficient way	Both parties are involved in joint processes early on in order to develop joint products that contribute to both their interests
Benefits concern efficiency (quicker and cheaper)	Increasing effectiveness (synergy and enrichment of output)
Keys to success are unambiguous definitions of goals, projects, rules of tendering, rules of selection and rules of delivery	Keys to success are an interweaving of goals, establishing rules for ongoing interaction, developing rules and tailor-made assignments concerning joint effort and production commitments
Based on the principles of project management because there is a clear principle, clear goals and well-defined project specifications	Based on the principles of process management because the joint goals, the art of financing, realization and utilization remain subject to joint decision making
Contractual transparency regarding rules of tendering, selection and delivery and rules of inspection are crucial for a good relationship	Mutual trust is crucial for lasting relationship between partners who maintain their own interests, ways of working, accountability and financing principles

Adapted from Klijn and Teisman (2000), p. 86.

Kernaghan (1993) states that a partnership is "a relationship involving the sharing of power, work, support and/or information with others and emphasises joint goals and/or mutual benefits" (p.58). Budäus and Grüning (1996, p. 34) attempt to define public-private partnerships by referring to the following features:

- o   An interaction between public and private sector
- o   A focus on pursuing complementary goals
- o   Collaboration entails potential for synergies
- o   Process-orientation
- o   Identity and responsibilities of the partners remain intact
- o   Collaboration is contractually formalised

The term *public-private partnership* encompasses a variety of different types ranging from informal co-operations to contract-based collaboration or even joint organisational arrangements (Roggencamp 1999, McQuaid 2000). As a result, PPPs have different levels of formalisation which are displayed in figure 6. The thesis focuses on contract-based public-private partnerships.

Figure 6: Types of Public Private Partnerships
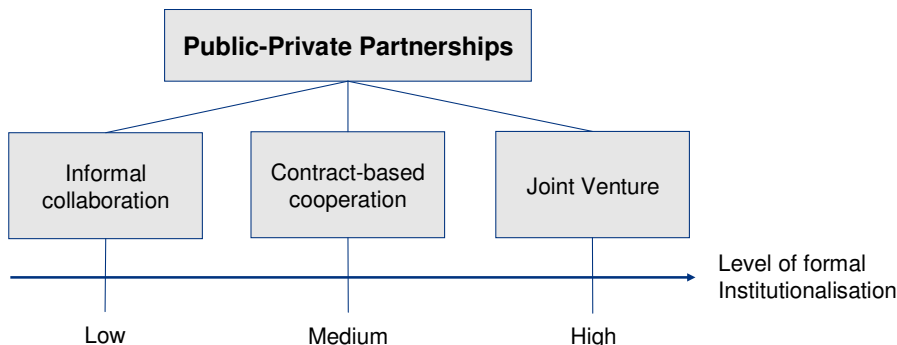
Modified and adapted from Roggencamp (1999, p. 42).

Public-private partnerships entail power sharing which can radically change business-government relations (Linder, 1999). Bloomfield and Hayes (2004) and Wegener (2003), for instance, cite Liverpool Direct Ltd, a partnership between Liverpool City Council and British Telecom, as a prime example for the involvement of private sector companies in public services delivery and provision. The negotiation of differences between the partners requires cooperation and trust (Linder, 1999). This is different from the command-and-control regulation which is characteristic for bureaucracies. In addition, the emphasis on trust and cooperation between the partners leads to 'relational contracting' which replaces the arms-length model of contracting pursued by the Conservative administrations (Grimshaw et al., 2001). It is expected that public-private partnerships create extra value because costs are shared and economies of scale are achieved (Klijn and Teisman, 2000). Falconer and McLaughlin (2000) argue that collaborations between the public sector and private enterprises are driven by the public sector's

need to provide alternative sources of capital funding.[11] PPPs can improve service standards, transfer risk from the public to the private sector and import expertise and professional management skills from the private sector (Flinders, 2005; James et al., 2005).

2.2   *The Conceptual Foundation: Capacity Development*

This chapter introduces the conceptual foundation for developing the partnering capacity concept. The notion of capacity is defined by analysing the literature on capacity development. In addition, an overview of four approaches to capacity development is provided. This thesis focuses on the organisational approach to capacity development which is analysed by introducing five frameworks that are perceived as being valuable for the conceptualisation of partnering capacity.

2.2.1   Defining the Notion of Capacity

The capacity concept stems from development research and practice. Though being rooted in the development research community, this concept is applicable to the thesis due to its framing properties. In addition, this chapter illustrates that the capacity concept is well suited for research situated within the public sector context.

The notion of capacity lacks a broadly accepted definition and has many different meanings and interpretations (UNDP 1998, McKinsey 2001). A reason for this elusiveness is that publications on capacity are written by a number of different actors, such as practitioners, scholars, analysts and consultants. Consequently, each actor views capacity from his stance and emphasises different aspects (Morgan 2006). Another reason for its loose and varying definition is that the capacity

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[11] As in the case of the Private Finance Initiative, a type of PPP already pursued by the Conservative governments (Flinders, 2005).

concept is applied in different areas like non-profit management, infrastructure projects, public sector reforms and fund raising for research institutes. Moreover, the term *capacity* is influenced by various academic disciplines, such as political science, organisational development, sociology, psychology and institutional economics. A common capacity language does not exist because each theoretical framework implicitly shapes the understanding of the notion of capacity.

In order to apply the notion of capacity to the dissertation it is necessary to identify its central characteristics and therefore heighten its analytical usefulness. A selection of frequently cited definitions is presented in table 5. Almost all definitions define capacity by referring to the ***ability*** to do something with a certain effectiveness and/or efficiency over a range of time. Hence, capacity is an enabling potential. Similarly, Lusthaus (1998) views capacity as the ability to engage in 'something'.

Table 5: Definitions of Capacity

No.	Definition	Reference
1	"Capacity is the ability to perform appropriate tasks effectively, efficiently, and sustainably."	Grindle and Hilderbrand (1995, p. 34)
2	"Capacity is the ability of individuals, organizations or organisational units to perform appropriate functions effectively, efficiently and sustainable"	UNDP (1998, p. 5)
3	"Capacity is defined as the organizational and technical abilities, relationships and values that enable countries, organizations, groups and individuals at any level of society to carry out functions and achieve their development objectives over time."	Morgan (1998, p. 2)
4	"Capacity is the ability of an organization to function as a resilient, strategic and autonomous entity"	Kaplan (1999, p. 16)
5	"Capacity is defined as the abilities, skills, understandings, attitudes, values, relationships, behaviours, motivations, resources and conditions that enable individuals, organizations,	Bolger 2000

	networks/sectors and broader social systems to carry out functions and achieve their development objectives over time."	
6	"Capacity is the abilities, vision, values, relationships, resources, efforts and conditions that enable actors (individuals, groups, organizations, institutions, countries) to perform specified functions or achieve specified objectives effectively, efficiently and sustainably"	Choritz (2002, p. 25)
7	"Capacity is a set of attributes that help or enable an organization to fulfil its missions"	Eisinger (2002, p. 117).
8	"Capacity is defined as the ability of individuals, institutions, and societies to perform functions, solve problems, and set and achieve objectives in a sustainable manner."	UNDP (2006a, p. 5)
9	"Capacity is understood as the ability of people, organisations and society as a whole to manage their affairs successfully."	OECD/DAC (2006, p. 5)
10	"Capacity is that emergent combination of attributes that enables a human system to create development value."	Morgan (2006, p. 8)

Own Exhibit.

Another overlapping issue is the ***comprehensive set of attributes*** associated with the capacity concept. Both the definitions presented below and extant literature link institutional, organisational, behavioural and personal attributes to the concept. Morgan (2005) views capacity as an emergent property that is constituted by the interaction and interconnection of a wide range of factors. For instance, some of the capacity attributes mentioned by Hilderbrand and Grindle (1997), UNDP (1998) and Morgan (1999) are: values, norms, laws, economic factors, social aspects, political factors, policy formulation, interorganisational relationships, communication systems, leadership, strategic planning, stakeholder management, decision-making processes, culture, mission, physical resources and assets, information resources, motivation, human resources, training, identity and group

cohesion. The comprehensive scope of the capacity concept in terms of its inclusion of, for instance, leadership, organisational structures, laws and regulations is a key difference to the capability approach originating from the resource-based view.

The third issue cutting across the definitions of capacity is that it *resides on different levels*. As illustrated by table 6, the majority of publications distinguish between the enabling environment, the organisational and the individual level. Horton et al. (2003), for instance, apply the familiar 'macro-meso-micro' typology: capacity is at the micro level (individual, project team), at the meso level (organisation) and at the macro level (national institutions). Capacity within the enabling environment includes overall policies, norms, legal and regulatory conditions. The formal (institutional framework) and informal (social norms) "rules of the game" enable and constrain the functioning of particular organisations (UNDP 2006b). At the organisational level the capacity resides on areas such as mission and strategy, culture and competencies, processes, infrastructure, human resources, financial and information resources (UNDP 1998).[12] The individual level includes the design of educational and training programmes, values and ethics.

Another widely-applied approach identifies five dimensions of capacity (Grindle and Hilderbrand 1995): the action environment, the institutional context of the public sector, the task network, the organisation and human resources. Each dimension contains certain factors that affect the ability of organisations to achieve specified goals. The *action environment* includes the economic, political and social milieus in which public sector organisations carry out their activities. The performance of public services can be considerably influenced by conditions in the action environment. The level of economic growth, for instance, affects the tax income of local authorities and therefore shapes policy options available to local government. The *institutional context of the public sector* refers to such factors as

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[12] Because the thesis focuses on the organisational level chapter 2.2.3 explores in detail the organisational dimension of capacity.

the rules and regulations set for the public sector and its employees, the budget, concurrent policies, and the formal and informal power relations that have an effect on how the public sector functions. This context can inhibit or facilitate the provision and delivery of public services. It also shapes the scope of public-private collaborations.

Table 6: Levels of Capacity

No.	Defined Levels/ Dimensions of Capacity	Reference
1	o Action Environment o Institutional Context of the Public Sector o Task Network o Organization o Human Resources	Grindle and Hilderbrand (1995)
2	o Enabling Environment or Societal Level o Organisational Level o Individual Level	UNDP (1998), OECD/DAC (2006)
3	o Contextual o Institutional o Networks of Organizations, Groups and Individuals o Organizational o Group or Community o Individual	Morgan (1999)
4	o Enabling Environment o Sector/ Network Level o Organizational Level o Individual Level	Bolger (2000)
5	o Micro level (individual, project team) o Meso level (organisation) o Macro level (national institutions)	Horton et al. (2003)

Own Exhibit.

The *task network* comprises the communications and interactions among primary, secondary and support organisations involved in accomplishing given tasks. The

network includes organisations within and outside of the public sector. Private sector organisations are located within this dimension. A pivotal role in performing a given task is assigned to primary organisations. Secondary organisations are vital to the work of primary organisations and supporting organisations provide services that enable a task to be performed. The thesis illustrates the interactions among the local authority and the private sector company which has become a primary organisation due to the scope of the public-private collaboration. The fourth dimension of capacity deals with the structures, processes, resources, authority relations, norms, incentive systems and management styles of *organisations*. Finally, the fifth dimension of capacity analyses the managerial, professional, and technical talent of *human resources* and training and career opportunities.

Finally, the concept of capacity is essentially about the ***creation of public value***. Empirical studies employing the term *capacity* deal with public and voluntary sector issues. In these articles the development of a specific capacity aims to serve the public interest. Lavergne and Saxby (2001) point out that a decision to develop specific capacities directly affects the structure of power in organisations or society. The question whose capacity is to be promoted and in whose interest requires sensitivity to political issues. The reason why the capacity concept is quite ill-defined might relate to its holistic orientation which enables a rich picture of the public sector appreciating its complex and often messy problems.

2.2.2 Approaches to Capacity Development

The term *capacity development* focuses on the **process** through which certain abilities are obtained, strengthened and maintained. The UNDP (2006a) structures the capacity development process into five subsequent steps: (1) Engage partners and build consensus, (2) assess capacity assets and needs, (3) define capacity development strategies, (4) implement capacity development strategies and (5) monitor and evaluate capacity development strategies. Although the process is described by the UNDP, the tools, the area of application and the level of analysis are neither clearly defined nor widely shared by the development community.

It has to be acknowledged that a lack of clarity is also associated with the concept of capacity development. Even the terminology is quite vague: the terms capacity building, capacity development and capacity strengthening are used interchangeable by practitioners and scholars. In the late 80s and early 90s the term *capacity building* was predominately used. In the 90s and continuing today capacity development is favoured (Lusthaus and Neilson 2005). The ambiguity of capacity development might be due to the fact that the concept is shaped by assumptions that have evolved from several approaches and is applied to various contexts. That is why Morgan (1998) and Choritz (2002) refer to capacity development as an **umbrella concept**.

To a certain extent the definitions provided by table 7 share an understanding of capacity development. Basically, capacity development is about *increasing the ability to improve performance*.

Table 7: Definitions of Capacity Development

No.	Definition	Reference
1	"Public sector capacity building […] seeks to strengthen targeted human resources (managerial, professional and technical) in particular institutions and to provide those institutions with the means whereby these resources can be marshalled and sustained effectively to perform planning, policy formulation, and implementation tasks throughout on any priority topic."	Cohen (1993, p. 26)
2	"Capacity strengthening is an ongoing process by which people and systems, operating within dynamic contexts, enhance their abilities to develop and implement strategies in pursuit of their objectives for increased performance in a sustainable way."	Lusthaus et al. (1995)
3	Capacity building encompasses "a variety of strategies that have to do with increasing the efficiency, effectiveness, and responsiveness of government performance."	Grindle (1997, p. 5)
4	"Capacity development refers to the approaches, strategies and methodologies which are used by national participants and/or outside intervenors to help organizations and/or systems to improve their performance."	Morgan (1998, p. 2)
5	"Capacity development is the process by which individuals groups, organizations, institutions and societies increase their abilities: to perform functions solve problems and define and achieve objectives."	UNDP (1998, p. 2)
6	"Capacity development refers to the approaches, strategies and methodologies used by developing country, and/or external stakeholders, to improve performance at the individual, organizational, network/sector or broader system level."	Bolger (2000, p. 2)
7	"Capacity development is a process by which individuals, groups, organizations and societies enhance their abilities to identify and meet development challenges in a sustainable manner."	Lavergne and Saxby (2001, p. 4)

8	"Capacity building is a process that improves the ability of a person, group, organization, or system to meet its objectives or to perform better."	Brown et al. (2001, p. 10)
9	"Capacity development is an ongoing process by which individuals, groups, organizations, and societies increase their abilities to perform core functions, solve problems, define and achieve objectives, and understand and deal with their development needs in a broad context and sustainable manner."	Horton et al (2003, p. 20)
10	Capacity development aims "to improve an organization's potential performance – its ability to apply its skills and resources to accomplish its goals and satisfy the expectations of its stakeholders".	Chambers (2005, p. 48)

Own Exhibit.

Since the last decades the concept of capacity development has undergone significant changes. In the early 1980s, approaches to capacity development assumed that the training of individuals within project teams leads to an improved capacity and performance of the organisation. Usually both practitioners and researcher recommended tackling organisational inefficiencies by the provision of training and the supply of technical assistance. This traditional view associated capacity development with skill transfer and the provision of education (Gunnarsson 2001). Cohen's (1993) narrow definition of capacity development, as exhibited in table 7, follows this specific focus on human capacities. For Cohen, capacity development is concerned with recruiting, organising and training the capacity of public employees. Horton et al. (2003) argue that the traditional approach to capacity development bears the reductionist assumption that an enhanced organisational capacity is achieved by a linear succession of four steps at the individual and project level. These steps are: (1) Assess the needs of individuals or projects, (2) Strengthen capacities of individuals or projects, (3) Improve performance of individuals or projects, (4) Improve organisational capacity and performance.

The development community, however, acknowledged that the traditional approach did not match the organisation's priority needs and missed contextual factors essential to the development of capacity (Horton et al. 2003). The evaluation of development projects which focused on individuals or projects showed that the transferred skills were not relevant to the organisation, and did not address the stakeholders' expectations or were not accepted by the managers in charge. Smillie (2001) argues that capacity development is "considerably more complex than originally conceived in the training programs and technical assistance of the early development decades" (p. 10). The emergence of new organisational forms which have been described as *virtual* (Davidow and Malone 1992; Mowshowitz, 1994), *cyber* (Martin, 1996), or *network* (Powell 1990) broke down conventional boundaries within and between organisations. In particular, the economic globalisation and the emergence of new information and communication technologies require a re-conceptualisation of capacity development in terms of networks (Fukuda-Parr and Hill 2002). As a result, the term capacity development shifted from investing in people or single organisations to improving systems or networks of organisations (Eade 1997).

Most of the definitions presented in table 7 emphasise the holistic component of capacity development by including the individual, the organisational and the societal level. It is a ***multidimensional*** concept that refers to changes in the institutional environment, but also to organisational and managerial interventions as well as to the development of human resources. Additionally, capacity development interventions are perceived as less linear and procedural. Capacity development is ***cyclic and takes place continuously*** because learning can occur through a wide variety of planned or unintended experiences and activities.

Lusthaus et al. (1999) created a taxonomy of ***four different approaches*** to capacity development. By reviewing articles and books on capacity development they identified several perspectives which could be grouped into four "schools of thoughts": institutional, systems, participatory and organisational.

Figure 7: Approaches to Capacity Development
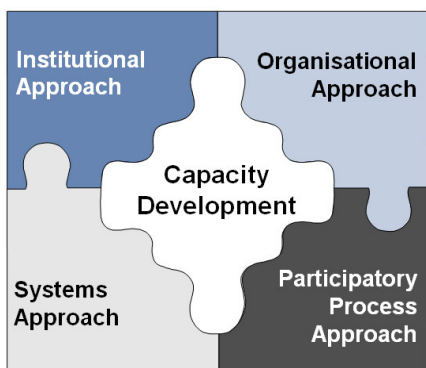
Own Exhibit.

The *institutional approach* is inspired by the literature on New Institutional Economics (North 1990). According to North, the institutional framework shapes the evolution of economies. Institutions can be "rules, norms and customs and their enforcement characteristics" (Gunnarsson 1995, p. 75). Institutional approaches focus on the processes and rules that govern society. Typically, the United Nations and the World Bank take up an institutional stance.

The *systems approach* emphasises the interdependencies among actors (individuals, groups/ communities, organisations and institutions) and seeks to develop capacity in a holistic way (Evans et al. 2005). Hence, capacity development is seen as encompassing multiple levels, power relationships and linkages.

Contrary, the *participatory process approach* often focuses on the individual. It views capacity development as people-centred and non-hierarchical. Participation, ownership and power sharing are fundamental elements of this approach. The empowerment of individuals and the use of local expertise in combination with the development of a grassroots model of capacity development are often recommended by nongovernmental and voluntary organisations (Eade 1997). The

thesis has chosen an *organisational perspective* on capacity development. The next chapter illustrates this approach in detail.

> **Capacity development…**
> -   is about increasing the ability to improve performance
> -   is a continuous and cyclic process
> -   is multidimensional (individual, organisational and societal level)
> -   can be seen from four main perspectives (institutional, systems, organisational and participatory process approach)

Bolger (2000) identifies several capacity development strategies that have been applied in development initiatives. These strategies may aim to eliminate old or inappropriate capacity (e.g. ineffective units), to make better use of existing capacity (e.g. changes in organisational incentive system) or to provide space for the creative use of capacities (innovations in service delivery).

2.2.3   Frameworks of Organisational Capacity Development

For scholars and practitioners following the organisational approach the focus of capacity development is on organisational structures, processes, resources and management techniques. For Hilderbrand and Grindle (1997) capacity development

> "…refers to the improvements in the ability of public sector organizations, either singly or in cooperation with other organizations, to perform appropriate tasks" (p. 34).

Grindle (1997) notes that capacity development at the organisational level focuses on management systems to improve the performance of specific tasks and functions. To illustrate what is meant by organisational capacity the following paragraphs introduce different frameworks which list core elements of organisational capacity.

According to Lusthaus et al. (1995) organisational capacity entails six main interrelated areas: strategic leadership, human resources, other core resources, program management, process management, and interinstitutional linkages. The latter area is composed of networks, partnerships and external communications. Similarly, Horton et al. (2003) identify two basic types of organisational capacity: resources (human, physical, financial and technological) and management (leadership, program and process management, networking and linkages). Figure 8 depicts the account of Horton et al. (2003):

Figure 8: Types of organisational capacity
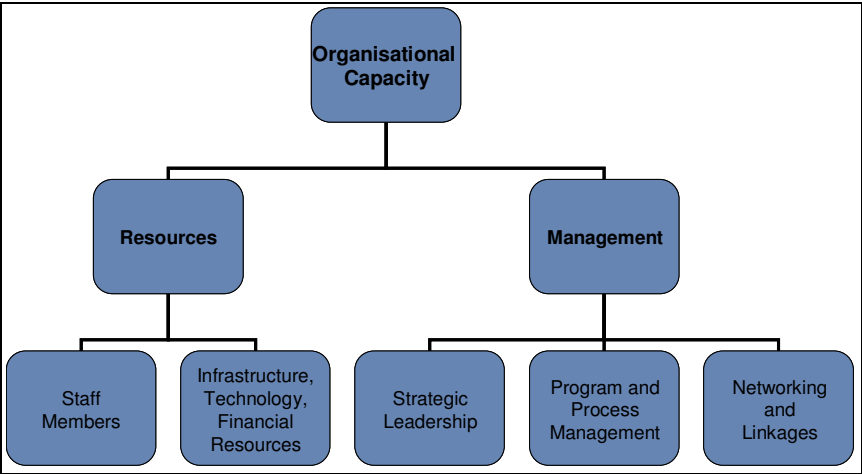
Adapted from Horton et al. (2003, p. 24).

As mentioned before, two dimensions of the framework developed by Hilderbrand and Grindle (1997) address the organisational level of capacity: The task network and the organisation. The task network comprises the communications and

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interactions among primary, secondary, and support organisations involved in accomplishing given tasks. This level analyses inter-organisational relations. The network includes organisations within and outside of the public sector. Private sector organisations are located within this dimension. A pivotal role in performing a given task is assigned to primary organisations. Secondary organisations are vital to the work of primary organisations, Supporting organisations provide services that enable a task to be performed. The authors point out that the extent to which the networks encourage communication and coordination influences capacity and therefore affects performance. Another dimension which is pivotal for assessing a partnering capacity is the individual organisation. The individual organisation is the vantage point from which the analysis is carried out. The structures, processes, resources and management styles of an organisation impacts how it sets goals, structures work, defines authority relations and provides incentive structures. These factors shape behavioural norms and foster or inhibit organisational performance.

This conceptual framework is crucial to the dissertation because it enables a holistic view of the empirical case. In addition, the framework is developed for the public sector context. Grindle and Hilderbrand's (1995) framework, however, was designed for development research purposes. Hence, there exists a research gap in developing a conceptual framework for the partnering capacity of public and private sector organisations. Although behavioural norms and communication processes are included in the framework it lacks the cultural conditions that may be very relevant to the research.

A widely cited framework that incorporates culture as a component has been developed by the consultancy McKinsey. This capacity framework addresses nonprofit managers because they have a growing interest in building high-performing organisations. McKinsey identifies seven elements: three higher-order elements (aspirations, strategy, organisational skills), three foundational elements (systems and infrastructure, human resources, organisational structure) and a cultural element which embeds all the others (see figure 9).

Figure 9: McKinsey Framework for Organisational Capacity Development
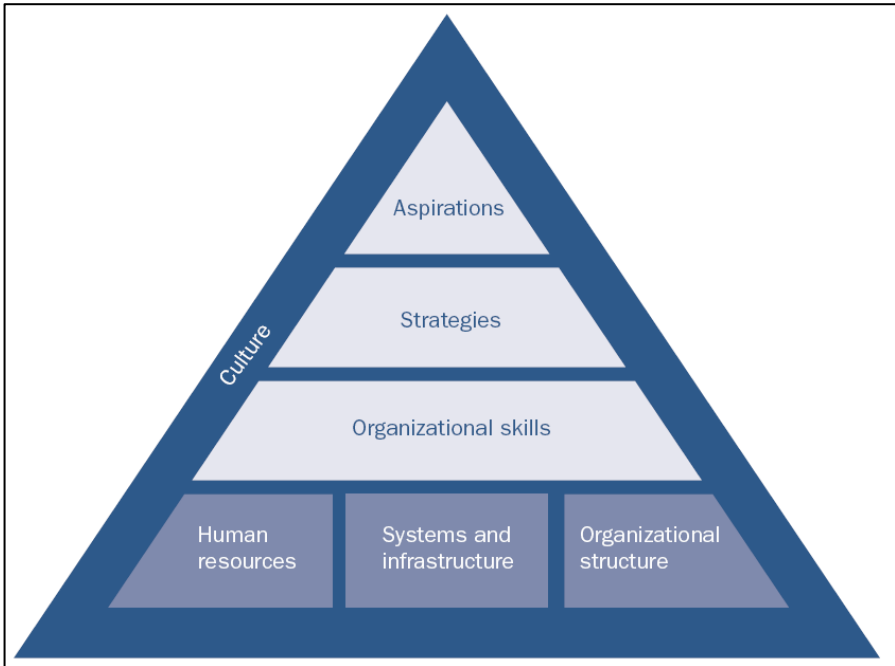
Adapted from McKinsey (2001, p. 36).

Aspirations are an organisation's mission, vision and overarching goals. The element *Strategies* refers to the set of actions and programs that serve to achieve the overarching goals. *Organisational skills* are the capabilities of an organisation, such as performance measurement and planning. *Human resources* are the capabilities, experiences and motivation of the employees. Physical and technological assets as well as decision making, knowledge management and administrative systems constitute the element *Systems and Infrastructure*. *Organisational structure* includes governance, organisational design, interfunctional coordination and job descriptions. Culture ties the organisation together and comprises shared values and practices, and behavioural norms.

The Urban Institute's Center on Nonprofits and Philanthropy identifies five organisational components that should be addressed by capacity development: vision and mission, leadership, products and services, resources and outreach. Table 8 summarises each of these components along with the capacity development efforts.

Table 8: The Urban Institute's Framework for Nonprofit Capacity Development

Organi-sational Compo-nent	Significance	Capacity Building Efforts
Vision and Mission	Provides guiding principles which shape the resources attracted to an organisation (e.g. funding from donors or recruitment of staff who concur with that mission), while also providing a basis for evaluating effectiveness.	Developing or periodically revising mission, and linking it to more measureable outcomes of products or services.
Leadership	Leaders, at every level of an organisation (board, staff, volunteers) are required to provide direction in the context of internal and external constraints, and to set the tone for decisions, actions, and public reputation.	Enhancing existing leadership and developing new leadership (e.g. creating a board development strategy, providing training to staff and volunteers in team building, reviewing and updating operations to reflect changing environmental conditions).
Resources	Various kinds of resources – financial, technological, and human – are crucial to organisational functioning.	Traditionally focused on resource quantity by providing training on fundraising, computer technologies, and recruitment, but they have recently also considered resource quality such as upgrading staff skills, identifying the most useful technologies, and more carefully tracking finances for accountability purposes.
Outreach	Dissemination, marketing, public education and relations, advocacy, building alliances and	A frequently overlooked component, although there is growing recognition of its

	collaboration, are necessary for building a base of support.	importance for building networks and reducing organisational isolation.
Products & Services	Monitoring the actual outputs of an organisation, and its longer term outcomes, is necessary for assessing organisational effectiveness	Development of indicators and outcome measures, many of which are quantifiable.

Adapted from De Vita et al (2001, pp. 16-23)

De Vita et al. (2001) emphasise that the components are interrelated. For instance, resources are necessary to deliver services. They can be acquired more successfully through an attractive vision that is marketed by an appropriate outreach effort.

3.   Generation of Working Propositions

This chapter frames the partnering capacity concept and states working propositions that guided the empirical stage of the research. This section synthesises and extents the conceptual and theoretical approaches outlined in chapter 2. Theoretical accounts of the capacity concept determine the level of analysis first (institutional, organisational, individual), then identify the components of a specific capacity, and finally investigate how this capacity can be increased. This chapter frames the partnering capacity concept by limiting the scope of analysis, identifying key components, and providing an initial account of the way this capacity can be increased. It has to be acknowledged that this chapter merely approaches the partnering capacity concept theoretically. The working propositions derived by this analysis are discussed and modified in chapter 7 which links the literature to the empirical findings of the case study.

Although there is almost no empirical research on white-collar PPPs, related literature helped to identify three dimensions that underpin the partnering capacity of public and private organisations. These dimensions are: strategy, culture and power. The literature on capacity development in combination with theoretical insights from research on inter-organisational collaboration and on public private partnerships enables to derive working propositions which are summarised in chapter 3.3.

3.1   Framing the Partnering Capacity Concept

As pointed out in chapter 2.2.2, capacity development is about the ability to improve performance. Consequently, partnering capacity is about the ability to improve partnering. Due to the scope of the dissertation the term partnering capacity is applied to white-collar public-private partnerships. Partnering capacity is an organisational capacity that is situated in organisational structures, processes,

resources and management methods of both the public and the private organisation. Hence, partnering capacity is defined as *the ability of public and private organisations to maintain their white-collar partnership.*

The notion of partnering capacity is related to the concept of critical success factors (CSF) which was developed by Rockart (1982) and the Sloan School of Management. Boynton and Zmud (1984) define critical success factors as "those few things that must go well to ensure success for a manager or an organization, and, therefore, they represent those managerial or enterprise areas that must be given special and continual attention to bring about high performance" (p. 17). A number of empirical studies applied this concept to PPP/PFI projects. Table 9 endeavours to summarise the factors that the authors consider critical to the success of these projects.

Table 9: Critical Success Factors in PFI/PPP Construction Projects

No.	Critical Success Factor	Reference
1	Strong private consortium	Jefferies et al. (2002)
		Hardcastle et al. (2005)
		Tiong (1996)
		Birnie (1999)
2	Favourable legal and economic framework	Tiong (1990)
		Bennett (1998)
		Boyfield (1992)
		Stein (1995)
		Jones et al. (1996)
		Qiao et al. (2001)
		Dailami and Klein (1997)
3	Well-organised public agency	Boyfield (1992)
		Stein (1995)
		Jones et al. (1996)
		Finnerty (1996)
4	Developing a culture of partnership	Duffield 2005

5	Shared authority between public and private sectors	Stonehouse et al. (1996)
		Kanter (1999)
6	Competitive procurement process	Jefferies et al. (2002)
7	Commitment	Stonehouse et al. (1996)
		Kanter (1999)
		Hardcastle et al. (2005)
8	Cost/benefit assessment	Qiao et al. (2001)
		Brodie (1995)
		Hambros (1999)
9	Project technical feasibility	Qiao et al. (2001)
		Tiong (1996)
		Zantke and Mangels (1999)
10	Good governance	Qiao et al. (2001)
		Frilet (1997)
		Badshah (1998)
11	Available financial market	Qiao et al. (2001)
		Jefferies et al. (2002)
		McCarthy and Tiong (1991)
12	Political stability and support	Qiao et al. (2001)
		Zhang et al. (1998)
		Keong et al. (1997)

Own Exhibit.

The results of these studies are not transferable to the thesis for two reasons: First, the concept of critical success factors is too broad for the research scope. The studies listed above included the legal and economic framework, financial markets, and political stability and support. Contrary, the partnering capacity focuses on the organisational level. In addition, factors such as project technical feasibility and technical innovation do not address the processes that improve the ability of public and private organisations to maintain their partnership. Partnering is about relationships and therefore a partnering capacity must address the interactions between and inherent characteristics of private and public partners. Secondly, all of the studies focus solely on construction projects. In the UK, the predominant area

of application of PPP/PFI schemes is in the construction industry. However, the dissertation aims to explore white-collar public private partnerships. Because of the novelty of these partnerships and the sensitivity of the services delivered (e.g. tax collection, customer service) there is almost no academic research on this topic. White-collar partnerships require a different focus due to the complexity of services and the frequent interactions between the public and the private partner.

Trafford and Proctor (2006) are one of the few researchers who gained access to such a PPP. The City Council established a joint venture with a private company to develop five service areas: ICT, payroll, revenues and benefits, contract centre services and human resource management.[13] By applying a grounded theory approach they identified five key characteristics that contribute to the success of a joint venture: good **C**ommunication, **O**penness, effective **P**lanning, **E**thos and **D**irection. These are included in the "COPED" model that aims to build more comprehensive and productive relationships between public sector organisations and private sector companies.

Empirical research by a research group of the University of Strathclyde has identified several themes cutting across the collaborations between public and non-profit organisations. Practitioners viewed these themes as being pivotal to success or failure in the management of inter-organisational relationships (Barr and Vangen 1994, Huxham and Vangen 1996a, Huxham and Vangen 1996b, Vangen and Huxham 1997). In their article *"What makes partnerships work?"* Huxham and Vangen (2000) identified three themes which represent a broad category of issues that have relevance to the management of partnerships. These themes are: Managing aims, managing language and culture, and managing trust and power. There are similarities between Trafford and Proctor's (2006) model and the themes identified by Huxham and Vangen (2000). The theme *managing aims* is similar to *planning*, and *managing language and culture* resembles *ethos*.

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[13] Although the case study is made anonymous the service areas, the type of PPP, the type of local authority (city council) and the researcher's University suggest that the joint venture between Liverpool and BT is examined.

The themes identified by Huxham and Vangen (2000) are also related to the elements of the organisational capacity frameworks outlined in chapter 2.2.3. For instance, the theme *managing aims* corresponds to *setting goals* (Hilderbrand and Grindle 1997), *strategy* (McKinsey 2001), as well as to *vision and mission* (De Vita et al. 2001). The theme *managing language and culture* corresponds to *behavioural norms* (Hilderbrand and Grindle 1997) and *culture* (McKinsey 2001). Figure 10 summarises the similarities between the authors.

Figure 10: Theoretical Derivation of Partnering Capacity Dimensions

Managing aims (Huxham and Vangen 2000)	**Managing language and culture** (Huxham and Vangen 2000)	**Managing trust and power** (Huxham and Vangen 2000)
Planning (Trafford and Proctor 2006)	**Ethos** (Trafford and Proctor 2006)	**Openness** (Trafford and Proctor 2006)
Setting goals (Hilderbrand and Grindle 1997)	**Behavioural norms** (Hilderbrand and Grindle 1997)	**Authority Relations** (Hilderbrand and Grindle 1997)
Strategy (McKinsey 2001)	**Culture** (McKinsey 2001)	**Resources** (De Vita et al. 2001)
Vision and Mission (De Vita et al. 2001)		
Strategy	**Culture**	**Power**

Dimensions of Partnering Capacity

Own Exhibit.

As illustrated by figure 10, the initial literature review in the chapters 2.2 and 3.1 framed the partnering capacity concept by identifying three dimensions which cut across most of the theoretical accounts: Strategy, culture and power. Chapter 3.2 explores these three dimensions in greater detail and includes further literature.

3.2   *Dimensions of Partnering Capacity*

This chapter reviews theoretical accounts which are related to the strategic, cultural and power dimension of the partnering capacity concept. The literature on capacity development in combination with theoretical insights from research on inter-organisational collaboration and on public private partnerships enables to derive working propositions. The working propositions guided the empirical stage of the research process and helped to conceptualise the partnering capacity. Additionally, the working propositions derived by this analysis are discussed and modified in chapter 7 which links the literature to the empirical findings of the case study.

3.2.1   Strategic Dimension

The paper conceptualises the strategic dimension as a process of goal setting and goal disseminating at the outset of and during a public private partnership. The literature on partnerships and private sector alliances usually emphasises the crucial role of goals for creating and maintaining successful collaborations. According to McQuaid (2000) a lack of clear goals is often referred to as a major cause of the failure of partnerships. In addition, Teisman and Klijn (2004) emphasise that PPPs can only survive if public and private partners desire to find mutual solutions. Table 11 summarises the goals and motives for public and private organisations to enter a partnership. There is a wide range of literature on the goals of public private partnerships and therefore this study has focused on those articles which represent typical objectives and motives.

Although the public sector's main objectives for setting up a public-private partnership might be driven by the need for financial resources, private sector expertise, and greater efficiency, it has to be acknowledged that PPPs involve parties from different sectoral modes and institutional logics. As a result, private and public organisations can have different and sometimes conflicting objectives.

Table 10: Goals and Motives for Entering a Public Private Partnership

No.	Goals and Motives		Reference
	For the Private Sector	**For the Public Sector**	
1	• New investment opportunities in new markets • Reduction of long-term uncertainties • Public contributions to uneconomic investments	• Private investments • Increased efficiency • Input of private market experience • Creation of surplus value and innovative solutions	Van Ham and Koppenjan (2002, p. 597)
2	n/a	• Access to market skills/expertise • Improved quality • Cost savings • Manage demand fluctuations • Access to technology • Better accountability	Domberger and Fernandez (1999, p. 33)
3	• Long-term projects with constant cash inflow • Resources of public sector • New business opportunities	• Implementation of complex projects • Avoiding legal restrictions • Sharing financial risks • Resources of the private sector • Cost transparency of service delivery	Wimmer (2004, p. 15)
4	• New markets	• Solving the government's financing deficit • A more business-like operation	Reijniers (1994, p. 137)
5	n/a	• Budget deficits • Ageing and poor infrastructure • Growing demand on public sector services • Greater efficiency and creativity • Introduce competition • Shortage of domestic experience	Ahadzi and Bowles (2004, p. 968)

Own Exhibit.

Carrol and Steane (2000) point out that companies usually have a predominantly commercial perspective in a partnership and strive for profits. This commercial objective can conflict with the public sector's orientation towards equity, fairness, impartiality, accountability and the rule of law in handling public provisions (Du Gay 2000). Hebson et al. (2003) refer to a case in which a council and a private sector firm accused each other of having ulterior objectives. The council alleged that the company reduced the quality of certain areas of services provision in order to "focus on those performance indicators that deliver bonus payments" (ibid., p. 489). Contrary, the company accused the council of unnecessarily querying decisions made by caseworkers in order to reduce payments stated in the contract. However, both organisations acted according to their institutional logic: the private company aimed to increase its profits whereas the council wanted to ensure that the services are delivered according to its ultimate goals of equity, fairness, et cetera. Hebson et al. (2003) conclude that the initial sense of mutual trust between private and public sector managers can be replaced by manipulation and opportunistic behaviour which is induced by the conflicting priorities of the partners. It appears to be crucial that conflicting objectives are compensated by adequate incentive structures. Stiglitz and Wallsten (1999, p. 57) point out that in a situation of separate interests between public and private partners "more attention needs to be placed on the incentive-accountability structure". As a result, two working propositions are derived:

WP 1:   *The objectives of private and public organisations are likely to conflict in a PPP setting.*

WP 2:   *An adequate incentive structure compensates for conflicting objectives and improves the partnering capacity of public and private partners.*

It is possible to distinguish between two types of objectives: the individual (independent) objectives of each organisation and the overarching objectives of the partnership. According to Kurr (2004), the partnership objectives are those objectives which are accepted by both partners as the officially stated objectives of the partnership. The individual objectives are those objectives with are pursued by

an individual organisation in a partnership. Individual objectives of a partner can conflict with those of the other partner.

The relationship between individual objectives and partnership objectives determines the behaviour of the partners. Kurr (2004) claims that the objectives of the individual organisations and those of the partnership can be in symbiosis, harmony or conflict to each other. If no partnership objectives exist the objectives of the individual organisations can be complementary, neutral or rivalling to each other. Figure 11 illustrates the constellation of objectives and highlights which combinations contribute to the stability and sustainability of a partnership. The figure illustrates that it is beneficial to state partnership objectives because the collaboration is then likely to be in a stable situation.

Figure 11: Constellation of Objectives in Partnerships

Partnership Objectives			
No	Complementary	Neutral	Rivalling
Yes	Symbiosis	Harmony	Conflict
	Require each other	Do not contradict	Contradict each other

**Individual Objectives
of the Partners**

◻ (shaded) Stable situation

◻ Unstable situation
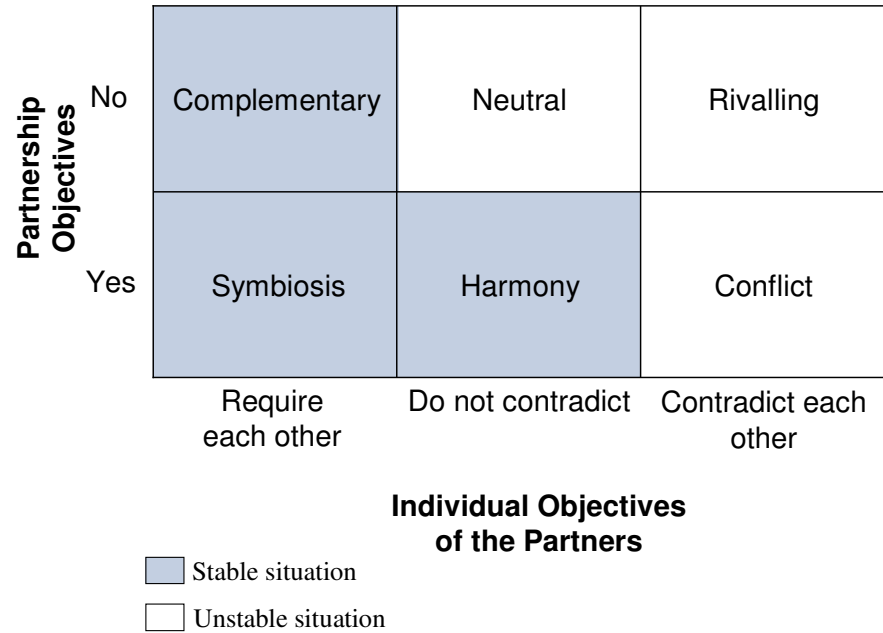
Modified and adapted from Kurr (2004, p. 184)

The development researcher Uphoff (1994) points out that collaboration is improved when organisations value the network/ partnership beyond its contribution to their individual objectives. An advantage of mutually compatible or common partnership objectives is that the individual organisations are oriented towards the same direction. As a result, resources can be mobilised more efficiently and effectively. In their studies about partnerships between research and development organisations Horton et al. (2003) support this view. They reveal that in successful partnerships the partners are working towards similar long-term objectives in similar ways. Accordingly, Rosenau (1999) notes that successful PPPs align the interests and share the objectives of public and private partners. A partnership that is solely built around contradicting goals would induce conflict between the involved organisations, even if partnership goals are stated. Those partnerships face an "inherent vulnerability to opportunistic behaviour" (Koza and Lewin 1999, p. 649). This leads to the following propositions:

WP 3:   *The lower the degree of conflicting individual objectives, the higher the partnering capacity of public and private organisations.*

WP 4:   *There is a positive relationship between the existence of partnership objectives and the partnering capacity of public and private organisations.*

For a high partnering capacity it is crucial that each organisation clarifies the purpose and intent of the relationship between each other. After objectives are set, they need to be disseminated throughout the involved organisations in order to gain the employees' commitment to the partnership. Noble and Jones (2006, p. 900) employ the notion of "autonomy distance" to refer to a situation where the staff does not see the need for a collaboration and is not committed to the goals of the public-private partnership. The authors conducted grounded theory research in ten PPP projects in the UK and Australia. In five cases a high "autonomy distance" was present. Managers believed that a public private partnership was not necessary because their organisation either already had the necessary resources or expertise to deliver the work on their own. To solve the "autonomy distance" problem it is

necessary to establish mechanisms that foster communication and discussion between the partners.

Literature on organisational theory assumes that open communication and a participatory approach to decision-making improve inter-organisational relationships (Huczynski and Buchanan 2004). In their case study on a joint venture for the delivery of corporate and central support services, Trafford and Proctor (2006) note that employees on both sides tended to assume and also misunderstand the motives of the public and private partner. The authors conclude that intra- and inter-organisational communication is pivotal in order to facilitate mutual understanding and shared purpose.

WP 5:   *The higher the degree of the dissemination of objectives, the higher the partnering capacity of a public and private organisations.*

3.2.2   Cultural Dimension

The main finding of the research on organisational capacity by Hilderbrand and Grindle (1997) is that organisational performance relates to the strength and orientation of its organisational culture. In particular, public-private partnerships are facing cultural challenges because the partners originate from different sectors with different values and orientations. The cultural differences between the public and the private sector may have a pivotal impact on the public sector's ability to establish and maintain a public-private partnership. Many authors argue that public-private collaborations are difficult to manage because the private and the public sectors have two distinct institutional logics (Wilkinson 1994, Felts and Jos 2000, Zanetti and Adams 2000). There is a wide range of literature that emphasises the cultural distinctiveness of public sector organisations by referring to the concept of "public value" or "public interest" (Jørgensen and Bozeman 2007). In the following paragraphs, the notion of culture is defined by drawing on theoretical

accounts of public management research. Primarily, it is focused on two aspects to illustrate the cultural dimension: the notion of the public sector ethos and the conceptualisation of value creation.

Du Gay (2000) emphasises that the 'new managerialist' literature that is influenced by the New Public Management movement, disregards the complex juridico-political context of the public sector. Public organisations are controlled predominantly by political forces and not by market forces. According to Halachmi and Bovaird (1997) the main difference between the private and public sector is the *conceptualisation of value creation*. The authors underline that value in the public sector depends on various stakeholders and is therefore multi-faceted. Whereas private companies are owned by entrepreneurs or shareholders, public agencies are owned collectively by the society as a whole (Rainey et al., 1976). Contrary to private firms, public agencies are funded by taxation rather than by market-derived revenues. Hence, public organisations are not indebted to special commercial interests. Halachmi and Bovaird (1997) point out that in the public sector some stakeholders essentially derive their value from the consumption of the processes (groups who want to ensure equal opportunities for minorities) or the inputs (associations who want to maintain requirements for professional accreditation). Contrary, in the private sector only the outcomes of the processes are important for consumption. As a result, decision-making processes in the private and public sector are different (democratic vs. consultative). This is of particular relevance because Hilderbrand and Grindle (1997) emphasise the importance of a results-oriented culture for capacity development. Stewart and Ranson (1988) point out that in the public domain decisions are made through a political process. Within this process all voices are entitled to be heard because public organisations are accountable to all citizens.

The sectoral differences are translated in each organisational context and therefore shape a distinct ethos in private and public organisations. Jacobs (1992, p. 32) characterises the public and private sector as two ethical systems which exhibit different "moral syndromes". The public sector's guardian syndrome emphasises

values, such as discipline and loyalty, tradition and hierarchy and avoidance of trade and commerce. The private sector's commercial syndrome promotes values such as avoidance of coercion, agreements on a voluntary basis, honesty and competitiveness. According to Jacobs the public sector is concerned with tasks whereas trading is typical for the market system. Rouse (1999) identifies several public sector values, such as equity, fairness, democracy, citizenship, justice and community. Accordingly, Pollitt (1993) suggests that the traditional public sector is guided by values like fairness, justice, representation and participation. All these aspects are included in the notion of the ***public sector ethos*** (Pratchett and Wingfield 1996, Hebson et al. 2003). The five generic principles associated with the public sector ethos are depicted in table 11.

Table 11: Principles Associated with the Public Sector Ethos

Principle	Public sector workers are expected to:
Accountability	Accept legitimacy of political structure and be committed to implementing political policy without reference to their own views
Bureaucratic behaviour	Demonstrate characteristics of honesty, integrity, impartiality and objectivity
Public interest	Display an interest beyond the boundaries of their particular organization, and to serve the 'public good'
Motivation	Identify with an altruistic purpose of motivation (rewarding work that has value for the community) rather than self-interest or a profit motive
Loyalty	Operate within a complex set of loyalties (including the department, organization, profession, institution and community)

Adapted from Hebson et al. (2003, p. 486).

In particular, the profit motive and the competitive orientation of private sector organisations conflicts with the public sector ethos and its attachment to serving the public good, the sense of altruism and loyalty to the wider community. This leads to the following working proposition:

WP 6:   *The culture of public organisations is likely to be different from that of private organisations in a public-private partnership.*

The inherently different cultures are likely to have a negative impact on a partnership. The different values, concerns and accountabilities may lead to a "sense of separateness" between the public and private partners (Child and Faulkner 1998, p. 240). Noble and Jones (2006, p. 900) call this situation "cultural distance". In their analysis of ten PPPs in Australia and the UK, six partnerships displayed a cultural distance. Typically, the private sector managers portray their public counterparts as being bureaucratic and inefficient. Contrary, the public sector managers were concerned about the private sector's sole interest in the profit of its shareholders that shapes the private sector managers tendency to be less worried about openness, democracy, transparency, probity and accountability. Hebson et al. (2003) examined two public-private partnerships in the UK to analyse the impact of the collaboration with a private partner on the public sector ethos. Although the contractual relationship of the PPPs imposes pressures upon the public sector ethos, it appears to be very resilient. In both cases the authors note that certain public sector values continue to inform the workers' attitude. The authors state that this orientation conflicts with the work intensification and cross-cutting measures induced by the PPPs. In addition, a vicious circle of monitoring and distrust emerged between the public and private sector organisations.

Despite the resilience of the public sector ethos Hebson et al. (2003) expect that public-private partnerships will replace the ethos by a managerial culture in the future. Du Gay (2000) and O'Toole (1993) note that the New Public Management and the Thatcherite reforms have led to an erosion of the traditional public sector

ethos. Similarly, Brereton and Temple (1999) suggest that a new public *service* ethos is emerging embracing both public notions of, for example, impartiality and community service and private notions of competition and consumer choice. The more public sector organisations adopt ideas from New Public Management, the easier the collaboration with private sector companies will be. Public sector employees will be used to a performance-based culture and customer-focused service delivery. As illustrated by the two studies mentioned in the previous paragraph a strong public sector ethos creates significant frictions between public and private organisations in a PPP setting. Any move towards diminishing cultural differences between the public and private organisations increases their partnering capacity. As a result, the following working proposition is generated:

WP 7:   *The weaker the cultural differences between public and private*
          organisations, the higher the partnering capacity.

The literature indicates that the development of an overarching partnership culture is a crucial factor for strengthening a partnering capacity. Jones et al. (1997) point out that a macroculture (partnership culture) improves and facilitates inter-organisational collaboration and coordinated actions. Trafford and Proctor (2006) emphasise that a partnership culture is essential to prevent cultural conflicts in public private partnerships. The authors analyse a joint venture company that employs staff from a private sector organisation and from a City Council. The different cultures of the two organisations continued to exist within the joint venture and led to a feeling of lack of identity amongst the staff. Moreover, a macroculture fosters commitment to the partnership and reduces opportunistic behaviour (Trice and Beyer 1993, Koza and Lewin 1999). In his study of industrial networks in Italy, Lazerson (1995) demonstrates that a macroculture based on mutual trust facilitates fast and informal exchange of information. Mutual trust eases negotiations about prices, service levels and terms of payment. Hence, the following working proposition is derived:

WP 8:   The stronger the macroculture of a public-private partnership, the higher the partnering capacity of public and private organisations.

3.2.3   Power Dimension

Literature on inter-organisational collaboration usually portrays trust and power as means of co-ordinating expectations and interactions between economic actors (Das and Teng 2001, Tomlinson 2005). The dissertation follows Bachmann's (2001) view that trust and power are alternative means of managing relations. Both mechanisms allow social actors to link their mutual expectations and to develop relatively stable relationships. According to Bachmann either power or trust can be chosen to analyse social interaction. The notion of power was selected as a dimension of the partnering capacity because it seems to offer a more realistic perspective on public-private partnerships than the notion of trust. As illustrated in the previous chapters, the profit motive of private organisations is likely to cause distrust in public sector organisations and, as a result, power is the predominant mechanism for coordinating social interactions. Vangen and Huxham (2003) argue that the public organisations' concerns about losing control over their sphere of activity hamper trust building. This perspective is confirmed by other academic accounts of public-private partnerships in which the distribution of power is a recurring theme (Kramer 1994, Carroll and Steane 2000, Huxham and Vangen 2000, McQuaid 2000, Osborne and Murray 2000).

Luhmann (1979) points out that "power does its job of transmitting [mutual expectations] by being able to influence the selection of actions in the face of other possibilities" (p. 112). In this regard, power helps to reduce complexity and eases inter-organisational coordination. The dissertation conceptualises power by highlighting three sources of power: authority, resource control and the fallback-position (see figure 12).

Figure 12: Sources of Power in Inter-Organisational Settings
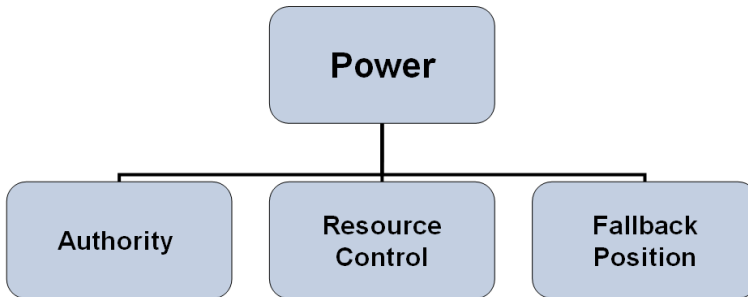
Own Exhibit.

Authority refers to the legal and legitimate right to exercise power (French and Raven 1968, Hardy and Phillips 1998). The legal right is based upon a hierarchical relationship in which a superior actor makes decisions that are obeyed by the subordinate actor. In a public-private partnership at least two organisations with equal rights are brought together. Hence, the legal authority is likely to be distributed equally. The legitimate right to exercise power is inferred from the authentic voice of an actor who is understood to be speaking on behalf of issues with which the collaboration is concerned. The legitimate authority might be with the private sector because public managers are expected to become more like their business counterparts. In this regard, Linder (1999) characterises public-private partnerships as a mentoring relationship. As a result, power in terms of authority is likely to rest with the private sector organisation in a PPP.

The second aspect of power rests upon the possession of scarce or critical resources (Pettigrew 1973, Pfeffer and Salancik 1978, Pfeffer 1981, Astley and Sachdeva 1984). In a PPP setting, an organisation is more powerful than its partner when it owns critical resources, such as expertise, money, equipment, information, etc. Grimshaw et al. (2002) point out that private managers are likely to have a power advantage due to the greater experience of market-based contracting. Without strong expertise in the area of market-based services delivery, contractual management and the monitoring of services delivery is difficult for the public

sector. Grimshaw et al. (2002) refer to an IT partnership between a government department and a company in which new IT systems were developed. Due to the lack of knowledge of the public sector staff in this area the government department was unable to assess and control the output performance. These factors lead to a weak power position of the public sector in partnership arrangements.

The fallback position is the third source of power. Three theories of power in exchange networks deal with the impact of the fallback position: equidependence theory (Cook and Yamagishi 1992), expected value theory (Friedkin 1986) and exchange-resistance theory (Markovsky et al. 1988). These theories assume that actors are sensitive to their alternatives (or lack thereof) and, as a result, to the option that they can exit from a particular relationship. An actor is more powerful than the other if he has better alternatives than the other actor. Public sector organisations are often faced with the fact that they can not allow certain services to fail (Shaoul 2003). Flinders (2005) mentions several PFI projects in which the public partner had to subsidise certain services because the projects were in danger of failing. The public sector organisation may have less exit options than the private provider because it may has lost the know-how necessary to deliver the scoped services. As a result the reintegration of the services could only be achieved to high political and financial costs. Moreover, sometimes the number of alternative providers may be limited. As the Committee of Public Accounts noted in 2003, the procurement of a PFI is less competitive because there is often only one bidder for a contract (House of Commons 2003).

The literature on power and public-private partnerships suggests that the private sector organisation has a power advantage in terms of its fallback position, authority and the possession of critical resources. As a result, the following proposition is derived:

WP 9:   *The private sector organisation is more likely to be in a more powerful position than its public counterpart.*

Many authors emphasise the unequal power relations in inter-organisational relationships and public-private partnerships (Kramer 1994, Syrett 1997, Hardy and Phillips 1998, Grimshaw et al. 2002, McQuaid 2000). This may cause conflict as one partner seeks to increase his benefit rather than the overall welfare of the partnership. Research indicates that conflict in alliances negatively relates to the effectiveness of the relationship (Bucklin and Sengupta 1993, p. 34). In particular, public-private partnerships are vulnerable to dysfunctional conflict "because there is no central authority to settle arguments and negotiate settlements" unlike in a single organisation with clear lines of authority (Alter and Hage 1993, p. 186). However, if both organisations in a public-private partnership accept the unequal distribution of power the collaboration will be more successful. In such a kind of collaboration there are less disagreements and strife about objectives and methods between the involved organisations. Hence, the ability of public and private organisations to maintain their partnership is increased when unequal power relations are accepted:

WP 10:   *The higher the partner's acceptance of unequal power relations, the higher the partnering capacity of public and private organisations.*

The next chapter goes on to summarise the propositions derived from the literature review.

3.3   Summary of Working Propositions

The working propositions are derived from the literature review and guide the empirical stage of the research process. The research process is described in chapter 4.1.4. The working propositions do not have the same function as hypotheses in quantitative positivist research designs. Hence, the working propositions are not tested; rather they structure the data collection and data analysis of this case study research. They help to identify the contribution of the empirical case to the three dimensions presented in the previous chapter. Chapter 7.2 links the working propositions to the empirical findings of the case study. The findings can support or contradict the working propositions. Table 12 summarises the working propositions:

Because of its theory-building approach this study aims to generate a comprehensive conceptualisation of partnering capacity. The research design allows to generate new propositions which are solely based on the empirical findings. New propositions should describe and explain those empirical phenomena which are within the scope of the research and not considered by the working propositions.

Table 12: Summary of Working Propositions

No.	Working Proposition
1	The objectives of private and public organisations are likely to conflict in a PPP setting.
2	An adequate incentive structure compensates for conflicting objectives and improves the partnering capacity of public and private organisations.
3	The lower the degree of conflicting individual objectives, the higher the partnering capacity of public and private organisations.
4	There is a positive relationship between the existence of partnership objectives and the partnering capacity of public and private organisations.
5	The higher the degree of the dissemination of objectives, the higher the partnering capacity of public and private organisations.
6	The culture of public organisations is likely to be different from that of private organisations in a public-private partnership.
7	The weaker the cultural differences between public and private organisations, the higher the partnering capacity.
8	The stronger the macroculture of a public-private partnership, the higher the partnering capacity of public and private organisations.
9	The private sector organisation is more likely to be in a more powerful position than its public counterpart.
10	The higher the partner's acceptance of unequal power relations, the higher the partnering capacity of public and private organisations.

Own Exhibit.

4.   Methodology, Methods and Data Analysis

This chapter introduces the research methodology and the methods for data collection and analysis. An interpretive case study approach is chosen as the research methodology. The limitations of a single case study design are outlined and the research process is introduced. Furthermore, the research methods – semi-structured interviews, observations and historical documents - are illustrated. The data analysis employs coding procedures to develop a conceptual framework for partnering capacity.

4.1   Research Methodology

The research methodology of the dissertation is located within the interpretive strand of case study research. The dissertation exhibits significant methodological similarities to extant research within the field of public management. Firstly, the thesis is clearly an empirical one. It falls in the tradition of public management research. As McCurdy and Cleary's (1984) review of public management dissertations illustrates, the majority of researchers conduct an empirical investigation. Later replications by White (1986) and Adams and White (1994) also reveal that empirical dissertations are the dominant type of research conducted. More than 80 percent of the public management dissertations are empirical (Adams and White 1994).

Additionally, compared to other applied fields, public management has the highest proportion of practice research dissertations (22 percent). Adams and White (1994) note that practice research is almost nonexistent in other disciplines. Practice research requires the researcher to be actively involved in the phenomenon under study. Adams and White's (1994) conceptualisation of practise research displays core features of action research as it has been described by Lewin (1946), Checkland (1985) and Baskerville and Wood-Harper (1996). Although the

dissertation is empirical and the author is to some extent professionally involved in the case that has been chosen for the study, an action research design was not selected. This was due to the fact that the author did not access the empirical case in such a way that he could participate at the change process. Intervention, however, is a pivotal feature of action research (Baskerville 1999). The author was employed by arvato, but was never a part of the British business unit that was involved in the phenomenon under study. As a result, the researcher could not introduce changes in the organisational setting and therefore could not fulfil a pivotal requirement for the application of action research. Additionally, it was not intended to apply action research because it would entail threats of uncontrollability, contingency and subjectivity (Kock 2004).

The next chapter introduces the interpretive strand of case study research and outlines its methodological assumptions. Subsequently, the method of selecting the empirical case as well as methodological limitations that arise from the application of case study research are described. The research process with its pre-empirical, empirical and theory-building stages is presented in the final chapter.

4.1.1 Interpretive Case Study Research

Several authors note that the case study has been the most favoured approach to research in public management (McCurdy and Cleary 1984, White 1986, Adams and White 1994, Jensen and Rodgers 2001). Adam and White's (1994) study reveals that 72 percent of public management dissertations conducted a case study. Compared to other applied sciences this high proportion is a unique feature of public management research. Yin (1994) views a case study as an empirical inquiry that investigates a contemporary phenomenon within its real-life context. Stake (1988, p. 258) defines a case study as "a study of a bounded system emphasising the unity and wholeness of that system, but confining the attention to those aspects that are relevant to the research problem at the time."

The dissertation applied a case study design because it aimed to investigate a contemporary phenomenon, a white-collar public-private partnership, within its real-life context. An advantage of case study research is its potential to develop an intimate and situative knowledge of actual management practices (Keating 1995). It has the potential to provide a detailed and comprehensive understanding of reality. The dissertation favoured the case study methodology because it enables an in-depth understanding of cause and effect relationships that other methodologies find difficult to provide (Jensen and Rodgers 2001). The research questions require an in-depth analysis of the complex human interactions in a collaborative private-public setting. A traditional positivist approach may miss rich details specific to each entity in a sample. The generation of a conceptual framework might be easier with a case study approach than a positivist one that works with a thinner set of empirical data across a large number of units. Although the case study approach is not necessarily qualitative, this research applies qualitative techniques and is located within the interpretive strand of case study research (Walsham 1995).

Interpretivism focuses on human interpretations and meanings in social and organisational contexts (Walsham 1995). Hence, interpretive researchers attempt to understand phenomena through accessing the meanings that participants assign to them. Checkland and Holwell (1998) argue that research into social phenomena requires a different paradigm than that of natural sciences because complex human processes are not "homogeneous through time" (p. 12). It has been illustrated by several scholars that interpretive research differs from positivist research (Lee, 1991; Hughes and Sharrock, 1997; Darke et al. 1998, Johnson and Duberley, 2000). Ontologically, the interpretive perspective emphasises that the social world (e.g. social relations and organisations) is produced and reinforced by humans through their action and interaction, whereas positivist researchers assume that an objective physical and social world exists (Orlikowski and Baroudi 1991). Epistemologically, positivism believes that universal laws can be discovered by applying the rules of formal and hypothetico-deductive logic (Chua, 1986; Lee, 1991). Contrary, the interpretive approach tries to understand and explain a phenomenon, rather than discovering fundamental laws. This perspective claims

that access to the world of the people being studied comes through interpretations of social constructions such as language and shared meanings which are created in a particular setting (Orlikowski and Baroudi 1991). The interpretive emphasis of this approach leads to the rejection of the researcher's ability to be detached from the phenomenon under study (Miles and Huberman 1994). Mainstream social science research which is rooted in positivism is underrepresented in public management research. In their review of public management dissertations Adams and White (1994) note that only 33 percent clearly adopt a mainstream approach.

As with many case studies the logic of the research process and the data analysis is influenced by grounded theory. Eisenhardt (1989), for instance, embeds grounded theory in case study research by transferring grounded theory techniques to case study research. The coding procedures and the iterative interplay between data collection and analysis phases during the research process are aspect that are shared by case study research and grounded theory. Eisenhardt also refers to the theory-building capacity of both approaches. Grounded theory was first presented as a systematic approach to data collection, handling and analysis in Glaser and Strauss' seminal work "The Discovery of Grounded Theory" (1967). Grounded theory can be viewed as being rooted in interpretivism. Several researchers portray grounded theory as an interpretive methodology because it assumes multiple realities and a socially constructed outcome of the research process (Denzin and Lincoln 1994, Brown 1995, Goulding 1998). Accordingly, in his article about the methodological foundations of grounded theory, Strauss (1987) emphasises the qualitative orientation of grounded theory and the pivotal role of interpretations in examining complex social phenomena. An interpretive case study approach fits the research questions of the dissertation because it enables develop a framework for partnering capacity.

4.1.2   The Selection of the Empirical Case

Stake (1995) and Yin (1994) assert that the selection of cases must be done so as to maximize possible insights within the given timeframe of the research project. Eisenhardt (1989) argues that cases are chosen for theoretical, not statistical, reasons. Accordingly, she refers to the notion of "theoretical sampling" to illustrate the selection of those cases which are likely to replicate or extend the emergent theory.

The dissertation intended to develop a framework for the partnering capacity of public and private organisations in white-collar PPPs. It was decided to carry out a single-case study to gain an intimate knowledge about the interactions between public and private organisations. This need for in-depth research is restricted by the fact that usually large-scale collaborations between public and private organisations are highly confidential and driven by political agendas of many stakeholders. Therefore, the conditions for academic in-depth inquiry are quite poor.

The partnership between the East Riding of Yorkshire Council and the private company arvato provided a unique accessibility. The East Riding case is more accessible than other white-collar PPPs because the private company has reached an agreement with the council that East Riding should become a showcase internationally (Keppler 2005, ERYC 2006). As a member of the German government services of arvato the researcher gained a unique research opportunity. Having access to a phenomenon that was previously inaccessible, the ERYC case exhibits the key feature of a revelatory case. According to Yin (1994) revelatory cases are conducted with a single case study design.

Because existing theories fail to address the question how the ability of public and private sector organisations to maintain a partnership is enhanced, it has been aimed to develop a model which addresses the new phenomenon "white-collar PPPs" by an in-depth elucidation of the East Riding case. In this regard, the case

study can be characterised as exploratory (Yin 1994). Eisenhardt (1989) argues that case study research is especially appropriate in new topic areas which are ignored or inadequately explained by existing theories.

4.1.3   Methodological Limitations

Most frequently discussed concerns usually pertain to the lack of scientific rigor associated with the case study as a research methodology. A major drawback is the low degree of statistical generalisability. However, Walsham (1993) argues that the validity of the inferences drawn from one or more cases does not depend on the representativeness of cases in a statistical sense, "but on the plausibility and cogency of the logical reasoning used in describing the results from the cases, and in drawing conclusions from them" (p. 15). As Bresnen (1988), Dunkerley (1988), and Turner (1988) suggest, case studies are capable of addressing generality if this is understood in theoretical rather than statistical terms. Accordingly, Yin (1994) notes that generalisation of results from a single case can be made to theory and not to populations. An interpretive case study design can produce insights of general applicability (transferable) to other situations by developing new concepts to explain the phenomena under study (Punch 2005). These concepts could provide insights for professionals and academics. As mentioned before, the case study chosen for this dissertation is unique because of its accessibility. A statistical generalisation is not the purpose of the research, rather it is aimed to articulate patterns and linkages of theoretical importance that help to conceptualise the partnering capacity.

4.1.4   The Research Process

The research process of the dissertation was in three main parts: the pre-empirical, the empirical and the theory-building stage. At the outset of the research project, a research area was identified. It was focused on public-private partnerships. In order to develop the research topic extant literature and the empirical context was briefly consulted. Although grounded theory views the a priori use of literature from a sceptical stance, the Straussian approach (Strauss and Corbin 1990) allows to focus data gathering on a specific topic. In particular, Yin (1994) argues that "theory development prior to the collection of any case study data is an essential step in doing case studies" (p. 28). Although Eisenhardt (1989) acknowledges the bias problem associated with an a priori understanding of the phenomenon under study, she recommends deriving constructs a priori from the literature. This may "help to shape the initial design of theory-building research" (Eisenhardt 1989, p. 536). In addition, an initial review of extant theories and literature facilitates the process of finding a research topic and developing appropriate research questions. It also enables the researcher to make a theoretical contribution by identifying a research gap. Adams and White (1994) point out that many public management dissertations using a case study approach exhibit a lack of theoretically-informed research which results in a "mindless empiricism" (p. 573).

In addition to a brief literature review, the empirical context shaped the research topic "Partnering capacity in white-collar public-private partnerships". Professional and academic experiences of the researcher are types of context knowledge which Strauss (1987) views as a valuable input in the research process. It is a common misconception that grounded theory requires the researcher to be "a blank sheet devoid of experience or knowledge" (Suddaby 2006, p.634). Certain knowledge about the empirical context, e.g. the emergence of white-collar PPPs in the UK, was necessary to limit the scope of the research area and select the research topic.

The research questions should reflect the phenomenon to be studied and previous knowledge about the topic shaped by the context and initial literature (Strauss and

Corbin 1990). Guided by a few research questions extant literature was reviewed in order to derive working propositions. After access to the empirical case was gained these working propositions drove the collection of the first set of data. The data were analysed by employing the coding procedures described in chapter 4.3. Subsequently, a second set of data was collected informed by insights gained from the first analysis. Eisenhardt (1989) views the iteration between data collection and data analysis as a key feature of theory-building case study research. The cyclic alternation between data collection and analysis expedited the analysis and revealed helpful adjustments to data collection and to the research questions. There was a feedback loop from the data analysis back to the pre-empirical stage because new empirical insights led to modifications of the research questions and propositions as well as required new theoretical input from the literature review. Three cycles were completed during the research project. In total, three research visits in East Riding were carried out to collect empirical data. The first visit took place in January 2007 and lasted four days. Interviews were conducted, observations were made and historical documents acquired. The second visit in April 2007 and the third visit in December 2007 took one week each.

After the empirical stage of the research process the working propositions are discussed by linking them to the empirical findings. Moreover, new propositions are generated based on insights provided by the case study. The new propositions should describe and explain those empirical phenomena which are within the scope of the research and not considered by the working propositions. Finally, the partnering capacity is conceptualised.

Figure 13 depicts the research process which is less sequential than mainstream research approaches. However, the development of working propositions to guide data collection and analysis indicates that the research process is more positive and deductive than pure interpretive and inductive approaches. The working propositions do not have the same function as hypotheses in quantitative positivist research designs. Hence, the working propositions are not tested.

Figure 13: The Research Process

Own Exhibit.
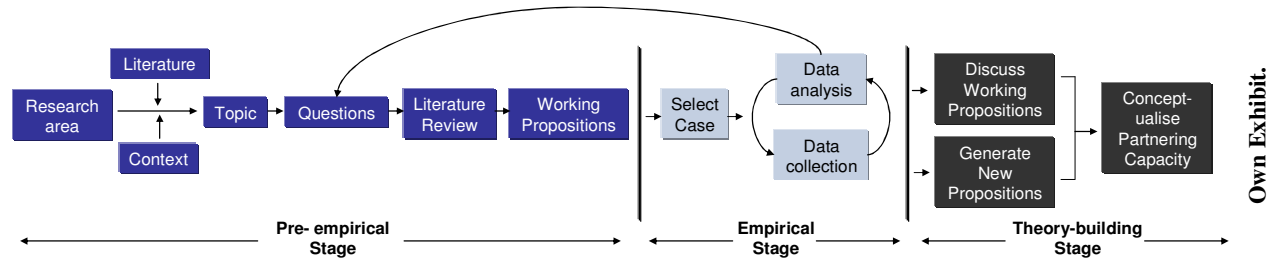
At the end of the empirical stage the council's Chief Executive, the council's Contract Manager, the council's Client Managers and arvato's Managing Director reviewed the empirical findings and gave their approval for publication.

4.2   Research Methods

During the empirical stage of the research project three data collection methods were employed: semi-structured interviews, observation and historical documents. To heighten the validity of the research and to gain a rich picture of the case, triangulation (Yin 1994) was applied by using multiple sources of data.

4.2.1   Semi-structured Interviews

Interviews were a primary data source because this method was best suited to access the interpretations that participants had pertaining to the ability to maintain public-private partnerships. Primary data are new data which are specifically collected for the purpose of the research (Saunders et al. 2003). Semi-structured interviews aim to discover the interviewee's point of view (Bryman and Bell 2003). This is of particular interest because what issues are identified as being part of partnering capacity depends on the individual's own interpretation of the context.

The dissertation applied semi-structured interviews because these allowed a better flow of conversation than structured interviews. A list of themes which was based on the research questions served as a guideline during the interviews. The themes varied slightly from interview to interview because each had a different focus according to the specific participant. Each theme comprised a number of questions. The questions were compiled from the literature review. An exemplary interview guide is attached in the appendix A3.

The preferred type of interview was the face-to-face interview because body language can then be observed. Moreover, this type of interview tends to be longer and more fruitful than telephone interviews (Shy 2002). In order to get a comprehensive view and not to miss valuable insights, employees from various levels were interviewed. Team leaders and service heads were questioned as well as the top management of both organisations. Appendix A2 provides a list of persons that were interviewed during the three research visits in 2007. Figure 14 provides a few examples of those people from the council and arvato which were interviewed:

Figure 14: Interviewees by hierarchical levels

Top Management (Core Group)	Managing Director, Chief Executive
Heads of Partnership	Contract Managers, Director of Operations and Client Services
Service Heads	Financial Assessments Manager, Revenues Manager, Support Manager, Client Manager etc.
Team Leader	Team Leader in Revenue Services, Team Leader in Financial Assesments, Area Team Leader (East)
Staff	Employee Representatives

Own Exhibit.

In total, 40 interviews with 28 participants from the council and arvato were conducted. Each interview lasted between 40 and 130 minutes. The interviews were recorded on a digital device in order to transfer them to a computer from which the material was analysed. The reliability of the empirical research was heightened by recording the interviews. The data analysis is described in chapter 4.3.

4.2.2 Observation

Observation was a primary data source as well. Participant observation was not applied because it "involves the researcher being a member of the field group, or at least becoming a temporary member for some period of time" (Walsham 1995, p. 77). This could result in bias because it is very difficult to asses the part the researcher has played in the matters being studied. Additionally, participant observation is too time-consuming for a two-year research project which was not directly tied to the researcher's job at arvato. The author was not professionally involved in the East Riding project. Hence, the role of the outside observer was chosen. The advantage of this is that the employees will often be candid because the researcher is seen as not having a direct personal stake in various outcomes and interpretations (Walsham 1995). However, it needs to be acknowledged that I was perceived as someone who works as an employee of arvato.

Data was collected by observation every time a visit at the East Riding of Yorkshire Council was made. Interview appointments and project team meetings were opportunities to make observations. To gain a rich understanding of the research environment attention was paid to several details, such as body language, clothing, room size, arrangements of desks, charts and the use of symbols. Observations were noted in a field report right after visits had been made and pictures were taken. For instance, at the second research visit photos of the entry of the Council's main building and the offices of private and public employees were taken. Observation data helped to gain valuable insights into the organisational culture of arvato, the council and the partnership. In order to limit researcher bias, observations were self-consciously evaluated by checking external and internal consistency (Lofland 1971).

4.2.3   Historical Documents

As pointed out by Stake (1995) and Yin (1994) documents and archival records are sources of evidence in case studies. Historical documents were a secondary data source. Documents enhance understanding through the ability to situate contemporary accounts within an historical context (May 2001). The dissertation used documents in order to gain an initial understanding of the organisational setting, prepare for interviews and deepen themes that arose from the interviews. Documents were also useful to reconstruct the first years of the partnership, such as the lead-in period and the bid process. Table 16 lists the documents that were obtained for the data analysis. Almost all 42 documents were used internally meaning that these documents could only be accessed with the organisations' approval. However, there were different stages of accessibility. Some of the listed documents were so confidential that they are not accessible to all employees involved in the partnership.

However, it is necessary to be cautious concerning the use of secondary data. As pointed out by May (2001), documents may employ unexamined assumptions about social life which could be reproduced in the research. Hence, documents were not viewed as 'social facts', but social and political constructions which may be based upon the interests of those who commissioned the research. For instance, press releases of public reforms tend to be euphemistic and uncritical. It is, thus, helpful to understand the purpose of each document.

Table 13: List of Historical Documents

No.	Document Name/ Type	Document Description/ Title	Access	Authored by
1	Partnership Agreement	Contract that specifies: Duration, Definitions, Licenses, Joint Venture Company, Monitoring, Employees, Termination, Service Requirements, Service Output Specifications, Capex Programme, Transferring Details, Policies, etc.	Internal	arvato & Council
2	Corporate Brochure	The new standard in business process outsourcing: arvato government service – a better way	Open	arvato
3	Article	Benchmarking im Rathaus: Bertelsmann Tochter steigt als Dienstleister in britische Kreisverwaltung ein	Open	Keppler (2005)
4	Website	East Riding News: Authority is improving strongly for star qualities	Open	Council
5	Report	Performance Review: Final Monthly Report for March 2006	Internal	arvato & Council
6	Report	Quarterly Business Review: January-March 2006	Internal	arvato & Council
7	Movie	Commercial Movie about the partnership	Open	arvato
8	Manual	Quality Manual	Internal	arvato
9	Internal Newsletter	BFS Finance: Billing Solutions, Issue 05/2005: Special "East Riding"	Internal	arvato
10	Powerpoint	Presentation held by the chief executive of the council at the away day in March 2007	Internal	Council
11	Powerpoint	Public-Private-Partnership (PPP) am Beispiel des "East Riding"-Kreises, Great Britain	Open	arvato
12	Powerpoint	Internal slides covering communication procedures, information concerning the bidding stage	Internal	arvato
13	Org Chart	Team Structure of arvato government services	Internal	arvato

14	Newsletter	Spotlight Issue 5/2006, the arvato government services newsletter	Internal	arvato
15	Org Chart	Corporate Management and Senior Management Teams of the Council	Internal	Council
16	Newsletter	Revenews Issue 1: Partnership and Commercial Services	Internal	Council & arvato
17	Powerpoint	Internal presentation by corporate training, Integration of the CTU & ICT Training Teams	Internal	arvato
18	Job Scope Document	ICT and eGovernment, Internal Procedures 06/08/07	Internal	arvato
19	Requirements Specification	Software Requirements Specification for ICT and Central Training Systems Merger, Dec. 2006	Internal	arvato
20	Service Area Report	Project Initiation Document: ICT and Central Training Merger	Internal	arvato
21	Service Area Report	Proposal for Using One Application for ICT and Central Training Admin	Internal	arvato
22	Org Chart	HR Organisation Chart, Occupational Health Organisation Chart, Payroll Organisation Chart	Internal	arvato
23	Service Area Strategy	Occupational Health Unit: Key Strategic Issues	Internal	arvato
24	Service Area Report	Occupational Health Unit: Service Critical Issues	Internal	arvato
25	Educational Document	The Chameleon Concept, Wonderful World of Outsourcing	Internal	arvato
26	Flowchart	Council Tax collection flowchart	Internal	arvato
27	Service Area Strategy	Collection Roadmap, Collection and Recovery Strategy for Debts owed to the Council	Internal	arvato
28	Service Area Report	Report to the PPP Board, Collection Roadmap	Internal	arvato
29	Service Level Agreement	Court Action – Council Tax and NDR	Internal	Council & arvato
30	Org Chart	Organisational Chart of Retained Structure PCS	Internal	Council
31	Org Chart	Organisational Chart of Customer Centric Services	Internal	arvato
32	Service Level	Sensitive Issues Protocol	Internal	Council &

				arvato
33	Payment Model	Financial Assessments Payment Mechanism	Internal	arvato
34	Report	Report to Audit Commission: Code of Corporate Governance Review, June 2006	Internal	Council
35	Performance Report	Performance Reports, Key Performance Indicators	Internal	Council
36	Website	East Riding named as best authority for managing finances	Open	Council
37	Bid Document	Bid Requirements: Best and Final Offers, Instruction to the Bidders	Internal	Council
38	Bid Document	Invitation to Negotiate	Internal	Council
39	Steering Meeting Document	Lead In Plan PPP arvato/ East Riding of Yorkshire Council, July 2005	Internal	Council & arvato
40	Partnership Agreement	Conctract for Dummies	Internal	arvato
41	Suggestion Scheme	Arvato suggestion scheme	Internal	arvato
42	Newsletter	Department for Work and Pensions (DWP) Magazin: moredirect: Case Study East Riding	Open	Magazin
43	Corporate Strategy	Strategy Meeting April 2008	Internal	arvato
44	Powerpoint	Case Study East Riding of Yorkshire Council: Two Organisations, One Vision	Open	arvato
45	Bid Document	Case Study East Riding of Yorkshire Council: Data Sheets on Customer Service 1-31	Internal	arvato
46	Protocol	Protocol between arvato government services (ERYC) Ltd, Council Service Heads and the Council's Contract Manager: Empowerment at Level A and Upward Referral	Internal	Council & arvato
47	Action Plan	Action Plan agreed on the joint away day in March 2007	Internal	Council & arvato
48	CPA	Comprehensive performance assessment Improvement reporting	Open	Audit Commission

49	EDR	2003-04 East Riding Of Yorkshire Council		
		A Guide to Employee Development Reviews	Open	Council
50	Council Business Plan	Council Business Plan for 2005-2008, 2006 Update	Open	Council
51	Council Business Plan	Three Year Business Plan and Summary of Accounts, 2007 Update	Open	Council

Own Exhibit.

4.3   *Data Analysis*

The dissertation employed coding procedures to analyse the collected data. Primarily, the Straussian approach to grounded theory analysis was followed. The essential idea behind the data analysis was to generate a conceptual framework for a partnering capacity. Types of data were observation notes, transcribed interviews, and historical documents.

Contrary to the data analysis approach advocated by Strauss and Corbin (1990), this research project identified a core category before entering the field. A core category represents the central theme in the data. The dissertation defined the partnering capacity concept as the central theme of the research and therefore set the boundaries of the research scope in advance. The propositions derived from the literature review also guided the data analysis. As a result, the coding procedures were delimited to those pieces of data that related to the partnering capacity as the core category. The task of the data analysis was to specify and enrich the concept of the partnering capacity. Hence, the abstract concepts that are built around the core category needed to be identified. This was done by labelling pieces of data. A piece of data could be a word, a sentence or a section of a document. Coding (labelling) proceeded line by line when rich parts of a document were analysed. This detailed examination opened up the conceptual possibilities hidden in the data. After abstract concepts had been discovered, links between the different concepts were searched. The constant comparison worked out the dimensions and

relationships between the abstract concepts that formed the core category (partnering capacity).

Cognitive mapping proved to be a useful method to label and integrate data. The coding procedures were supported by the software "Mindjet MindManager Pro 6". Figure 15 depicts the first stage of analysis of an interview. An advantage of the software was that different levels of abstraction could easily be displayed.

Figure 15: Labelling Data with Mindjet MindManager
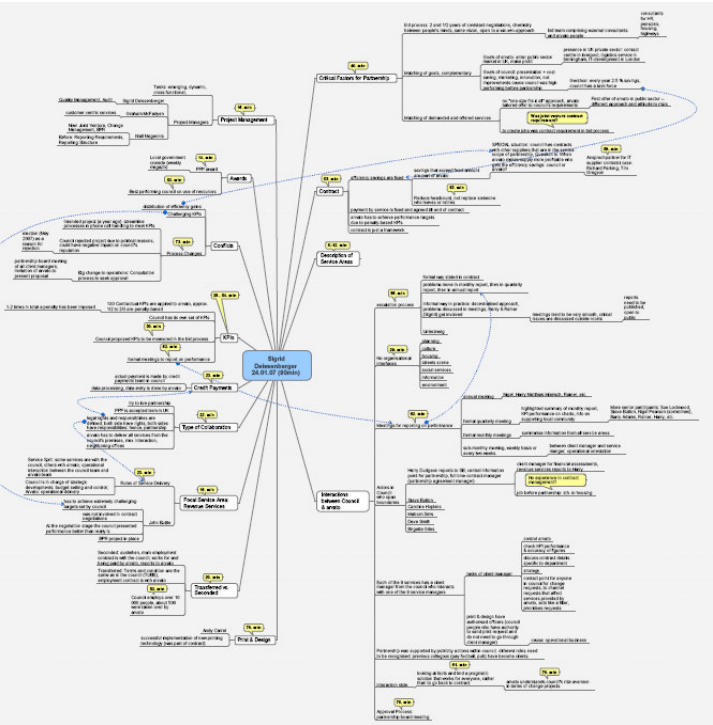
Own Exhibit.

An element specific to this dissertation is the critical incident-based analysis of the empirical data. Interviewees were asked to provide real-life examples that underline their statements. Consequently, several critical incidents were mentioned

that represented issues that were central to the concept of partnering capacity. These events were recorded in a *Critical Events Log* and linked to the abstract concepts that define the partnering capacity.

5.   Case Outline

This chapter briefly introduces the key aspects of the case study in order to enable a basic understanding for the subsequent presentation of empirical findings and the discussion chapter. The actors, the bid process and the main elements of the public-private partnership between the East Riding of Yorkshire Council and arvato are described. The bid process is included in the case outline because the empirical findings suggest that the ability of the council and arvato to maintain their partnership significantly depends on decisions made during the procurement of the PPP.[14] The case description concludes by presenting the three main elements of the public-private partnership: business process outsourcing, joint venture and job creation.

5.1   The Actors

This chapter introduces the organisations who have launched the white-collar public-private partnership: The East Riding of Yorkshire Council and arvato.

5.1.1   East Riding of Yorkshire Council

The East Riding of Yorkshire Council (ERYC) is the largest unitary council in England by area, and second largest council in terms of population. The council covers an area of 241 617 hectares and has an estimated population of 327 400. With an equivalent of over 9 000 full time employees[15] the council is one of the biggest employers in the area. Over half of the population lives in rural communities, many of which are small, scattered and geographically isolated

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[14] For instance, decisions made on the payment mechanisms, monitoring, communication procedures and the termination of the contract.

[15] Teachers and casual employees are not included.

(ERYC 2007). The East Riding has an average of 1.3 people per hectare, whereas the English average is 6.4 people per hectare. Of 173 Towns and Parishes, only 7 have a population of over 10,000. The two main settlements are Bridlington (33 500) and Beverley (30 000). Generally the area appears affluent however some ward areas have high deprivation levels due to the structural changes of the last decades.

Since the council was formed in 1996 it has gained a national reputation for its innovative approach to the delivery of public services. Awards and achievements include:

- Beacon Council status in 2002, Charter Mark, Quality Mark for Customer Service Network
- LGC Award - Improving Services with E- Technology in 2000: Winner
- IIP since January 2000
- CPA end of 2002: Good
- CPA end of 2003 & 2004: Excellent

The council provides a wide range of services to the residents of the East Riding, including the following (ERYC 2007):

- The council deals with over 390 000 enquiries per year through the network of Customer Service Centres, Citizen Links and Customer Contact Centres
- The council is a major landlord, providing and maintaining over 11 000 homes for local people and undertaking approximately 44 000 Council house repairs a year
- The council empties more than 7 million bins each year, removing an average of one and a quarter tons of rubbish from each household
- The council provides 159 schools and employs over 2,800 teachers to educate more than 50,000 children and young people
- The council publishes and distributes 142,500 copies of East Riding News every month

- The council helps over 2 800 older people, over 400 people with physical disabilities, over 300 people with learning disabilities and over 350 people with mental health problems to live at home.
- The council provides and maintains 13 leisure and sports centres, 55 playing fields, 31 play areas, 17 countryside and picnic sites, 2 entertainment venues and a caravan park.
- The council provides 24 public libraries, 5 mobile libraries, 4 travelling libraries and a community services mobile library for residential homes, issuing 1.75 million items, receiving 1.1 million visits and answering 250,000 enquiries, every year.
- The council is responsible for over 2,000 miles of road with 39,000 streetlights and 4,000 illuminated signs.

5.1.2   arvato

arvato is an international media and communication service provider. The company is part of the Bertelsmann group which is one of the world's leading media organisations. Bertelsmann comprises the corporate divisions RTL Group, Random House, Gruner + Jahr, BMG, arvato and Direct Group. Within the Bertelsmann group arvato is one of the long-established divisions. It is the largest division in terms of the number of employees, and the second largest in terms of revenue. More than 46 000 employees operating in 37 countries achieve a revenue of 4,782 billion Euro (Bertelsmann 2006). arvato offers printing services, data management, logistics, financial clearing, mobile services, service centers as well as IT and customer services (arvato 2007). The arvato AG comprises the divisions: arvato print, arvato services, arvato storage media and arvato systems.

Figure 16: Bertelsmann group: Number of Employees by Division
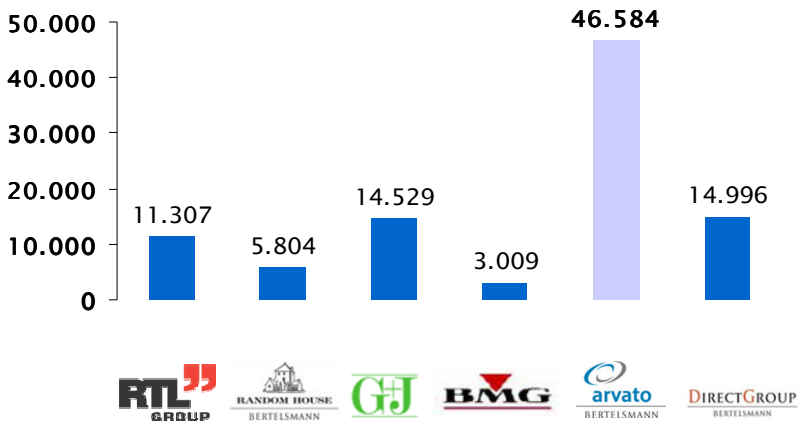
Adapted from Bertelsmann (2006).

arvato services is Europe's leading provider of business process outsourcing services. arvato services provides logistic and supply chain solutions, fulfilment and distribution services, customer relationship management, customer loyalty programs, media services, commercial design and printing, financial services, e-commerce and on-demand technologies (AGS 2006). Clients are from the automotive, telecommunications, IT, media, financial services, healthcare and travel markets. A new area of growth is the public sector. The division *arvato government services* is part of arvato services and was established to transfer its international outsourcing know-how and expertise to the public sector. The corporate brochure outlines the role of arvato government services which is:

> "…to develop genuinely different customer-focused, public-private sector partnerships with local authorities throughout the country. We are unique in UK outsourcing in offering public sector clients proven private sector experience gathered from working with some of the world's top companies. What makes us special is that we combine our private sector expertise with a strong public sector ethos." (AGS 2006a, p. 3)

5.2   The Procurement Process

In October 2002, the East Riding of Yorkshire Council decided to set up a public private partnership. In January of the following year the Council despatched a notice in the Official Journal of the European Communities (OJEC) to invite companies to launch such a partnership (BSF 2005). The OJEC is an online portal that provides information on tenders both to purchasers and suppliers. arvato registered by answering a pre-qualification questionnaire. As one of four companies arvato was selected by the council to proceed to the next stage of the bid: the Invitation to Negotiate. The level of detail required for a successful response involved various areas of expertise that were covered by the arvato bid team. The bid team comprised expertise from BFS finance in Ireland, arvato services in the United Kingdom, arvato services and arvato systems in Germany, as well as a number of external consultants offering specialist knowledge to specific areas of the bid. Over five months the team compiled a response to the Invitation to Negotiate, and in August 2003 submitted an 1800 page proposal to the council.

In October 2003, the council informed arvato that it had been shortlisted as one of two remaining bidders to submit a Best and Final Offer (BAFO). After four months of further analysis a 1500 page document was submitted by arvato as the BAFO response. After a two-month review process, in April 2004, the council selected arvato as Single Preferred Bidder. The council invited arvato to submit a Final Offer. After six months of intense negotiation arvato submitted a Final Offer to the Council in October 2004.

Figure 17: The Procurement Process

■ **December 2002 - February 2003: Questionnaire for Pre-Qualification**
9 bidder

    ■ **May - August 2003: Invitation to Negotiate**
    4 bidder invited, 3 offers (Capita, Liberata, arvato)

        ■ **November 2003 - February 2004: Best and Final Offer**
        2 bidder invited (Capita, arvato)

            ■ **June – October 2004: Final Offer**
            Invitation of arvato

                ■ **October 2004: Approval Bertelsmann**

                    ■ **February 2005:**
                    Approval Full Council

                        ■ **Oct 2005:**
                        Commencement
                        Date

12 /02   05/03   11/03   06/04   10/04   02/05   10/05

Adapted from AGS (2007).

In December of 2004, the council's Corporate Management Team and Project Board accepted arvato's Final Offer. arvato presented details of the Final Offer to the 67 elected members of the Council in January of 2005. The elected members voted in favour of arvato's proposal and invited arvato to enter into final contract negotiations. In September 2005, the partnership agreement was signed and a month later the public private partnership was launched.

5.3   The Partnership

The main elements of the public private partnership between the East Riding of Yorkshire Council and arvato government services are the business process outsourcing[16] of corporate and central support services, the joint venture company and the creation of jobs. The contract length of the partnership is eight years and the total contract value is 140 Mio. GBP. The strategic objectives of both partners are not illustrated in this section because they are part of the empirical results (chapter 6) and the discussion (chapter 7). The partnership is already a showcase for successful collaboration between private and public organisations. Customer satisfaction surveys show that 98 % of respondents were satisfied with the staff, the information that was given, and the overall service. Moreover, the scoped services and the PPP have won several awards and received national recognition, such as:

- LGC Award – Best Public-Private Partnership 2007: Winner
- APSE Award – Best Public-Private Partnership 2007: Winner
- Retained CharterMark 2007 and 2008
- Performance Awards 2006: Benefit Team of the Year
- Performance Awards 2007: Finalist Revenues Team of the Year
- Local Government Association: Best Newcomer 2007
- Audit Commission – Best Authority for managing finances 2007: Winner

At the 01st October 2005 corporate and central support services of the council were handed over to arvato government services. In addition, 517 full time equivalents (FTEs) were transferred from ERYC to arvato. The scoped services included nine service areas which can be categorised according to the front-office/back-office model. Front-office services directly deal with the customers of an organisation. In the East Riding case, the front-office delivers revenue services, financial assessments and customer services to residents and businesses in the region. More information on these services is provided by table 14.

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[16] Please refer to chapter 7.1 for an analysis on the question if the collaboration between ERYC and arvato should be denoted as a PPP or an outsourcing deal.

Table 14: Scoped Services (Front Office)

Revenues	Financial Assessments	Customer Service
Council Tax and Business Rates billing Collection and recovery Rent processing & collections Corporate billing	Housing and Council Tax Benefits assessments and payments Student finance	Customer service network Citizenlinks Contact centres Enquiry points

Own Exhibit.

Back-office services provide administrative and support services which are not visible to the general public. Arvato delivered the following back-office services to the council: payroll services, creditor payments, ICT services, print and design, training and occupational health.

Table 15: Scoped Services (Back Office)

ICT	Training	Payroll	Occupational Health	Print & Design	Creditor Payments
IT infrastructure IT services, helpdesk IT applications, systems development IT training	Accredited training E-learning programmes Management development Induction	Calculation and payment of: • Wages • Salaries • Pensions	Health advice to managers and employees	Print, finishing and design services Copy centre CD/DVD production Digital photography Braille and large format printing	Processing of: • External supplier invoices and credit notes • Council, school and other staff expenses and allowances

Own Exhibit.

Each of the nine service areas is headed by a service manager. His counterpart from the council is the client manager who monitors the performance and develops the service strategy. The second element of the public-private partnership is the joint venture company. Arvato and the council created a joint venture company in which arvato has a 80.1% share and ERYC a 19.9% share. The joint venture is designed to market the scoped services primarily to public sector organisations.

The third element of the collaboration between the council and arvato is the creation of jobs. Arvato had guaranteed the council to create at least 600 new jobs within the first four years of contract commencement. To achieve this ambitious target a call centre for the provision of services to the public and private sectors was launched in the East Riding area.

6. Empirical Results

This chapter presents the empirical findings without referring to the theoretical constructs stated in the literature review. The aim of the chapter is to provide the empirical grounding for the analysis and interpretation following in chapter 7. The analysis of interviews, observations and historical documents revealed reoccurring themes which were central to the ability of the East Riding of Yorkshire Council and arvato government services to maintain their partnership. The first stages of the coding procedures suggested five themes necessary to conceptualise the partnering capacity. These themes include the strategic objectives (chapter 6.1), the contract management (chapter 6.2), the staff transfer and organisational heritage (chapter 6.3), the performance management (chapter 6.4), and the council's retained side (chapter 6.5).

These themes deliberately comprise relatively raw data which are merely guided by the research questions and do not directly refer to theoretical accounts reviewed in chapter 3. The advantage of this approach is that new elements relevant to the concept of a partnering capacity can be described, discussed (chapter 7.3) and included in the conceptualisation of the partnering capacity (chapter 8.2). The succession from chapter 6 to chapter 8 represents the different stages of coding process ranging from relatively raw empirical data to the partnering capacity framework. An element specific to the presentation of the empirical results is the inclusion of irregular, but critical incidents. These incidents are temporary in nature and often limited to a specific service area. However, they ideally demonstrated issues that underpin the partnership and are vital to developing the concept of partnering capacity.

6.1 Strategic Objectives

The following sections present the objectives of the East Riding of Yorkshire Council and arvato government services. Interviewees from both the council and arvato emphasised the role of mutually pursued and clearly stated objectives for the success of the partnership. The council's Director of Corporate Resources pointed out that the council had to define its objectives before the commencement of the procurement process:

> "The starting point, really, for me is if you going to enter into a partnership you have got to have a clarity of vision: What do you want to achieve? What are your core objectives?"
> Sue Lockwood, 08.03.07

The presentation of the empirical data starts with the objectives of the council (chapter 6.1.1) and continues with the objectives that are pursued by arvato (6.1.2). Both chapters illustrate the political or commercial context that motivated the launch of the partnership. Finally, the shared objectives of the council and arvato are addressed in chapter 6.1.3.

6.1.1 The Council's Objectives

The data analysis of the interviews and historical documents revealed a multitude of objectives and reasons for establishing the public-private partnership. Nevertheless, three key objectives of the council could be identified which target on the performance of the scoped services, the economic regeneration of the region and the business development of the scoped services.

By entering the public-private partnership with arvato the council aimed to achieve and maintain ***top 10 % performance*** within the scoped services. In local government, top 10 % performance is measured against the key performance

indicators in the service areas of a particular council and compared with the performance achieved by other local authorities in England for the same or similar services. In addition, the council strived for high quality services and at the same time cost effective and efficient services. To improve the efficiency and reduce costs in the provision of corporate and central support services, the private partner should introduce new technology and new ways of working.

The rationale behind this ambitious service objective was predominantly the introduction of various policies from central government. Especially, the Gershon Report and the Comprehensive Performance Assessment set the national context which is a driver for local authorities to improve constantly. The Gershon Report ((HM Treasury 2004)) expects local authorities to streamline the back office, procurement, transaction service and policy-making functions. The report proposes efficiency savings in local government of 2.5 per cent per annum. Moreover, the Government's Comprehensive Performance Assessment (CPA) introduced by the Local Government White Paper 'Strong Local Leadership – Quality Public Services' in 2001, ranks every council into one of five categories. This classification ranges from 'poor' to 'excellent' and effectively creates a league table of local government performance. Each local authority is measured against its Best Value performance levels and targets, inspection and audit reports, corporate governance assessment and self-assessment. Better performing councils are freed from central government restrictions and receive more control over their budgets. Another incentive is that a good ranking in the CPA leads to a good reputation of the local authority that is recognised by citizens and other councils. Traditionally, poor performing councils view an opportunity in establishing public-private partnerships to improve their CPA ranking.

In contrast, the East Riding of Yorkshire Council was already a top performing local authority as it started the procurement process. As a result, Sue Lockwood, the council's Director of Corporate Resources, pointed out that the public-private partnership is not just focused on the performance of the scoped services but also a

way to attract and keep staff and to improve socio-economic conditions in the East Riding:

> "We had strongly performing services and a very good reputation. So we did not need somebody to come in and clean it up and sort it out. We wanted someone who would come in and take something that was successful forward in future years, but who was committed to working with the Council in achieving the other things that matter to us: economic development, addressing recruitment difficulties, target age groups over 50s or areas of deprivation."
> Sue Lockwood, 08.03.07

Hence, the second key objective of the East Riding of Yorkshire Council was to tackle *economic regeneration* by looking for a private sector partner that had the ability to create new employment and to safeguard jobs and services in the East Riding. In particular, those areas in the East Riding which suffer from high levels of deprivation should be addressed. Additionally, the job creation should target inhabitants which are over 50 and placement programmes for young people and students should be launched. To achieve this objective the council engaged arvato to provide 600 new jobs within four years after the contract commencement by establishing a regional business centre. The Council set milestone targets for the creation of jobs. Two years after the launch of the partnership arvato had to recruit at least 75 people. There are further milestones in the third and the fourth year of the partnership. In 2007, arvato launched a call centre that delivers customer services for arvato's business clients in the United Kingdom. The first milestone was met by creating 80 jobs in the East Riding. If arvato fails to meet the milestones heavy financial penalties are due. The penalties are against the annual contract payment for all scoped services. The financial model of the contract is explained in chapter 8.2.2. The council's Chief Executive Nigel Pearson views the launch of a regional business centre as a strategic opportunity to support economic development within the East Riding:

"What we have seen in the East Riding and Hull over a period of 40 years or more are long-established companies of local origin which, over the years, have grown to international status leaving the area and taking their headquarters to London. A particular recent example of a major company moving elsewhere is Northern Foods. A company like Bertelsmann, once established in a business centre, employing 600 people could act as a catalyst to attract further overseas investment and jobs into the area. If this succeeds this would give tax payers a return from the deal which they could not have hoped to have realised. This is about seeing the bigger picture. People think that we only deliver Council Tax bills and provide a refuse collection service but, of course, we do much more and run a wide range of services but this is only part of the story. Our vision is to use the resource and machinery of the council to achieve wider community objectives to develop the local economy in an innovative way. That is the vision of this partnership and what we hope to achieve from it working with arvato."
Nigel Pearson, 08.03.07

Looking at the bigger picture is important for the East Riding because the UK government had been very keen to facilitate regional delivery of local government services, such as local council tax, payroll and benefits. The services from different local authorities could be consolidated and delivered by a single regional shared services centre for several councils, rather than being provided individually at the local level. A shared services centre in major urban centres like West Yorkshire might compete for jobs and services that are delivered in the East Riding. The council saw the partnership as an opportunity to secure jobs in the East Riding and to place the East Riding in a strong position for a regional shared services centre.

Harry Dodgeon, the council's Contract Manager, and Councillor Stephen Parnaby, Leader of the Council, explained the strategic thoughts of the council as follows:

"The partnership was possible in the first place because the council services involved were already high performing. The trend to deliver these kind of services on a regional basis could have been a threat to the East Riding but instead we have got a strong and sustainable partnership that protects existing jobs and creates new ones. It's a win-win situation."
Stephen Parnaby in the council's PPP-brochure

> "The threats that the council saw back in 2000 when it started the procurement process were used as a driver to look for a partner that would turn those threats into opportunities and bring jobs and services here rather than seeing them go elsewhere."
> Harry Dodgeon, 09.03.07

The third key objective of the council was to **market and sell the scoped services** to local authorities throughout the UK. To capitalise on the partnership, the council and arvato launched a joint venture company which should create business opportunities in the local government sector. The council and arvato aimed to establish the East Riding as a centre of excellence and a showcase for best practice in local government services. Additionally, the partnership should become a showcase for cooperation between a private and public organisation in local government.

6.1.2   Arvato's Objectives

Arvato pursued three objectives by establishing the partnership with the East Riding of Yorkshire Council: arvato wanted to enter the public sector market, set up a profitable business case and in the long-run become one of the leading providers for public-private partnerships in the UK. Rainer Majcen, the Managing Director of arvato government services, said:

> "The objectives were to get a foothold into this market, to deliver a successful partnership in the sense of meeting the business case and by this demonstrating to other authorities that we can do this sort of deal and then growing it from there."
> Rainer Majcen, 22.11.07

The corporate strategy of arvato is to develop in three dimensions: new countries, new industries and new services. The PPP with the East Riding of Yorkshire Council did not contribute to the development of new services or new countries. The services provided to the council are similar to those offered to private sector

clients from the automotive, financial, retail, telecommunications and IT industries. Table 16 compares arvato's private sector expertise with some of the scoped corporate and central support services of the East Riding of Yorkshire Council:

Table 16: Match of Arvato's Private Sector Expertise and Local Government Services

Scoped Services	Arvato's Private Sector Expertise
Revenue Services Financial Assessments Creditor Payments	Arvato is a leading service provider for creditor payments and payment transactions. Customers are, for instance, Google, Microsoft and AOL.
Customer Service	Arvato is Germany's market leader in customer relationship management and call centre solutions. More than 11 000 employees work for customers like Microsoft, Lufthansa and Deutsche Bank.
IT	The division arvato systems supports the worldwide infrastructure of the Bertelsmann group and provides IT solutions to external customers. More than 1000 people are employed worldwide.
HR Services	The human resources department of the Bertelsmann group provide services to 88 000 employees worldwide.
Print & Design	Arvato is the largest European printing company.

Adapted from AGS (2007).

Additionally, arvato is already located in the UK. There are sites in London, Birmingham, Dublin and Liverpool. The public-private partnership with the East Riding of Yorkshire Council was the first of its kind for arvato and therefore was the *market entry* into the public sector outsourcing and PPP market. The public sector market was seen as a new area of growth and fit quite well into arvato's strategy to provide services to new industries. By analysing publications on the market size arvato estimated that the public sector outsourcing market in the UK is worth over £4 billion. The biggest part of this market is central government with £1,5 billion. The local government market has a value of £1,4 billion (AGS 2007).

The second strategic objective of arvato government services was to demonstrate the ability to deliver a *profitable partnership* in the public sector environment.

Hence, the East Riding partnership should become a showcase internally and externally. It should fulfil the financial expectations of arvato's top management in Germany and it should serve as a reference for further acquisitions in the local government market.

Figure 18: Providers in Local Government BPO market (excl. subcontractors)

Adapted from AGS (2007).
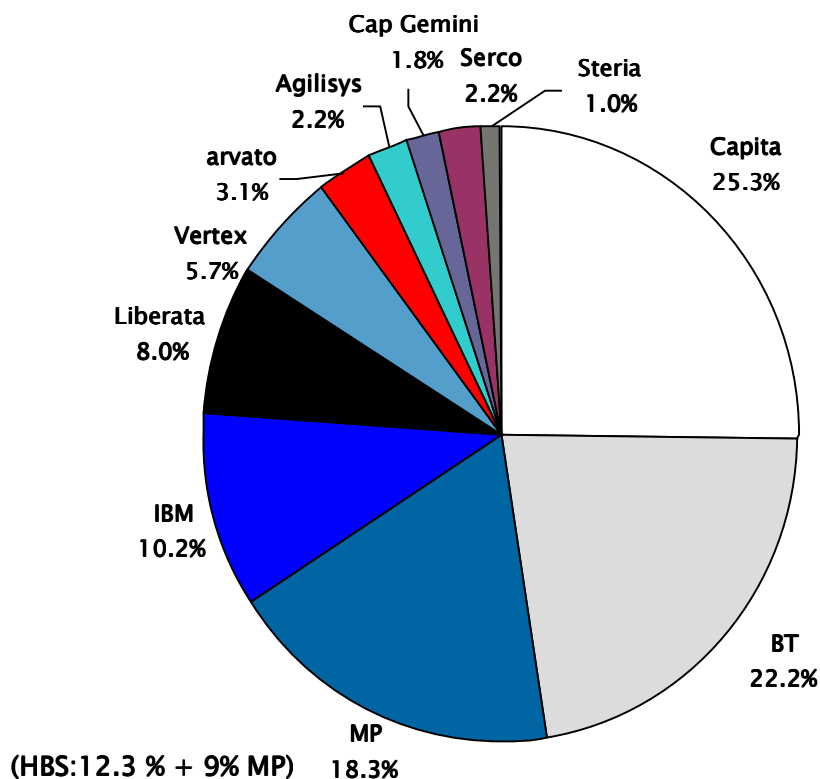
After entering the market and delivering a profitable partnership, arvato aims to grow by selling services to other local authorities. Arvato government services intends to become **one of the leading service providers** within the local government market. As illustrated by figure 18, the four leading provider in the

local government business process outsourcing market are Capita, BT, MP and IBM. Capita is the largest provider for local government services.

6.1.3 Shared Objectives

This section describes to what extent the objectives of the East Riding of Yorkshire Council and arvato government services are shared. According to almost all interviewees there is no difference between the council's and arvato's objectives. In particular, lower-level staff from arvato and the council's employees said that the council's objectives are the same as arvato's objectives. This perception might be due to the fact that certain objectives are mutually pursued by both parties or that the objectives do not necessarily conflict with each other. Moreover, the council's objectives were officially declared as the objectives of the PPP.

In particular, the success of the joint venture company is an objective that is shared by both parties. ERYC has a 19.9 % share in the joint venture and participates at the annual joint venture meeting. Sigrid Deissenberger, arvato's Bid Manager, points out that the council can benefit from the joint venture company in terms of financial and reputational issues:

> "When they set up the partnership contract they wanted to have excellent services for East Riding, they wanted to have local jobs and they wanted to establish themselves in the UK as a nationally known excellent council. And that comes through the joint venture marketing. So I think there is a fair interest in the council in making the joint venture successful. And ultimately they benefit from the joint venture when they receive a proportion of the profit.
> Sigrid Deissenberger, 05.12.07

Consequently, David Smith the council's Head of Human Resources said in an interview that "it is in all our interests for arvato to prosper in this industry." That attitude is apparent in the involvement of council's employees in the joint venture work. Some of the council's managers help to compile and review bid responses.

Additionally, there is a regular contact to the council's Assistant Chief Executive, Andrew Milner, who is in charge of ERYC's communications. For arvato, the joint venture work is essential in order to achieve its growth objective.

In the first place arvato wanted to enter the market for local government services. Hence, arvato was keen to pledge to meet all the objectives the council set up for the partnership during the procurement process. Because arvato did not have any track record in the UK public sector, the success of the partnership is important to provide a credible reference for the acquisition of new deals. In particular, the council's objective to achieve excellent performance in the scoped services supports the long-term goal of Arvato to grow in the market of local government services. Andy Carrel, the Marketing Manager of arvato, and Mike Williamson, arvato's client manager, said:

> "What we were looking to do with the East Riding is manage their services in terms of providing service excellence and meeting all of the council's ambitions. In doing so we are actually positioning arvato to secure new business. I think ultimately the long-term ambition of arvato is to use East Riding and the services we deliver here to get new business.
> Andy Carrel, 24.01.07

> "Certainly, there is a combined desire for the council to be a top-performing council because obviously that reflects well on our own CV for getting other contracts. […] And I think the view is if the council is successful we bask in their glory."
> Mike Williamson, 05.12.07

However, the council's objective of economic regeneration and arvato's objective to generate profit are not directly interlinked. Creating 600 jobs in the area can ultimately affect the financial success of arvato government services.

6.2   Contract Management

This section focuses on the role of the contract within the partnership. Chapter 6.2.1 describes the roles and responsibilities of arvato's and the council's contract managers by highlighting their performance reporting and monitoring, project-based and contract management tasks. Subsequently, the financial model is introduced in order to illustrate the main financial and contractual mechanisms that underpin the partnership (chapter 6.2.2). Chapter 6.2.3 points out how it is dealt with the contract in practice. It reveals that the contract management was seen by many interviewees as being situated between a strong emphasis on the contract and a focus on interpersonal relationships.

6.2.1   The Contract Managers' Roles and Responsibilities

Both arvato government services and the East Riding of Yorkshire Council appointed contract managers who manage the contract overall and look at elements of the contract which do not necessarily fall into the service areas. Harry Dodgeon, the council's Contract Manager, was experienced with contractual arrangements because he led on the procurement of the School's PFI for the Council. Additionally, during the 80s he was the client lead for compulsory competitive tendering in the housing department.

In the first year of the partnership, arvato's contract management was carried out by the Managing Director Rainer Majcen and the Project Manager Sigrid Deissenberger. As the Managing Director, Rainer Majcen is the authorised representative of arvato government services and therefore wholly accountable to the council for the partnership delivery. At the end of 2006, Rainer Majcen delegated these tasks to the newly established role of a Director of Operations and Client Services which was then carried out by Caroline Hopkins. Before she became Director of Operations and Client Services, Caroline Hopkins was

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seconded by the council for the first year of the partnership and was arvato's Head of Customer Centric Services. The reason for the change in the organisational structure was that Rainer Majcen wanted to facilitate the business development of the joint venture company and therefore needed to be less involved in the provision of the services. The contract-related tasks of the Project Manager were more operational. In May 2007, Sigrid Deissenberger became Bid Manager and her contract-related tasks were conferred on the newly established role of a Client Manager which was then performed by Mike Williamson. In the following, it is referred to arvato's Contract Manager to describe the work of the Cient Manager and the Director of Operations and Client Services. The latter is involved in more strategic issues whereas the Client Manager or the Project Manager carries out operational tasks.

The council's contract manager liaises with arvato's contract manager and both act as the central information point for the partnership. The contract requires regular information exchange between the two parties. The tasks of the public and private contract managers can be divided into contract management tasks, performance monitoring tasks and tasks that are induced by projects across the partnership.

The contract management tasks of the contract managers can be triggered by a contract variation, an event or a request. There are also fixed annual triggers, such as checking the renewal of arvato's annual insurances and registration in terms of data protection. A task that is triggered by an event is, for example, the notification of arvato about changes of the council's constitution following an election or changes of the council's policies that affect the service delivery. Contract management tasks that are dealing with specific requests are usually very different. They could be about the quality management that the contract requires arvato to implement within the service areas. Contract variations can be quite time-consuming because of their complexity. For instance, the Council opened the Petuaria Center in Brough, a multi-purpose facility incorporating a customer service centre, in August 2006. The service centre should be included in the Customer Service Network that is delivered by arvato. The contract managers had

to agree on prices for the additional work of arvato, opening hours, staffing levels and performance indicators. In addition, the assets of the service centre in Brough needed to be included in the contract's schedule of assets that had been signed over to arvato.

Another area of work is the monitoring of key performance indicators (KPIs) which measure the performance in each service area. The contract managers get together on a regular basis to discuss the performance of the services. The contract requires the contract managers and other members of both organisations to hold formal meetings. Once a month, they attend at a performance review meeting to review the performance monitoring reports, relief events that may have occured and any disputes in connection with the reports. In addition, the contract managers take part at the business review meetings on a quarterly basis to discuss aggregated information on performance monitoring and any matters that could not be resolved at the performance review meetings. The annual review meetings have a broader scope and are the forum to review performance monitoring, service volumes, the joint venture, economic regeneration and various strategic topics.

Most of the contract managers' work deals with projects across the partnership. An example is the introduction of a call center within Revenue Services that engaged both managers. The development of the services and the realisation of innovative projects could affect the partnership at large. Therefore, certain projects require the involvement of both contract managers.

6.2.2   The Financial Model

One of the key elements of the contract that might affect the partnering capacity of public and private partners is the financial model. The East Riding of Yorkshire Council and arvato government services agreed on a model which is, pertaining to its main features, characteristic for partnership and outsourcing arrangements in the UK. It was developed by the consultancy and auditor PricewaterhouseCoopers

during the procurement process. Richard Parkin, the Financial Manager of arvato government services, emphasised the role of the financial model for the partnership:

> "Once you have agreed this contract, it is very fixed. So it is essential that you get your financial model right before you start the contract because it underpins everything. […] It would be very difficult to change something significant there."
> Richard Parkin, 05.03.07

The financial model states that each month arvato submits invoices to the council for the provision of the scoped services. Each of the nine service areas is priced individually. In the first financial year, the council's payments to arvato equal the council's internal costs for the delivery of the services. In the following years, the council's payments are reduced each year. The most significant reductions are done in the first three years of the contract.

A unitary charge is linked to five out of nine service areas. Between 75 % and 80 % of arvato's revenue is fixed. The council pays arvato a fixed amount for delivering Revenue Services, Financial Assessments, Creditor Payments, Occupational Health and the Customer Services Network. Merely 20 % of the revenue are variable and based on demand. Training, Payroll, ICT and Print and Design apply transaction prices. For instance, arvato bills the council for the number of training hours that have been provided. The hourly rate arvato receives should allow arvato to cover all costs and make a margin. Although the services are charged on a transactional basis, the revenue of some service areas comprises fixed components. In Print and Design, for example, the council has guaranteed arvato a certain amount of revenue.

The main incentive for arvato is to reduce the costs of service delivery in order to make a profit. The financial model includes the risk that the payments of the council do not cover arvato's expenses for the provision of the services. The risk arises from the reductions of the council's service payments. Because arvato has to charge the council less for the provision of services each year it needs to reduce the

costs significantly. Contrary to public-private partnerships that are focused on infrastructure and construction projects, most of the costs of the partnership between the East Riding of Yorkshire Council and arvato government services are people. Approximately 80 % of arvato's costs across all services pertain to wages. An exception is ICT because there are a lot of maintenance contracts to look after servers, hardware, infrastructure and software. Arvato has renegotiated the contracts with different suppliers to get the same terms but lower prices. Most of the savings across all services are done by reducing the number of people. The Financial Manager of arvato government services explained the implications of the financial model as follows:

> "The way we have priced the model is that we will make savings in the number of employees. So the challenge for us, the risk for us, is that we have to deliver that. If we don't make those efficiencies, improve processes, we can't reduce the number of people."
> Richard Parkin, 05.03.07

There are three limitations to the realisation of headcount savings. Firstly, the staff was transferred on existing terms and conditions. The contract does not allow redundancies or redeployment. However, natural turnover of staff is an opportunity to make savings in the number of employees. The jobs of those people who retire or move to different employers may not be staffed again in order to reduce the costs of service delivery. Secondly, the contract determines the maximum profit arvato should achieve. Hence, headcount savings are limited by a cap on profit. Thirdly, arvato has to meet the key performance indicators which define the service levels in each service area. To some KPIs a financial penalty is attached in order to sanction situations in which arvato fails to meet the KPIs. In addition, the indicators are increasing over the contract period. In order to manage to hit the performance targets arvato needs to have a certain number of staff. Hence, arvato has to find the right balance between getting the cost level down and not increasing operational risks. Arvato tries to reduce the operational risk of failing to meet the KPIs by streamlining processes and the introduction of new IT. The key mechanisms of the financial model and the contract are depicted in figure 19.

Figure 19: Contractual Mechanisms Driving the Partnership
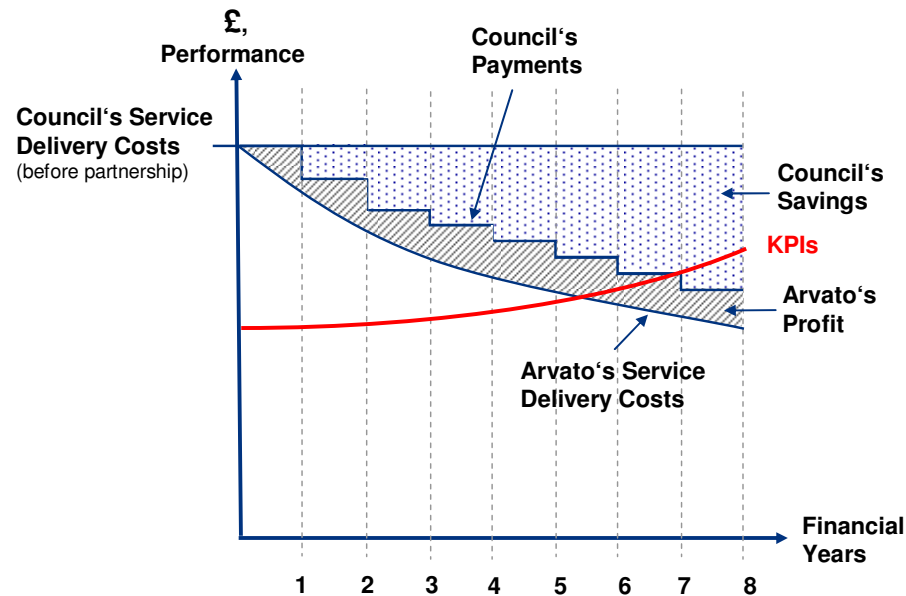
Own Exhibit.

In simplified terms: The financial model ensures that the council gets a better service for less money. At the start of the partnership the council's payments to arvato for the provision of the scoped services equal the council's costs for the in-house delivery of the services. As figure 19 illustrates, the council's payments to arvato are continuously decreasing, whereas the targets of the key performance indicators are rising. After the eighth year of the contract the costs for the delivery of the scoped services will be 18% less than at the beginning of the partnership. This cost reduction is contractually guaranteed.

6.2.3   How the Contract is put into Practice

This section sets out the role of the contract within the partnership between the council and arvato. In addition, it is pointed out how it is dealt with the contractual terms in practice. Harry Dodgeon, the Council's Contract Manager, emphasised that the contract provides orientation for the employees of arvato and the council:

> "There are elements of the contract which give certain structure. Without that […] structure services could be running in all sorts of different directions, and reporting in different ways and different frequencies. For example, people could decide that it is not worth their while to report performance monthly."
> Harry Dodgeon, 04.12.07

Hence, the contract ties together hundreds of people with public or private sector background working in nine different service areas. Richard Parkin, the Financial Manager of arvato, referred to the output specifications which set the KPIs of the service areas to illustrate the benefits of the contract:

> "There is a lot of detail in the output specifications. So that takes away, I think, some of the disputes."
> Richard Parkin, 05.03.07

Therefore, to a certain extent the contract helps to manage expectations and to reduce conflict. However, the interviews revealed nuanced attitudes towards the way the contract is applied within the partnership. Many interviewees contrasted outsourcing and partnership approaches in order to illustrate the role of the contract within the partnership. Outsourcing was generally perceived as placing a strong emphasis on the contract whereas public-private partnerships were seen as being based on relationships and a more laid-back attitude towards contract management. Nigel Pearson, the Chief Executive of the East Riding of Yorkshire Council, explained that the UK public sector has a tendency to present outsourcing arrangements as public-private partnerships:

"Is this a partnership or is it a contract? And in many cases these arrangements are contracts which are dressed up as being partnerships. In the public sector we use the language of partnerships for what is really a contract. Of course, there has to be a contract that underpins the relationship. But that is the starting point. It is not the end. You shouldn't have to take the contract out of the cupboard to look at the detail. […] It [the collaboration with arvato] is not just an ordinary contract. […] I can't remember the last time I looked at it. I haven't looked at the contract for 18 months."
Nigel Pearson, 08.03.07

In particular, the Council's managers rejected the notion of outsourcing. One interviewee even said that if the collaboration with arvato would be based on an outsourcing approach it would be a failure. The notion of partnership had a positive connotation for all interviewees and was associated with a pragmatic approach to contract management that is rooted in relationships and communication. Bernice Lade, the Revenues Support Manager of the council, Dave Smith, the council's Head of Human Resources, and Harry Dodgeon, the council's Contract Manager, illustrate the limitations of the contract and the role of relationships:

"Relationships make the difference between an average partnership arrangement to one which is outstanding. The type of relationships that we have is very much colleague to colleague. There is not necessarily this obvious client-contractor status. […] We can talk with each other very openly and honestly without getting into contractual difficulties. The majority has been resolved outside the contractual process."
David Smith, 05.12.07

"If you would have to work by the contract all the time I don't think that would work. So for me it is the relationships. The relationships are the safety net of the contract if something goes wrong.
Bernice Lade (09.03.07)

"The contract doesn't set the atmosphere in terms of the willingness for both sides to resolve problems. Some of them are very day-to-day operational problems. There will be someone on the phone now on both sides of the partnership talking and resolving something and

moving things forward. And that is all down, again, to communication and relationships."
Harry Dodgeon, (09.03.07)

Arvato's employees perception of the way it is dealt with contract was not as unanimous as the Council's one. Some emphasised partnership working, some viewed the contract as the dominating element in the collaboration and others identified a development from outsourcing to partnership. The following statements illustrate the range of different perceptions:

"I think that there has been a very strong partnership level of working. I think from my experience of working in the outsourcing environment for a long time it is actually a very positive partnership."
Colin Rowe, Training Manager (08.03.07)

"We can call it a partnership as much as we wish. As I said to one of the people one Friday: This partnership begins with a C. It is a contract."
John Buttle, Revenues Manager (05.03.07)

"From the council, I think, it started up purely as an outsourcing contract. The nature of services that we provide requires that we to talk to them very regularly. I think it is becoming more of a partnership now."
Gill Chappel, HR Manager (05.03.07)

However, almost every interviewee from the Council and arvato mentioned relationships as being crucial for successful contract management. Communication on a daily basis and a pragmatic problem-solving attitude were perceived as necessary factors.

6.3 Staff Transfer and Organisational Heritage

This chapter outlines the cultural implications of the staff transfer from the council to arvato and describes the cultural setting of arvato, the council and the partnership as a whole. Chapter 6.3.1 illustrates that the transferred employees experienced certain continuity in their tasks, workplace, interpersonal relationships and uniforms. This led to a lack of identification with the new employer arvato government services in the first few months of the partnership and created difficulties to settle in the new role as a service provider. Chapter 6.3.2 proceeds with a comparison of the cultural settings of arvato and the council. Although the cultural settings of the two organisations are quite distinct it was possible to identify an overlapping and independent partnership culture. The critical incidents presented in chapter 6.3.3 mainly focus on the cultural setting of the East Riding of Yorkshire Council. However, they also offer insights into other themes.

6.3.1 Implications of the Staff Transfer: Continuity and Role Diffusion

In October 2005, the East Riding of Yorkshire Council transferred 517 employees to arvato government services. Some employees were retained by the council to deliver certain services and monitor arvato's adherence to the output specifications.[17] The transfer of staff was a necessary prerequisite for the success of the partnership because the council did not want to make its employees redundant by replacing them with external service provider staff. Furthermore, arvato was new to the market and therefore did not have public services expertise. The scoped staff had a public sector background and therefore a better understanding of the council's needs and the legal framework. Hence, the staff transfer enabled arvato to enter the public-private partnership. Another benefit of the staff transfer were the long-established relationships between the scoped and retained employees. As a result, the staff transfer guaranteed certain continuity.

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[17] Please refer to chapter 6.5 for further information on the retained side.

Continuity was also present at the top management level. Those people from the council and arvato that were involved in the procurement process remained responsible for the development of the partnership after the commencement date. The council appreciated that they could work with the same arvato management team since the start of the bid process in 2003. Moreover, continuity was ensured by committing arvato to deliver the services from the council's premises. Therefore, most of the scoped staff worked at the same site as the council employees. The council's Head of Human Resources viewed this situation as one of the unique features of the partnership:

> "The good thing is that we actually share the same site which means that we are still treating each other quite rightly as one. We do not have to travel ten miles down the road to actually visit arvato. Arvato are part and parcel of everyday life on this site and others which is one of the unique factors of our partnership, this togetherness.
> David Smith, 05.12.2007

The service and employee transition took place without disruption and deterioration in the performance of the services. Public and private interviewees perceived the transition as smooth and a great success. That was due to the fact that staff was transferred on the existing terms on conditions without redundancies or redeployment. In addition, the transferred employees retained their membership and the benefits of the East Riding pension scheme. The trade unions were constantly involved in negotiation process. As part of the deal, arvato also guaranteed that the staff provides the scoped services from the same locations and premises. Even the extension numbers and tasks of the scoped staff remained the same. The council's Director of Corporate Resources pointed out that a seamless transfer was pivotal for the council in terms of its reputation:

> "In fact day one [of the partnership] was just another day on the calendar. That was very important to us because the public do not draw a distinction between who is delivering for them."
> Sue Lockwood, 08.03.07

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It was, however, the council's intention that the public-private partnership with arvato was discreet in terms of customer interaction. For instance, the contract did not allow arvato any kind of public visibility in the front office to avoid public confusion. Hence, every arvato employee in the front office wore council uniforms and answered the phone on behalf of the council. Every letter that went out to the public was written in the council's name and included the council's logo. The eMail-addresses of the front office staff also referred to the domain *eastriding.gov.uk* instead of *arvatogov.co.uk*. There were almost no visible differences between arvato employees and the council's staff. At the research visits it could be observed that merely the colour of the lanyards differentiated public and private employees: The council's employees wore green lanyards and arvato's staff blue ones.

The continuity of tasks, location, relationships and appearance led to a lack of identification of the transferred staff with arvato government services in the first six to nine months of the partnership. A cultural survey conducted by two students in the first months of the partnership revealed that the employees across almost all service areas still identified with the council (Becker and Falk 2006). Most of the respondents appreciated their job because they could help and care for people from the East Riding. In particular, customer centric services (Revenue Services, Financial Assessments, Customer Service Network) felt more responsible towards the residents of the East Riding than towards arvato government services. Merely the top management (59 %) and other central functions (67 %) such as HR or Finance felt more responsible towards arvato. However, most of these employees were not transferred from the council. Colin Rowe, arvato's Training Manager, illustrated the reasons for the closer affiliation of the scoped staff to the East Riding:

> The difficulty is getting the staff feel part of arvato whilst they are still delivering the service for the East Riding which they have always worked for. And I think what we have seen in the first months is that the arvato culture has been pushed down and the East Riding culture has been more of an influence. But that is going to be natural progression to happen.
> Colin Rowe, 08.03.2007

Arvato employed various measures to develop and strengthen an arvato-identity. At the first few days of the staff transfer each employee received a company welcome pack that introduced the arvato and Bertelsmann companies and included a list with contact information points. In addition, service managers did briefings about the contract and changes in performance management. Moreover, arvato government services distributed its own newsletter, called "Spotlight" which informed about the latest corporate news, projects, events and employees. On the annual Christmas party arvato celebrated and rewarded the work and commitment of individuals and teams through the employee of the year and team of the year awards. To facilitate the organisational allegiance of the transferred staff arvato established the "big schemes" which offered price reductions on Random House Books (The big read!), BMG compact disks (The big listen!) and cars (The big drive!). The suggestion scheme (The big think!) rewarded innovative ideas. One suggestion regarding printing procedures saved £9000 and the staff member responsible received over £2000. As a result, most interviewees in 2007 said that they feel responsible for both arvato government services and the East Riding residents. A lack of identification with arvato was not seen as a concern anymore. Consequently, the council's Revenue Support Manager noted:

> "I think the transferred staff were inducted quite well into the arvato culture and into the Bertelsmann principles."
> Bernice Lade, 09.03.2007

However, identifying with the new employer is different to living and acting in a private sector company. In particular during the first 12 months the transferred employees found it difficult to settle in their new role as a service provider. They dealt with clients that previously were their line manager. The scoped employees acted as if they were still reporting to them. Moreover, the council's managers sometimes asked for services that technically fell out of the contract. The staff delivered those extra services without agreeing a variation to the contract. Caroline Hopkins, arvato's Director of Operations & Client Services, and Tim Gregson, arvato's Head of IT, noted the role diffusion of the transferred staff:

"Prior to the contract start all these people worked together in one team. That team was ripped apart and people now have got different roles. It is about trying to fit those roles and understand the roles and then continuing to work together."
Caroline Hopkins, 25.01.07

"Some people have moved over more readily than others. Some people are finding the concept of a customer-supplier relationship quite difficult. But in the main, I think, people have adjusted to it."
Tim Gregson, 07.03.07

The role diffusion arising from the new client-provider relationship was evident in the training service. The training service is provided by arvato and the management development service is retained by the council. Both the council and arvato used the services of the training administration team which had been transferred to arvato. Before the start of the partnership the council's client manager for this service area was the line manager of the administration team. Arvato's Training Manager Colin Rowe experienced that the transferred staff had problems to adapt to the new relationship:

"The confusion for the staff is: who do we report into? Do we answer to the client or to Colin? That is a progression. They need to understand how the contract works and also becoming comfortable with saying no to a client or making decisions themselves."
Colin Rowe, 08.03.07

Although arvato emphasised a partnership approach and did not want to set distinct boundaries between the client and the provider like in outsourcing arrangements, these extra services were a financial risk to arvato. Gill Chappell, arvato's Head of Human Resources, developed a draft paper, the chameleon concept, which was handed out to the scoped staff in order to illustrate the key aspects of a contracting environment. It outlines the similarities between a service provider and a chameleon. Chameleons can change their colour to match their background and situation. The key message of the chameleon metaphor was that service providers needed to adapt to their environment. The concept emphasised that it is necessary

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to take on the personality and ethos of the client company and at the same time having a strong client/service provider relationship.

6.3.2   Cultural Setting of Arvato, the Council and the Partnership

This section introduces the cultural setting of arvato, the council and the partnership. Chapter 6.3.2.1 presents the culture of both organisations by comparing their core values and beliefs. The council's values are described by referring to its vision statement and how this is enacted in the daily work of the council. Arvato's culture is characterised by illustrating the Bertelsmann Essentials. It is shown how the transferred staff accepted and shaped these values. Chapter 6.3.2.2 describes the cultural elements which were developed by the partners and represented the partnership culture.

6.3.2.1 Cultural Setting of Arvato and the Council

To care for the residents of the East Riding was an almost intrinsic motivation for all employees of the council. Almost every interviewee from the council emphasised that they have to protect the vulnerable people in the community and to watch out that socially excluded people do not slip through the welfare net. This altruistic attitude was most evident during the flooding of the East Riding as every public sector employee worked to his limits to help the residents although their own homes were flooded as welll.[18] The focus on local customer needs is reflected by the vision statement of the East Riding of Yorkshire Council.

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[18] For further information on the flooding please refer to chapter 6.5.3.2.

Vision Statement of the East Riding of Yorkshire Council

> The East Riding of Yorkshire Council will work to improve the QUALITY of life for our community, earn the RESPECT of the people we serve and build PRIDE in belonging to the East Riding of Yorkshire.

The catchwords Quality, Respect and Pride are an indicator for the council's ambitions and its values. The vision statement was developed during the formation of the council in 1996. The East Riding of Yorkshire Council was established by uniting four Yorkshire councils. As a result, the identification of employees and residents with the newly formed council was seen as a priority at that time. The phrase "build **pride** in belonging to the East Riding of Yorkshire" expresses the council's ambition to establish an emotional link between all stakeholders and the newly formed region.

The phrase "improve the **quality** of life for our community" refers to the council's endeavour to provide excellent and high-quality services to all customers. This was displayed on the walls of a long corridor at the entrance of the council's county hall which are adorned with various national awards. Key performance indicators were in place to measure the performance of each service. Customer-focus and service excellence were essential elements of the council's culture as the Chief Executive pointed out:

> "We were looking for a partnership with somebody who shared our values and culture. We focus on putting the customer first and community."
> Nigel Pearson,

Moreover, the phrase "earn the **respect** of the people we serve" of the vision statement addresses the fact that the council is accountable to the public. The council places great emphasis on its reputation and how the residents perceive their local authority. To minimise mistakes decision-making processes involve people from various hierarchical levels. Some interviewees portrayed the council and local authorities in general as a risk-avers organisations which are afraid to embrace

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change. This was exhibited in the long approval processes within the council which were criticized by almost every member of arvato's senior management team. However, arvato also acknowledged that the council is a public body and therefore has to consider various stakeholders. Strategic decisions that might have a significant impact on the citizens even involve the elected members of the council.

The council's Contract Manager explained the political environment of the council by referring to the different complaints procedure in the public sector:

> "That is quite a key point: The way that the public sector works, its accountability, the fact that people can access us in terms of complaining about the service that they get and all of the decision-making within the public sector that is there because it is a democratic organisation, etc., etc. […] The complaints procedure in the private sector is different. There is no one local that I can go and see, whereas here they can pop down to a local office or they can go to their local councillor and complain."
> Harry Dodgeon, 09.03.07

Moreover, the interviewees from arvato and the council pointed out that the council is funded by the public and therefore has to spend the taxpayers' money carefully. There was a predominant belief that the council should allocate resources in a way that the welfare of the citizens is maximised. As a result, it is not common to provide financial incentives or to organise parties for the employees. For instance, the suggestion scheme of the council offered a maximum of £100 whereas arvato's scheme rewards innovative ideas with up to £10 000. According to the representatives of arvato's employee forum and many council managers a great difference between arvato and the council were free social events organised for arvato's staff, such as the annual Christmas Party and present as well as the Summer Barbeque.

It is difficult to state that there was a distinctive arvato culture because the majority of employees of arvato government services were former East Riding employees. At the commencement of the partnership 517 employees were transferred from the council and around 25 were employees with an arvato background. However, there

were tendencies that allow referring to an emerging independent arvato culture. This culture seemed to be strongly influenced by the Bertelsmann Essentials. Although the arvato interviewees did not directly mention the Bertelsmann Essentials their statements were in the spirit of and implicitly referred to the virtuous circle of arvato government services. The virtuous circle is displayed in figure 20. It comprises four basic elements of the Bertelsmann Essentials: Partnership, entrepreneurship, creativity and citizenship. Suggestions of some transferred employees helped to advance the virtuous circle of arvato government services.

Figure 20: Virtuous Circle of Arvato Government Services

Adapted from AGS (2007).

Partnership refers to the partnership between the people and the company. According to arvato's concept of the virtuous circle its employees enjoy autonomy and participate in decision-making and in the success of the company. In fact, arvato established an elected Employee Forum to discuss and consider matters of joint concern to both the business and employees of arvato government services. Moreover, the aforementioned social events and regular meetings between the service managers and their staff reinforced the partnership between the company and its people.

Entrepreneurship is enabled by a high level of decentralisation. The virtuous circle states that operations are run by managers who act with an entrepreneurial spirit, enjoying independence and bearing responsibility for performance. Although the council applied performance management before the commencement of the partnership the council's Contract Manager noticed that the heavy focus on performance was a cultural change for the transferred managers:

> "I think that […] the KPIs and the performance management linked to financial penalties is something that has changed for some people. Managers that have worked for the council before I think have found that somewhat of a challenge and a change in culture."
> Harry Dodgeon, 09.03.07

Observations during the research visits confirmed a strong performance culture across the scoped services. Several managers had performance data and performance targets written on their whiteboards or flip charts. Arvato's Occupational Health Manager observed that the transferred managers appreciate the private sector environment:

> "The transferred managers I talked to think more commercially now. The commercial environment is very straightforward: are we making money, are we not? In the public sector things are much more complex. There are so many drivers that could affect the decision-making. The managers I talked to seem almost a little bit relieved. In many cases they seem to be enjoying having a far clearer cut set of objectives."
> Julian Rice, 06.03.07

Employees were empowered by the delegation of responsibility. Managers with an arvato background noted that in the first months of the partnership the transferred staff thought that they needed to ask for permission to carry on certain tasks. In staff briefings arvato encouraged the employees to do their jobs more flexibly, responsibly, efficiently and with entrepreneurial freedom. Tim Gregson, arvato's Head of IT, pointed out that the transferred employees have more autonomy in carrying out their tasks:

> "Certainly within arvato they are quite keen on empowering people and letting them do things themselves. We are still confined by the contract. So in the bigger sense we do not have quite rightly the freedom we would like. But as individuals we are trying to let people make more decisions for themselves.
> Tim Gregson, 07.03.07

Entrepreneurship includes the ambition to generate profit and a risk-taking attitude. Interviewees from both the council and arvato viewed these aspects as a fundamental difference between the two organisations.

Citizenship is defined by the virtuous circle as arvato's dedication to identify and meet the evolving needs of its partners, people, customers and communities where it works. Moreover it is stated that the company acts within the spirit and letter of the law, maintains the highest standards of ethical conduct and behaves responsibly towards the environment. By including citizenship as one of four core values arvato tries to show that it embraces social responsibility. In fact, the majority shareholder of Bertelsmann AG is a foundation, the Bertelsmann Stiftung. The Bertelsmann Stiftung portrays itself as both a think tank and an agent for social change. As a private operating foundation, its primary goal is to make a contribution to society. The foundation works toward improved education, a just and efficient economic system, a preventative healthcare system, a vibrant civil society and greater international understanding. In particular, the council's top management valued the social orientation of the company:

"And clearly arvato through its foundation is very community-focused which is unusual even for large successful companies to have that level of focus on the community and interest in social and economic issues not just in Germany but on the continent and other parts in the world."
Nigel Pearson, 08.03.07

According to the virtuous circle **Creativity** is directed to creating innovations and delivering service excellence for arvato's partners which help ensure mutual long-term success. The suggestion scheme "the big think!" was one of the tools arvato employed to generate innovative ideas. However, as outlined in chapter 8.4.1, innovation was not one of the core concerns for arvato during the first one and a half years of the partnership. Creativity seemed to become an issue as the partnership progressed and efforts were undertaken to move the services forward.

6.3.2.2 The Partnership Culture

Questions regarding the culture of the partnership were very often answered by highlighting the similarities between arvato and the council. Although certain cultural differences between the partners were acknowledged, as illustrated in the previous chapter, they were assessed as marginal. Most interviewees saw slight cultural differences between the two organisations, but pointed out that the similarities dominate the partnership.

Both organisations were characterised as being very successful and ambitious. Excellent customer service and performance-orientation were valued by many interviewees and associated with the partnership. Already during the procurement process the council sought after a private sector partner which had a certain cultural match to the council's values. The council's Director of Corporate Resources pointed out that the Bertelsmann Essentials which were described in arvato's bid response matched the council's values:

"The key thing in that original submission was drawing out the similarities between the Bertelsmann Essentials and the council's core values and objectives. It is valuing the people that work for you. It is recognising what your customer needs. And it is a culture of transparency and openness. So that was attractive because it was familiar. May have been in a little blue book entitled Bertelsmann Essentials, but actually if you brought the council's values out and put the two together they were very similar."
Sue Lockwood, 08.03.07

Furthermore, the fact that arvato and the council share the same site and work jointly at the same premises is conducive to a culture of transparency and openness. The council can always access arvato and raise issues immediately. In particular, the council managers wanted to promote the view that arvato is merely another department of the council. Actually, many interviewees from arvato and the council said that there was no 'us' and 'them' perspective present within the partnership and stressed the overall supportive atmosphere between both partners. The reason for this was seen in the genuine want to push things forward on both sides. A laid back approach seemed to become the norm of interaction between the council and arvato. Both sides emphasised partnership working and arvato allows the involvement of the council in operational business. The Managing Director of arvato government services illustrates the discursive culture of the partnership:

"We always try to find a compromise and move things forward. It may take long, but it is not this confrontational approach that I see in other partnerships. That we accept that the council has so much say in so many things is quite special. […] I think it is also an issue that we do not escalate things into the quarterly business review. We just get on with things on the lower level and that is quite productive."
Rainer Majcen, 22.11.2007

6.3.3 Critical Incidents

Chapter 6.3.3.1 describes the critical event "The auto attendant system and the revenues call centre". This event illustrates how the political nature of the public sector restricts arvato's latitude of managing the scoped services. It clearly shows that reputation is crucial to the council and that decision-making processes within the council require the involvement of many stakeholders. Chapter 6.3.3.2 introduces the critical incident "Reduction of housing benefit". It illustrates the cultural setting of the council and the need for partners to understand this and be sensitive to it in making decisions.

6.3.3.1 The Auto Attendant System and the Revenues Call Centre

In summer 2006, arvato proposed to the council to introduce a call centre for the revenue service. Arvato initiated the project because at that time merely 12 % of the phone calls were handled within 20 seconds. Arvato's project management team looked for opportunities to improve the handling of calls. After the identification of call reasons and the analysis of call flows, call arrival patterns were mapped to staffing patterns. The project team concluded that the introduction of a revenues call centre and the use of an automated attendant system would bring about the desired outcome. An automated attendant allows to automatically process incoming phone calls. A core feature of this system is call routing which provides a pre-recorded voice directory for typical requests. The caller can decide which option is most appropriate and is then forwarded to the designated call center agent. Some of the pre-recorded options for the revenue call are: 'Press 1 if you want to make a payment', 'press 2 if you want to set up a direct debit' and 'press 3 if you want to wait and talk to somebody'. Arvato saw the automated attend system as an enabler for improved call handling. In addition, the call centre would help to make efficiency savings because lower-paid staff could deal with requests that are easier to handle.

Arvato's project team presented its plans to Bernice Lade, the council's Revenue Support Manager, and to Harry Dodgeon, the council's Contract Manager. The client side analysed arvato's proposal and passed it on to the council's PPP board. The PPP board recommended launching the call centre at a later date because there is usually a high volume of calls at the end of the year. Hence, the consequences of a failure would be severe. The second time arvato planned to launch the call centre the council did not give its approval because it was too close to the election period:

> "Then the proposal was brought back to us and we saw a demonstration of what was happening. But then the council felt again that it was the wrong time because we were so close to the election period."
> Harry Dodgeon, 09.03.07

In addition, arvato's call management project did not fit to the customer care strategy of the council. The council wanted to promote face-to-face and direct contact between customers and the council. The automated attendant system would lead to a remote contact and potentially decrease customer satisfaction because call centres and call routing are not popular. The Project Manager Graham McFayden pointed out:

> "It is an election year. That is the main reason the council gave. And they do not do anything between now and May that would potentially cause a problem for the political parties, the politicians and other people of the East Riding. And it would have to go to the elected members because they [the council's client side] perceive it as a change in the call handling strategy."
> Graham McFadyen, 24.01.07

After the council's directors and heads of service had informed the leader of the council and other councillors it was decided that arvato could introduce the call centre for a test period of six months. It was argued that radical process changes like the introduction of the revenues call centre which could affect the council's reputation require an approval by the elected members of the council. The flooding

of the East Riding area[19] in June delayed the introduction of the revenues call centre. Finally, at the end of October 2007 the pilot commenced. The first benefits of the project are a reduction in complaints from the public and 60 % of the incoming calls are handled within 20 seconds.

6.3.3.2 Reduction of Housing Benefit

In June 2006, a legal judgement by the Social Security Commissioner Turnbull indicated that housing benefit funding for some vulnerable and disabled people living in specialist-supported accommodation could be substantially reduced. The decision was circulated to local authorities in England. Arvato's Team Leader Benefits identified that several supported housing schemes appeared to be affected by the decision and concluded that several schemes, all involving one trust in the East Riding, were affected by the decision and could no longer be accepted as 'exempt accommodation'. As a result, housing benefit payments were immediately suspended in a number of potentially affected cases in order to avoid significant overpayments being made. This decision caused negative reaction from several areas including chief executives of affected organisations, Members of Parliament, Councillors and parents of housing benefit recipients. Although from a legal point of view the decision to reduce housing benefit payments was correct more information came to light during the appeal and the payments were reinstated at the previous higher level. The East Riding of Yorkshire Council was amongst the first local authority which followed the judgement of Commissioner Turnbull and therefore attracted a lot of attention. The decision to cut the housing benefit affected various stakeholders and had reputational implications for the council. The council's Director of Corporate Resources emphasised that the sensitivity of such incidents requires a high level of awareness from the private partner:

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[19] Please refer to chapter 6.5.3.2 for further information on the flooding.

"The people on the ground did not see it as a reputational issue. When you are talking about the provision of services to the public a local authority is in a very sensitive position and you need partners who are very in tune with what that means when a decision rolls out."
Sue Lockwood, 08.03.07

The council and arvato quickly identified the causes of the problem and developed a way forward to prevent any similar recurrences. A sensitive issues protocol was developed which details the process and responsibilities of issues that are of a political nature or are likely to affect the reputation or financial standing of the council or the partnership.

6.4   *Performance Management*

Although the council had a performance management system in place before the start of the contract, the partnership with arvato emphasised the role of performance management. Chapter 6.4.1 illustrates how performance is measured through key performance indicators and describes how the partner's approach to performance management changed during the partnership period. The main changes induced by the partnership were an increase in the number of KPIs, the introduction of financial penalties and daily monitoring. Chapter 6.4.2 addresses national and local drivers of key performance indicators. Chapter 6.4.3 describes how the service standards are developed by increasing, maintaining, suspending or replacing the targets of the KPIs. Finally, chapter 6.4.4 introduces two critical incidents which illustrate how KPIs influence the delivery of the scoped services. The "caps & collar" incident provides further evidence for the development of service standards by scrutinising how both partners negotiated the suspension of KPI. The "revenue services" incident exemplifies how key performance indicators conflict with each other.

6.4.1   The Regime of Key Performance Indicators

Performance is measured against the requirements of the key performance indicator descriptions in the output specifications of the contract. The key performance indicators are detailed quantitative measures of performance. In total, 114 key performance indicators are measured throughout the scoped services. Each KPI has a performance target that usually refers to the availability of services, the pace of processing or the user satisfaction. Formal reviews of performance are undertaken on a monthly and quarterly basis with the client. These regular review meetings are used to discuss past activity and to plan service improvements for the

short and medium term.[20] Table 17 illustrates some of the KPIs specified for the partnership.

Table 17: Examples of Key Performance Indicators

KPI No., Service Area	Description	Target 10/2005 to 03/2006	Actual 10/2005 to 03/2006	Target 04/2006 to 03/2007	Actual 04/2006 to 03/2007
RV01, Revenue Services	The percentage of council taxes collected in the financial year in which they were due	98,20 %	97,85%	98,60%	98,44%
RV04, Revenue Services	The percentage of invoices processed within 4 working days of request	96,60%	99,48%	97,90%	99,88%
FA02, Financial Assessments	Average time for processing notified changes of circumstance.	7 days	4,33 days	6 days	3,64 days
FA03, Financial Assessments	Percentage of cases for which the calculation of the amount of benefit due was correct	99,60%	100%	99,60%	100%
CS02, Customer Service Netw.	% of customers whose enquiry commenced within 5 minutes of entering a Customer Service Centre	82%	84%	83%	88%
CS03A, Customer Service Netw.	% of inbound calls to the ACD, answered within 7 rings or 21 seconds	85%	86%	91%	96%
IT01, ICT Services	Installation of IT Desktop Facilities – Number of Days from Order to Installation	18 days	10 days	15 days	12 days

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[20] For further information on the meeting structure of the partnership please refer to chapter 6.5.2.

T03, Training	Percentage satisfaction with the training courses (aggregate of quality of delivery, administration, content and timeliness)	81%	89,60%	82%	98%

Own Exhibit.

More than 70 key performance indicators are measured monthly, four KPIs on a quarterly basis, 28 each year, and five every third year. However, performance management was in place before the council entered the partnership. In line with the Comprehensive Performance Assessment central government requires to set targets for best value performance indicators. In addition, the performance indicators are an integral part of the council's planning cycle. Senior officers within the council produce service and performance plans. These show in detail how each service will take action to achieve the council priorities. They also set the performance indicators. The results of the performance indicators also feed into the priority setting of the council's business plan.

The public-private partnership with arvato has altered the performance management of the scoped services in three respects. Firstly, the council defined new KPIs during the procurement process in order to ensure that arvato will deliver the scoped services to the desired standard. In total 23 new KPIs were introduced which adds up to an increase of performance indicators by 25 %. Table 19 illustrates how the KPIs are spread throughout the scoped services and how many indicators were introduced after the procurement process.

Table 18: Number of Key Performance Indicators in the Service Areas

Service Areas	Monthly		Quarterly		Annual		Every 3rd year	Total
	Before PPP	New	Before PPP	New	Before PPP	New		
CSC	8	2			2		1	13
Fin.Ass.	8	3	2		3	4	1	21
Revenues	8	7	1		5		1	22
Payroll	12				4		1	17
ICT	7	5		1				13
Creditor Payment.	7				1		1	9
Training	3				5			8
Print & Design	4				2			6
Occ. Health	3				2			5
Total	59	18	3	1	24	4	5	114

Own Exhibit.

As the table indicates, the 25 % overall increase of indicators is not evenly spread. Merely the customer service network, financial assessments, revenue service and ICT services were subject to the introduction of new KPIs. In addition, it is not just the number of KPIs which leads to a stronger performance-orientation, but also the introduction of financial penalties. The second main change to performance management was the implementation of sanctions for KPI failures. Some of the KPIs are linked to a financial penalty. If arvato fails to meet a KPI deductions of the council's monthly service payment will be made. The penalties are designed to cover the costs for a failure to deliver a service. Thirdly, arvato intensified the performance management by monitoring the KPIs on a daily basis. Although the council does not require daily monitoring arvato views this approach as effective because it enables to investigate trends continually. Furthermore, daily monitoring provides the opportunity to react instantly to any downturns in performance. The

council's Director of Corporate Resources, Sue Lockwood, notes that the changes to performance management are significant:

> "I think the scoped staff has probably learnt from Arvato about performance management on a daily basis. From what I observe there is a huge amount of daily monitoring. So this will have been a significant change for some managers in particular whose first breath in the morning is actually about the arvato performance target, even though those people prior to that were meeting targets for the council. But arvato has certainly implemented a pretty heavyweight system of performance management and has daily reporting on a lot of KPIs. So I think they will undoubtedly have learnt from that."
> Sue Lockwood, 08.03.07

Arvato deployed new systems to refine and improve performance management processes. The staff received regular training to ensure that they possessed the relevant skills to complete their tasks and that they understood exactly what had to be achieved each day to meet performance targets.

Many interviewees distinguished between different phases of performance management. The first phase comprised the lead-in of the scoped services and the first three to six months of the partnership. Within this phase there was a strong focus on the output specifications and the KPIs. The second phase lasted until the first half of 2007 and was characterised as a settling-in phase. Arvato gained the council's confidence by demonstrating that it can deliver the services and meet the performance targets. Joint ways of working between the council's monitoring team and arvato's service managers supported effective performance management. Performance reports were standardised. The transferred staff got used to the performance-orientation within the service areas. The third phase started in the second half of 2007. The predominant issue in this phase was to move the development of the scoped services forward. The council and arvato aimed to transform the services by introducing technological and processual innovations. Arvato extended the size of its project management team and renamed it into Transformation & Change Team. Moreover, the number of tasks and responsibilities of the project management team were reduced to focus on business

process re-engineering and quality management. Those tasks that require a constant interaction with the council's contract manager were transferred to the newly established post of a client manager. The client manager is in charge of client management, contract compliance, audit and performance management and therefore releases the Transformation & Change Team from those tasks that do not necessarily add to the generation of innovations. There were several discussions on the impact of innovations on the performance of the services.[21]

6.4.2   National and Local Drivers of KPIs

The setting of key performance indicators can either be induced by national or local regulation. Central government has developed a statutory set of 90 KPIs, called Best Value Performance Indicators (BVPIs), to measure the performance of local authorities. All local authorities must measure themselves against BVPIs and demonstrate their approach to continuous improvement pertaining to the efficiency, effectiveness and economy of their service delivery. The local authorities should endeavour to reach that minimum standard of performance which is set by a target. The data is collected and audited annually by the Audit Commission and feeds into the Comprehensive Performance Assessment and the local authorities' Best Value Performance Plan. Those performance indicators which are not prescribed by central government and reflect the local authorities own priorities are local performance indicators.

To illustrate local and national drivers of key performance indicators two service areas of the partnership between the East Riding of Yorkshire Council and arvato government services are scrutinised: Financial Assessments and Revenue Services. These services have the highest number of KPIs and the heaviest financial penalties of the public-private partnership. That is due to the fact that these services are critical to the council in terms of financial and reputational issues. Both

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[21] Please refer to chapter 6.4.3 for more information on the challenge between innovation and performance.

services involve substantial amounts of money. The services include the administration of council tax and national non-domestic rating, sundry debtors, rent accounting and recovery, grant claims and government returns. In addition, the services deal with some of the most vulnerable members of the community. Financial assessments, for instance, involves residential care and non-residential care for adults and children. Both services are very complex due to frequent changes in national regulation. According to Bernice Lade, the council's Revenue Support Manager, approximately 20 government changes occur in these services each year.

Table 19: Drivers of KPIs in Financial Assessments and Revenue Services

Financial Assessments		Revenue Services	
KPI	Driven by	KPI	Driven by
FA01	BVPI	RV01	BVPI
FA02	BVPI	RV01(a)	LOCAL
FA03	BVPI	RV01(b)	LOCAL
FA04	BVPI	RV02	BVPI
FA05	BVPI	RV02a	LOCAL
FA05(a)	BVPI	RV02b	LOCAL
FA05(b)	BVPI	RV03	BVPI
FA06	CPA	RV03a	BVPI
FA07	LOCAL (PPP)	RV03b	BVPI
FA08	LOCAL (PPP)	RV03c	BVPI
FA10	LOCAL	RV04	LOCAL
FA11	LOCAL	RV05	LOCAL
FA12	LOCAL	RV06	LOCAL
FA13	LOCAL (PPP)	RV07	LOCAL
FA14	LOCAL (PPP)	RV08	LOCAL (PPP)
FA15	LOCAL (PPP)	RV09	LOCAL (PPP)
FA16	LOCAL (PPP)	RV11	CPA
FA19	LOCAL (PPP)	RV12	CHARTER MARK
FA20	CPA	RV13	LOCAL (PPP)
FA21	CHARTER MARK	RV14	LOCAL
FA22	LOCAL	RV15	LOCAL
FA23	BVPI	RV16	LOCAL

Own Exhibit.

Revenue services and financial assessments have 44 KPIs from which 19 are driven nationally and 25 set locally. The national KPIs are induced by Best Value

or are specific to the Comprehensive Performance Assessment. In each service area a KPI refers to the retention of a Charter Mark which is a central government award scheme for recognising quality and encouraging excellence in public service. The council measures 25 local performance indicators from which 10 were introduced to monitor the public-private partnership with arvato. The remaining 15 indicators were established for local purpose.

6.4.3 Developing the Service Standards

The KPIs should measure the progress towards the objective of excellent service delivery. The objective of top 10% performance in the scoped services requires a flexible approach to performance measurement because the council and arvato could not determine what top 10 % performance would be in five or six years. Top 10 % performance is defined by the Audit Commission which creates an annual ranking of local authorities based on the Comprehensive Performance Assessment (CPA). As a result, the targets of the KPIs were not specified for the whole contract length. There are four approaches to deal with key performance indicators in the partnership between the council and arvato: The targets of KPIs can be increased, maintained, suspended or replaced.

The contractual requirement is that the performance increases within the scoped services. The usual way of dealing with KPIs is that the performance targets increase each year. This is in line with the council's and arvato's objective to achieve top 10 % performing services and to market the scoped services via the joint venture. For the marketing of the joint venture it is a prerequisite that services are excellent and can be used as a reference for new customers. However, there are limits to the performance targets as Harry Dodgeon noted:

> You push a performance and you get to 99.9% and to get to 100% it may cost you an absolute fortune. That last little bit may take an awful lot of resources to achieve. So being pragmatic in some areas

we said we are fine here and we are fine here next year because that still leaves us ahead of the field. There is no point in diverting additional resources because we are where we want to be in terms of our ambition of being a top 10 performer."
Harry Dodgeon, 04.12.07

Hence, sometimes KPI targets are maintained because an increase of performance would not improve the progress towards the overall objective of top 10 % performance.

The suspension or replacement of performance indicators can be caused by operational events within the service areas, national legislation or improvements in performance measurement. An example for the replacement of KPIs due to national legislation is the move from the CPA to the Comprehensive Area Assessment (CAA). Central government plans to launch this new assessment in April 2009. The CPA focused on services provided by local authorities whereas the CAA looks at the public services in an area delivered by councils and their partners including the private and voluntary sectors. This marks a significant change to the performance assessment regime and will lead to a replacement and re-definition of many KPIs in the scoped services. Another example of the national impact on performance measurement is the Right-Benefits-Initiative. Central government wants to reduce the number of avoidable customer contacts for benefit claims. The council should deal with benefits claims quickly and customers should be served right the first time. As a result, the council needs to introduce a KPI that measures how how many times a customer has to contact the council before its claim is handled right. The process of introducing this KPI starts with the council which gathers information from central government to understand the legislation. After arvato has understood the legislation both parties come together and find an agreement how they monitor it. Then penalties are determined and embedded into the payment mechanism.

Moreover, there are continuous attempts within the partnership to improve performance measurement. The KPIs should fully represent what the council thinks are the key elements of performance for a particular service. If an indicator

is not meaningful or hard to measure it will either be changed or suspended. The discussions and negotiations are done by arvato's service managers and the council client managers. During the partnership period they always came up with agreed positions and sorted KPI problems out. Harry Dodgeon, the council's Contract Manager and Bernice Lade, the council's Revenues Support Manager, illustrated the pragmatic approach to performance measurement:

> "There has been a great deal of pragmatism in revising some of the KPIs that we have started off with from the 1st of October. […] So there has been that flexibility from the council from very early on. There were some suspensions of KPIs because it was not practicable or meaningful to measure. But this was done on the understanding that those KPIs are brought back on stream when we are in position to measure them. Or we changed them when it was something that was not meaningful. […] Following blindly increasing targets each year is not realistic."
> Harry Dodgeon, 09.03.07

> "Some of the BVPIs are not that meaningful, particularly one of these around quality. It is just a snapshot and it is not a good way of measuring quality. So we will introduce our own quality KPI which is much stricter and gives us a better feel for what the quality of the work is."
> Bernice Lade, 04.12.07

Operational events within the service areas can lead to the suspension of certain performance targets. Chapter 6.4.4.1 illustrates how an operational event, the exponentially rise of referral volumes, can lead to the suspension of a KPI target. Another example is the introduction of new technologies or the reorganisation of processes that may result in a temporary downfall in performance. During the implementation period arvato may not be able to meet certain targets and therefore may be exposed to the risk of a financial penalty. In particular, innovations can impact the performance of the services. Tim Gregson, arvato's Head of IT, explained the challenge between innovation and performance risks:

> "We are faced with the potential penalties of the KPIs. To innovate you can quite often find yourself having to change the way things

were and the processes you were using. And if you are getting it wrong that can obviously have an impact on the KPIs. So people are a little bit reluctant to try things which they maybe would have done before the partnership."
Tim Gregson, 07.03.2007

The council recognised this challenge and therefore organised an away day on risk and innovation on the 22nd of November. Arvato's service managers, the Client manager, the Transformation & Change Manger and the Director of Operations & Client Services participated at the away day. For the council, the Client Managers, the council's Audit and Technical Manager and the Contract Manager took part. It was discussed how innovation could affect KPI performance and what strategies are available to foster the development of services. By using an example of front/back office integration teams from both partners looked at ways risk can be identified, how they can be managed and also who is the 'owner' of that risk. The council's managers emphasised that innovation and the development of services was key for achieving excellent service delivery. As mentioned in chapter 6.4.1, since the second half of 2007 the council emphasised that the scoped services should be transformed by introducing technological and processual innovations. The council's employees pointed out that they would not suspend a performance indicator whilst arvato introduces an innovation. However, the council and arvato agreed that a KPI may be suspended retrospectively if it can be verified that the cause of a potential drop in performance is a particular innovation. The council and arvato agreed that if they want to introduce an innovation they would identify performance risks and actions to mitigate those risks upfront.

6.4.4   Critical Incidents

Chapter 6.4.4.1 outlines the critical incident "Caps & collar in Occupational Health". It illustrates how KPIs influence the delivery of services. Moreover, the incident shows how an operational event can lead to the suspension of a KPI target. In addition, it addresses how the problem of meeting a KPI target that is induced by overstepping volumes of workload is successfully sorted out by the council and arvato. Chapter 6.4.4.2 describes the critical incident "Tax collection target in Revenue Services". It demonstrates how key performance indicators influence operational management. The KPIs can conflict with each other and set priorities that have unintended consequences for the council.

6.4.4.1   Caps & Collars in Occupational Health

The occupational health unit (OHU) exists as a service to provide advice to the council about health related matters that have an impact on employees' health. The aim of the OHU is to help the Council to reduce the cost of poor health to the organisation. The OHU is central to areas of the Council's work such as sickness absence management, and processes such as ill-health retirement. Five key performance indicators are defined for OHU to determine the performance standards.

The key performance indicator named "OH2" sets the target for the percentage of referrals for health assessment which are seen within two weeks of receipt. Almost all medical referrals (99%) should be given a first appointment with the OHU within two weeks. These can be either medical referrals via the Line Manager or self-referrals direct from the employee. The assessments can be done face to face, on the telephone or via written communication. KPI "OH2" is tied to a *caps and collars* mechanism which determines the maximum (cap) and minimum (collar) service volumes. Hence, *caps and collars* define a normal operating situation. The cap for the number of referrals was 605. The occupational health unit faced a

significant year on year increase in the number of referrals. Since 2005 the cap for the number of referral has been exceeded and projections for the years 2007 and 2008 show that the number of referrals will continue to increase. The average number of referrals in 2002 was 35 per month. In 2004, it was 49,6 and in 2006 the average was 65,3 per month. Figure 21 demonstrates the year on year rise in the number of referrals:

Figure 21: OCH: Increase in the number of referrals

	2002	2003	2004	2005	2006	2007	2008
	420	516	595	669	752	835	918
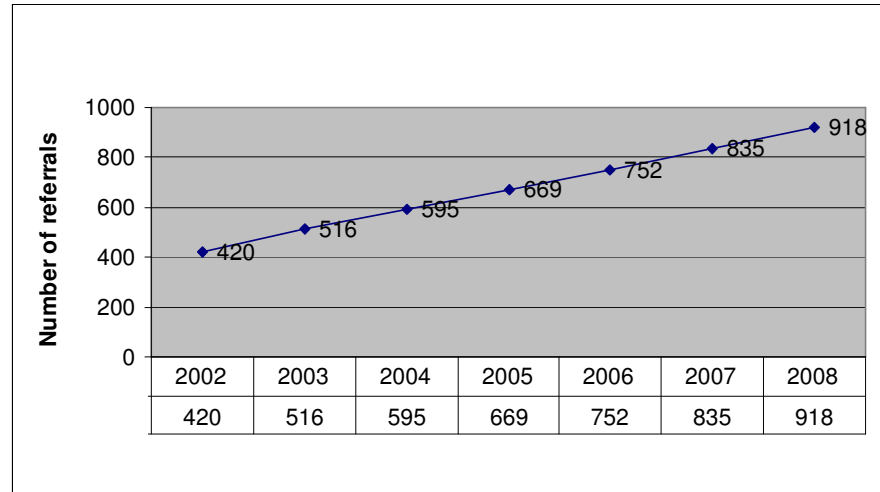
Adapted from AGS (2006).

Gill Chappell, arvato's Head of HR, identified two main reasons for the increase of referrals. Firstly, the OHU had become better known within the council and more policies referred to using health services. Additionally, the council started to carry out wellbeing risk assessments which had been a further source of referrals. The continuous increase of referrals led to an exponentially higher workload for arvato's employees. That development made it harder for the OHU to give all medical referrals a first appointment within two weeks. As a consequence, arvato failed to hit the KPI target in September 2006. Due to the existence of a financial penalty on the KPI "OH2", the focus of the occupational health unit was placed on dealing with referrals. Other activities that are not measured were undermined,

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such as pre-placement screening and a series of health projects. Hence, the Occupational Health Manager acknowledged that the overall service quality was at risk:

> "Because of the increasing volumes what we have done to be able to meet the KPI is we have driven the service quality down. We will sacrifice anything and everything to meet the KPI. […] There is no financial penalty on customer satisfaction."
> Julian Rice, 06.03.07

The performance indicator "OH2" imposed a certain risk to the quality of services delivered to the council because the nurses would spend their time primarily on activities that are necessary to meet the KPI. "OH2" required the occupational health unit to deal with referrals for health assessment within two weeks of receipt. This requirement could be fulfilled by conducting an in-depth analysis of the customer's health issues and spending proper time for the assessment or it could be met by a brief phone call and processing a few questions. The KPI "OH2" evoked a tendency to process customers quickly and therefore might reduce the service quality.

The contract did not provide for a procedure of how to deal with overstepping volumes. It merely stated that this would be subject to discussions between both parties. As a result, arvato compiled reports and produced graphs to give evidence of the increased volumes of referrals. These were discussed by arvato's service manager and the client manager from the council. It was agreed that the volumes of referrals exceed the contractual tolerance and that the failure to meet the KPI "OH2" was due to these high volumes. They could not agree on a solution to sort the problem out. Because the volumes of referrals were exceeding the contractually agreed cap, arvato asked the council for a monetary compensation in order to recruit staff that could cope with the exponentially higher workload. The decision was referred to the monthly performance meeting between the council and arvato. At the monthly meeting arvato's request for monetary compensation was not accepted because the council's financial resources were limited. As the problem was not resolved it was on the agenda of the quarterly meeting. Both sides finally

agreed that the financial penalty of KPI "OH2" should be suspended retrospectively and for the next months. The council's Client Manager for Occupational Health pointed out that a pragmatic and flexible approach was necessary to find a solution:

> "I think both sides felt we came to an amicable solution […]. We could easily have insisted that the KPI stood. And then each month if occupational health did not meet the target then they suffer the penalty. […] What we did not want to do is putting potential penalties in the way. It doesn't set the right scene, the right tone to be able to move that on and to resolve it."
> David Smith, 05.12.07

The occupational health manager Julian Rice emphasised that it requires diplomatic skills and an awareness of the political nature of the council's actions to achieve a joint solution. It needs to be acknowledged that the council has limited resources and the allocation of funds is accountable to the public.

Hence, the political setting needed to be addressed when arvato calls for a monetary compensation:

> So being sensitive to that political situation and not just banging away at the business case all day long is the way you make it work. The political drivers are always more powerful than the business case. So you must always make your appeals to the political side of things."
> Julian Rice, 06.12.2007

He pointed out that a confrontational approach in finding a solution to the *caps and collars* problem would not be successful. A successful partnership would need to focus on common objectives and a mutual understanding of each others situation. The suspension of the KPI is not a long-term solution for both partners. Arvato aimed to develop new ways of working and streamline processes in order to cope with the increase in the number of referrals.

6.4.4.2 Tax Collection Target in Revenue Services

Council Tax is a form of local taxation which is payable on occupied and unoccupied domestic properties. The results for the collection of Council Tax since the start of the partnership are at record levels. That enabled the council to use 2 940 000 GBP surplus from the collection fund to keep the increase in Council Tax for 2007/2008 down to 3,84%. To ensure that the cash flow to the council was maintained at the highest possible level, performance indicators for tax collection had been set. Monthly and annual targets reflected the council's ambition to achieve collection rates that are within the top 10% nationally. The service head was John Buttle who had worked in this position for the council before he had been transferred to arvato. The financial penalties for a failure to meet the tax collection targets were severe. Various methods to improve the collection rates were employed, such as issuing reminders, promoting direct debit and re-arranging default dates for cash payers. However, there was a risk that some customers feel pressured and make complaints which would affect the KPI for complaints. John Buttle illustrated this as follows:

> "We have got this target of collection and there are ways of meeting that target which involve pressuring the customers to pay. We have a request from the council that we treat customers ethically and civilly which we would always do. We also have a penalty if we get complaints from the customers. And the complaint could be that we are pressuring them to make payment.
> John Buttle, 25.01.2007

The financial penalties of the collection targets were much higher than those for the complaint target. Hence, there was an incentive to focus on the tax collection targets rather than on reducing the number of complaints. Accordingly, John Buttle explained the situation:

> "So we have a balance between going hard for the money, but not generating any complaints from the customers. […] I tend to risk the complaint target a little bit more than the others [tax collection

targets]. But apart from the financial penalty the council considers them all very important. They are having a push at the moment on reducing the number of complaints."
John Buttle, 25.01.2007

The critical incident illustrates that the selection and setting of KPIs and financial penalties has a pivotal impact on the management of the scoped services.

6.5 The Council's Retained Side

The East Riding of Yorkshire Council established a strong retained side at the start of the partnership. According to Nigel Pearson, the council's Chief Executive, a strong retained side is a success factor in every partnership that is working well. Chapter 6.5.1 describes the council's retained side by explaining the client management system. The council's reasons for retaining people and services are presented in detail. Three reasons could be identified: the council wanted to control the standard of service delivery, to ensure that the service development fits into the wider policy of the council and to keep the expertise and knowledge that is specific to the scoped services. Chapter 6.5.2 addresses formal and informal ways of communications between the retained and the scoped side. The role of relationships is highlighted. Finally, chapter 6.5.3 introduces three critical incidents which illustrate how the council's retained side interact with arvato government services.

6.5.1 Reasons for the Retained Side

As the partnership commenced the council had retained certain services within the scoped service areas and some members of staff. Senior managers from each area of the scoped services were appointed as client managers who should liaise with arvato's service managers. The client managers were a contact point for anyone from the council who had requests that might affect the services provided by arvato. They channelled and prioritised the requests and discussed them with arvato's service managers.

The main task of the client managers and their support teams was to monitor arvato's adherence to the output specifications of each of the nine service areas. They checked the accuracy of KPI performance which was measured by arvato and

recorded in a monthly report ("Performance Monitoring Report"). Additionally, arvato's service managers liaised with the council's client managers in order to negotiate contract and price variations. The retained and the scoped side also agreed problem resolution actions, processes and timescales. The client managers approved changes to processes or systems within the service areas.

The retained services were often related to policy and strategy. The retained side developed strategic options for service development in the future. In ICT services, for example, the strategy for the delivery of the council's eGovernment agenda was a retained function of the council. The retained side drove audit recommendations for the development of the scoped services forward. Additionally, the retained side informed the service heads about changes in national legislation and council policies that affected the delivery of the services. The scope of retained services differed in each service area. For instance, within occupational health no services were retained whereas a number of services were retained in Revenue Services and Financial Assessments, such as strategic development and support, benefit fraud service, mortgage account management and benefits adjudication. Figure 22 depicts the scoped and retained services within Financial Assessments and Revenue Services. The blue circles in the middle of the figure represent the interaction points between the council and arvato.

The client manager of Revenue Services and Financial Assessments was Bernice Lade. She interacted with arvato's service managers John Buttle and John Kirkman. Bernice Lade reported to Harry Dodgeon, the council's contract manager. He liaised with Caroline Hopkins on a more strategic level. All participate at the monthly performance review meetings.

Figure 22: Scoped and Retained Sides of Financial Assessments and Revenue Services
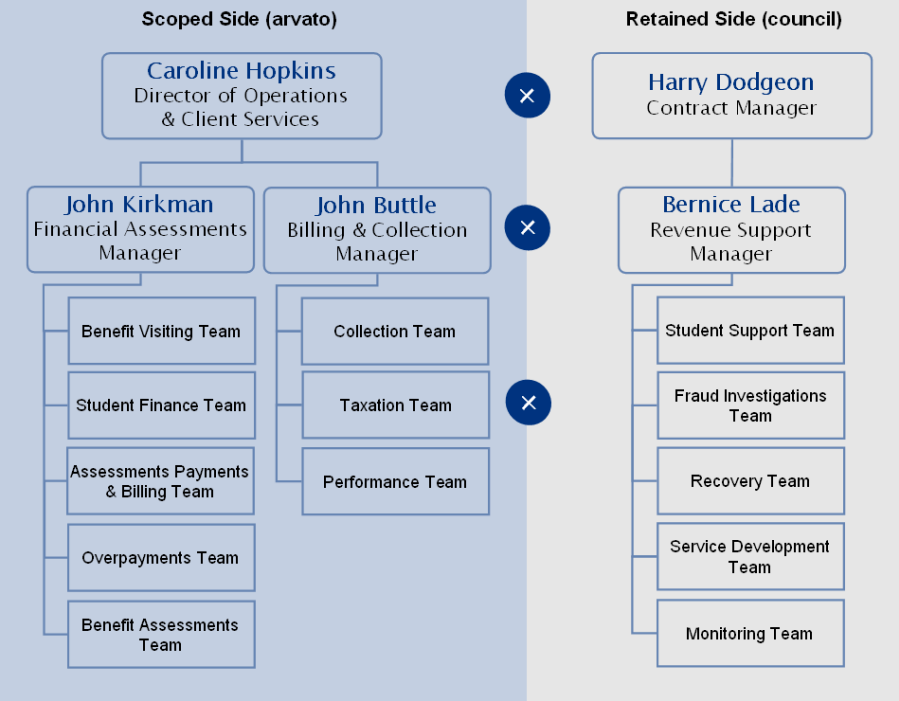
Own Exhibit.

In some cases arvato's staff and the council's retained staff interacted with each other due to interfaces between the scoped and the retained services. Financial assessments, for instance, had organisational interfaces to several functions of the council, such as planning and property, communication & public relations, law and internal audit. Each service had organisational interfaces to the council. Hence, the services delivered by arvato and the council were interdependent. Process Changes in a particular service can therefore potentially affect several other service areas.

The processes associated with the collection and recovery of council tax were particularly intertwined. The billing and collection of council tax was done by arvato's staff and comprises tasks, such as the processing of payments and the issuing of reminders and final notices. If payments had not been made following

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the issue of a reminder or a final notice, summonses were requested from the Magistrates Court. The council had to attend the hearing at the Magistrates Court because arvato was not allowed to represent the council in court. Arvato's staff provided all relevant evidence to the council's court officers and acted as the council's witness. In addition, arvato's staff agreed a recovery timetable for all debts with the court officers. After the council had obtained a liability order from the Magistrates Court the cases were passed on to arvato. Arvato took follow-up actions and monitored all debts and payment arrangements. If a debt cannot be cleared arvato sent it to bailiffs. When a case was returned from the bailiffs with a 'nulla bona' certificate arvato selected appropriate enforcement remedies. If a debtor did not respond or no agreement was reached the case would be passed to the council's court officers to commence committal proceedings. Subsequently, arvato took follow-up actions to clear the debts or initiated a write-off procedure for the remaining debts. Figure 23 illustrates the joint collection and recovery of the council and arvato:

Figure 23: Service Split in Council Tax Collection and Recovery

Own Exhibit.

Due to the frequent interactions between the retained and scoped side, the service split in council tax collection and recovery requires an efficient and effective cooperation between the council and arvato.

Apart from the joint delivery of services the reasons for having a client manager side in place are threefold: The East Riding of Yorkshire Council wanted to control the standard of service delivery, to ensure that the service development fits into the wider policy of the council and to keep the expertise and knowledge that is specific to the scoped services. In order to ensure that arvato delivered the services at an excellent level the council had established a retained side with client managers

from each service area. Bernice Lade, the council's Revenues Support Manager, replied to the question why a client manager system is in place as follows:

> "I think to make sure that arvato or any service provider is providing what was agreed and will move the service forward. It is to ensure that the council still has control over the services, I suppose. […]
> Bernice Lade, 09.03.2007

The council wants to have some control over the scoped services because arvato was acting on behalf of the council. Most of the citizens did not know that arvato delivered the services because each letter that went out was written in the name of the council and arvato's front office staff wore the council's uniforms. Hence, the council aimed to safeguard the service standard and its reputation by establishing a retained side. This was explained by Harry Dodgeon, the council's contract manager, as he referred to the need for the council's approval when radical changes are introduced within the scoped services:

> "Where the council has an interest is where it has a potential impact on the end customer. We need to understand what the innovation or change is and whether or not it actually protects and enhances the existing high level of service standard or could it potentially erode the quality of the service. […] In the end of the day it is the council that is ultimately responsible for delivering the services. And it is the council that would get any negative feedback in terms of customer satisfaction. So clearly it has an interest in any innovations that arvato might bring in and the end-impact in terms of the service itself."
> Harry Dodgeon, 09.03.2007

Another reason for retaining employees was to keep the knowledge and expertise that was specific to the scoped services. Nigel Pearson, the council's chief executive, and Katie Irwin, revenue technical manager, pointed out that a certain level of retained expertise was necessary to monitor the performance of the scoped services and to resolve specific challenges:

There is a need for a client group to be retained. If not who gives the instructions to the service provider or reviews the performance? Who in the council has got any expertise to actually talk to the service provider about issues which need to be dealt with? […] The client has got to retain knowledge and expertise. If not no one really understands what the issues are the service provider may be raising or if he is able to tackle them in a proper manner.
Nigel Pearson, 08.03.2007

"John Buttle has a high tax collection target. So any change initiative he tries that is not particularly successful, it is mutually beneficial that we both know about that because I need as much information as I can get to set next years target."
Katie Irwin, 06.03.2007

"The reason that we have got a strong team here for monitoring the contract from an FA and RV point of view was down to Caroline Hopkins. She felt that we should keep expertise on this side to ensure that the contract was working by keeping the expertise. This team was quite carefully picked and we come from each strand of the service that arvato delivers."
Katie Irwin, 06.03.2007

Moreover, the council wanted to retain specific skills to ensure that in case of a failure of the partnership it could move the scoped services back to the council. The council's revenue support manager raised this concern:

What the council wanted to do with the client manager role is to retain skills. […] The decision was taken that the council would retain a highly-skilled retained side. So should something go wrong we are in the position to bring services back to the council."
Bernice Lade, 09.03.2007

Finally, the retained side informed arvato about changes in the council's policy. It warranted that arvato's actions fell in line with the council's strategic orientation. Katie Irwin described this motivation:

"If arvato wants to change processes we discuss it and make sure that the required outcome is still delivered and that the change is within the council policy."
Katie Irwin, 06.03.2007

However, the council's intentions for establishing a retained side can conflict with the operational success of the partnership. In particular, arvato's managers from highly monitored service areas such as Financial Assessments and Revenue Services complained about the level of monitoring. The council's Client Manager for Occupational Health said that was not easy to find the appropriate balance between the control of the services and the latitude for service delivery:

"How in-depth should the client monitoring role be? […] A challenge is getting the proportionality of the client role right. Is it too much, is it too less or is it about right? […] The level of monitoring has got to be proportionate to the outcome."
David Smith, 05.12.2007

6.5.2 Communication and Relationships

Almost all interviewees viewed communication as very important to the success of the partnership. The East Riding of Yorkshire Council and arvato government services employed various techniques to facilitate communication. Formal ways to enhance communication were the establishment of regular meetings between the council and arvato, the distribution of a partnership newsletter, the arrangement of away days and the involvement of arvato's top management in the council's SMT and Partnership Board meetings.

The contract required both parties to attend regular meetings. Operational issues within the service areas were discussed in sub-monthly meetings which were called Level A meetings. The frequency of these meetings differed according to each service area. Usually, a service manager and relevant staff met the client manager

and relevant council officers on a weekly basis. Arvato's Director of Operations & Client Services emphasised that these meetings helped to deepen the relationships between the partners:

> "There needs to be a strong relationship between the client and arvato […]. The client and the scoped staff meet every week in an attempt to keep that relationship strong. […] I think communication sits alongside relationships, but positive communication particularly."
> Caroline Hopkins, 25.01.2007

Those issues which could not be resolved at the sub-monthly meetings were moved on to the performance review meeting that took place once a month. The performance review meeting aggregated the topics discussed at the sub-monthly meetings and provided the council with a performance monitoring report that specified arvato's standard of performance in respect of each KPI. In addition, disputes in connection with service payments and the service standard as well as relief events were addressed. For the council, the contract manager and client managers attended the meeting. For arvato, the director of operations and client services, the client manager and the service heads took part at the meeting.

Any matter that could not be resolved at the performance review meeting was referred to the business review meeting. The business review meeting took place on a quarterly basis and included a summary of the monthly performance monitoring report, a service volume review and other topics that dealt with the scoped services. The business review meeting was attended by more senior participants from arvato and the council. The managing director of arvato government services, the chief executive officers of BFS Finance and arvato services and the finance director of arvato services took part at the meeting. For the council, the director of corporate resources, the head of finance, the contract manager and the chief executive of the council attended the meeting.

The annual review meeting of the partnership dealt with all aspects of the PPP, such as KPI performance and variation, service volume reviews, continuous

improvement of the services, comprehensive performance assessment, economic regeneration and the joint venture. The participants were almost the same as those of the quarterly meeting, but also included the CEO of arvato direct services UK Matthias Mierisch. Most of the members of the quarterly and annual meetings were said to be members of the "core group". The "core group" was formed during the procurement process of the public-private partnership and is referred to as the nucleus of the partnership. Six members from arvato and the council constitute the core group: Matthias Mierisch (CEO arvato direct services UK), Rainer Majcen (Managing Director arvato government services), Richard Whyte (Finance Director arvato services UK), Nigel Pearson (Chief Executive ERYC), Sue Lockwood (Director of Corporate Resources ERYC) and Barry Adams (Director of Corporate Policy and Strategy ERYC). The Managing Director and Revenues Manager of arvato government services explained the relevance of the core group:

> "As long as the core group is working well together we will absorb the frustration when there is a conflict."
> Rainer Majcen, 22.11.2007

> "I think the main thing that helps the partnership is the relationships that are being built up between certain members of staff and the client side. And I think the relationship that has being built up between Rainer and Matthias and Sue Lockwood and Nigel Pearson, is very strong. And when a hard decision has to be made and it gets to that level it will be made. I think that there will always be cooperation at that level."
> John Buttle, 25.01.2007

An annual joint venture meeting informed the shareholders about the activities of the joint venture company including financial statements. Figure 24 depicts the formal meeting structure of the partnership. Each of the three objectives of the council is addressed by the meetings.

Figure 24: Meetings between the Council and Arvato
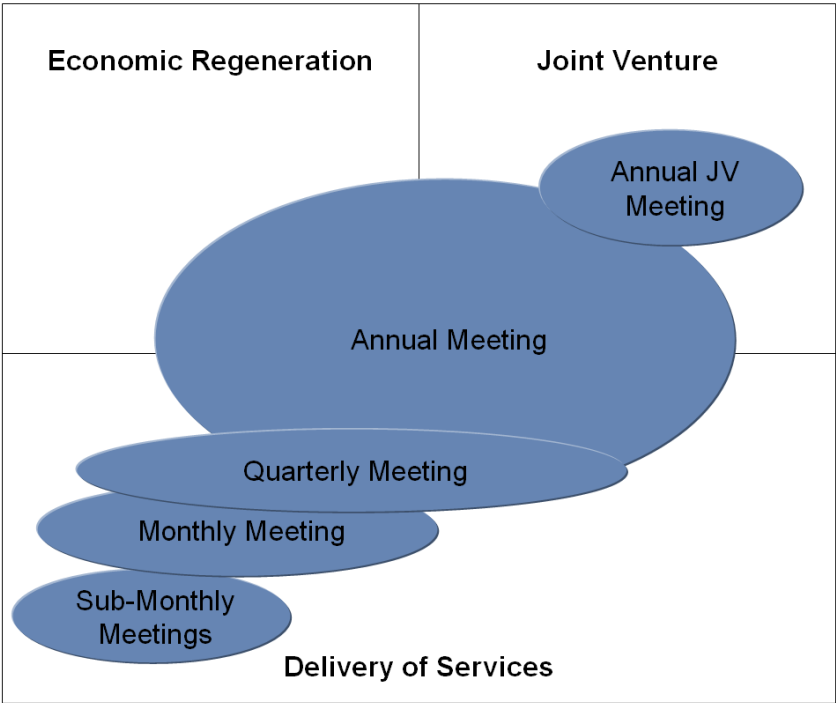
Own Exhibit.

Another formal way of communication was the distribution of a partnership newsletter which was produced by the council's contract manager and arvato's client manager. The newsletter was entitled "Partnership Matters" and informed staff on both sides of the partnership monthly about the key developments of the partnership, the joint venture and the results of the monthly, quarterly and annual meetings. Moreover, the arrangement of away days facilitated communication between the public and private partners. Away days can either be specific or general. The latter involves staff from each service area and the top management from both partners and deals with general partnership themes. Away days that focus on a specific topic like risk and innovation typically address certain service areas.

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Finally, communication was enhanced by the involvement of arvato's top management in the council's SMT and Partnership Board meetings. Sometimes arvato gave presentations at the council's PPP board to discuss about any legal and financial implications of the service delivery and contract variations. Arvato's participation at the council's senior management team meetings proved to be a successful communication channel for both partners. Caroline Hopkins was a member of the council's SMT at the time she was seconded to arvato. As she was transferred and appointed to arvato's director of operations & client services she did not participate at the council's SMT anymore. To ensure that partnership issues could go straight into the council's SMT Caroline Hopkins re-joined the meetings. Additionally, by attending the meetings Caroline Hopkins had a direct understanding of issues that were important to the council and might affect the partnership.

To prepare for meetings with the council and to clarify internal issues, arvato arranged three types of formal meetings: the senior management meeting (SMT), the operational management meeting (OMT) and the project management group meeting (PMG). The SMT was dedicated to company wide strategic matters and issues whereas the OMT addressed issues occurring within the day-to-day management across each of the nine scoped services. At the PMG the Project Managers and the Managing Director including his Assistant discussed critical projects.

Informal communication between arvato and the council took place frequently because most of the public and private employees were working at the same site. As a result, most of the topics of the formal meetings were discussed upfront and problems were resolved between the client manager and the service manager during the day-to-day operation. Andy Carrel, the Marketing Manager of arvato government services, pointed out that the formal meetings are mainly a control mechanism for the council and that the informal (ad-hoc) communication is vital for the operation of the partnership:

"The meetings provide reassurance if for nothing else. Possibly more on the council's side that arvato is managing the business within the terms of the contract and in line with the council's ambitions. So there are no surprises because they understand exactly what we are doing. Personally I think, as the partnership progresses, that focus may switch slightly because they become more reassured as the partnership matures. […] As I was the Print & Design Manager my Level A meetings, for example, would last typically no more than 15 minutes. The reason for that was that there were no surprises in the Level A meetings. The ad-hoc communication is important because without it you could talk about things the client manager of the East Riding was not aware of."
Andy Carrel, 24.01.2007

The Revenues Support Manager of the Council, Bernice Lade, and arvato's Customer Services Network Manager, Michelle Rowbottom, illustrated how informal communication between arvato and the council was applied at the operational level:

"It is communication that makes the partnership work, informal communication. […] For example, yesterday afternoon we [Level A] got together for half an hour for a cup of coffee. Nothing formal, just talking about what is going on. We are in this together. What are we are going to do about it?
Bernice Lade 09.03.2007

"We are just picking the phone up and contacting the client management team, just visiting each other when something happens and just coming in and sitting and talking about it rather than waiting to the formal meetings. Some things have to go that way, but a lot is done more informally. If we can resolve it without having to refer it to a meeting then we will do."
Michelle Rowbottom, 03.12.2007

6.5.3   Critical Incidents

This chapter describes three critical incidents which illustrate the interaction between the council's retained side and arvato. Chapter 6.5.3.1 outlines the away day which was a key development for the reinforcement of the partnership spirit. Chapter 6.5.3.2 presents the flooding of the East Riding area which required both partners to act beyond contractual obligations. Chapter 6.5.3.3 illustrates how the partnership contributed to the opening of the Petuaria Centre which received national recognition for its integrated community services.

6.5.3.1 Away Day

On the 1st and 2nd March 2007 managers from arvato and the council attended a two-day workshop in York to discuss strategic issues of the partnership. The top management of arvato and the council as well as client and service managers from each service area participated at the event. They reviewed achievements as well as discussed forthcoming challenges. Representatives of the council and arvato gave presentations and discussions were structured by a professional moderator. Almost all interviewees felt that the away day was very successful and strengthened the togetherness of both parties on a personal level. The away day improved team working across the services and the partnership.

The Human Resources Manager of arvato, recognised the reinforcement of the partnership spirit:

> "They felt more like colleagues than I had experienced before. And we realised that we have the same objectives. We are on the same side really, but it is just that we work for two different employers."
> Gill Chappel, 05.03.2007

The professional level was also addressed by sharing information on strategic and operational issues between both partners. The Revenues Technical Manager of the

council, Katie Irwin, pointed out that the away day facilitated the understanding of arvato's business. Similiary, Julian Rice, arvato's Occupational Health Manager, noted that the strategic context of the council was clarified at the away day:

> "The wider issues became clearer and how the council wanted us to feed into their wider issues, such as the CPA and all the rest of it."
> Julian Rice, 06.12.2007

> "Until the away day we had gaps. The away day was very useful. It showed us where arvato is trying to go."
> Katie Irwin, 06.03.2007

Additionally, arvato's Training Manager realised that some knowledge gaps about each others businesses do not exist on purpose and are not a sign of protective behaviour:

> "One of the things that certainly came from the away day is that we don't know things that are going on in the East Riding and vice versa. It is very easy to assume that they are not telling us that because they don't want to tell us. Either they don't know or they didn't actually know that we were interested. That is part of the progression of the partnership, getting to know the contract and working closely together."
> Colin Rowe, 08.03.2007

The away day placed particular emphasis on strengthening the partnership by improving communication and decision-making processes. As a key output of the away day an action plan was devised which specified the discussed topics and comprised the agreed actions and responsibilities. To ensure that the operational management on both sides mutually understands the priorities and strategic drivers of both parties it was decided that each quarter half day briefing sessions should be held. The publication of the newsletter "Partnership Matters" should be produced to inform public and private employees about partnership activities. In addition, it was decided that Caroline Hopkins, arvato's Director of Operations & Client Services, will be invited to the council's SMT meetings in order to ensure that

arvato was kept up to date with information on the council's policy and procedural changes that were not communicated across the partnership. Moreover, it was agreed that Arvato informs the council's contract manager about the joint venture work on a weekly basis.

In terms of decision-making the action plan required both sides to empower and support operational managers to make all relevant decisions pertaining to the service delivery. As a consequence, a protocol was produced that details decision making responsibilities of client and service managers. Furthermore, the production of service plans for each scoped service with clear responsibilities for action was suggested.

6.5.3.2 Flooding

In June 2007 central and northern England was severely flooded which led to estimated damages over 2 billion GBP (Yahoo 2007). On the 15th and 25th of June the East Riding faced unprecedented heavy rainfall and flooding which devastated five schools, dozens of homes and several businesses. The council set up an emergency plan and a 24-hour emergency control centre at Beverley to coordinate the immediate response and the clean-up operations. As soon as the heavy rains hit the area residents phoned the council's call centres. Arvato delivered the customer service network and experienced a sharp increase in the number of incoming calls. The customer service network receives between 1500 and 2000 calls a day. In the first days of the flooding the number of calls exceeded 14000. As a result, arvato's staff worked extra hours and the call centers operated 24 hours. Rainer Majcen, the Managing Director of arvato government services, noted that arvato acted as if it was the fifth department of the council:

"Our teams worked overtime and spend nights to support the council as good as we can; as if we were council employees. There is no difference. There was never any discussion about invoices or costs we just did it."
Rainer Majcen, 22.11.2007

During the emergency situation there was no concern about KPI performance. The council's client manager for the customer service network perceived arvato's immediate response to the flooding as an expression of partnership working:

"It was about everyone coming together to meet real need. It was about one voice, one place together to give the best outcome for the public. People really gave a 150% to make sure that we have those people at the frontline that we needed. That is real partnership working, I think."
Amanda Wilde, 03.12.2007

Some staff carried on working despite having been told that their homes had flooded. During the emergency arvato's Customer Services Network Manager worked closely with the council's client manager to allocate resources appropriately. The client manager liaised with the council's emergency control centre and informed Michelle Rowbottom's team about the council's emergency measures that affected the customer service network. Michelle Rowbottom described the successful cooperation between arvato and the council as follows:

"The staff put in hundreds of extra hours. It really was a good example of the staff's commitment and certainly partnership working. We lost a lot of our IT systems as well. But again, working with Amanda and the client team we could maintain as much as possible or decide how we would change our procedures to work."
Michelle Rowbottom, 03.12.2007

The council paid the additional staffing cost and did not apply KPI penalties because of the increase of calls caused by the emergency situation.

6.5.3.3 Opening of Petuaria Centre in Brough

In August 2006, the East Riding of Yorkshire Council opened the Petuaria Centre in Brough. The £1.6m Petuaria Centre is a multipurpose facility which combines a library, a customer service centre and a community centre. Before the centre was launched the customer service centre and the library were in different buildings and had separate staff. Bringing staff and services together created efficiencies for the council and a single point of contact for the customers.

Because arvato is delivering the customer service network its employees were involved in the project teams that launched the new centre. The project teams reported to a project board on a monthly basis. The project board also comprised members from arvato and the council. The opening of the Petuaria Centre required various contract variations. The scoped and the retained side agreed to deal with the formal issues afterwards. The council's client manager viewed the partnership with arvato as an important success factor for the opening of the centre:

> "The benefit of the partnership is that you can often expedite the process. It was much quicker than we would have done it internally."
> Amanda Wilde, 03.12.2007

Another advantage of the partnership with arvato was the implementation of innovative IT which enabled the council to integrate all relevant information and provide a one-stop service. The Petuaria Centre received national recognition for the integrated community services delivered from this facility. In 2006, the council was a finalist in the E-Government National Awards for Efficiency.

7.   Discussion

This chapter links the empirical findings of the previous chapter to the literature reviewed in chapters 2 and 3. Additionally, this chapter includes insights into new issues which are relevant to conceptualisation of partnering capacity. Chapter 7.1 analyses the mode of governance employed by the partnership between the East Riding of Yorkshire Council and arvato government services. The organisational domains of the partnership are mapped and the complexity of white-collar services is analysed. Chapter 7.2 discusses and revises the working propositions which addressed the three dimensions of the partnering capacity *strategy*, *power*, and *culture*. Those empirical findings which are not considered by the working propositions and are relevant to the research problem are included by stating new propositions. Chapter 7.3 analyses the new propositions. They address socio-processual and structural factors. Moreover, four core management challenges of white-collar PPPs are included in chapter 7.4.

It is important to note that the empirical findings can be analysed from different perspectives. For instance, a critical incident that offers insights into the cultural dimension may also offer valuable insights into the strategy dimension or into a socio-processual factor. The analysis of chapter 7 leads to the conceptualisation of the partnering capacity. The partnering capacity concept is presented in chapter 8.

7.1 Governance Mode and Complexity of White-Collar Services

The main element of the collaboration between the council and arvato is the business process outsourcing of corporate and central support services. It could be stated that the collaboration is an outsourcing approach rather than a public-private partnership. However, all interviewees from council and most of the interviewees from arvato emphasised that the collaboration is a public-private partnership. This is partly due to the fact that the notion of partnership has a more positive connotation than the term outsourcing in the UK public sector. In particular, the Blair government has embraced the notion of partnership to distinguish its reforms from the neo-liberal policies of the Thatcher and Major governments. The empirical findings suggest that the collaboration between the council and arvato is in fact a public-private partnership. The mode of governance, the joint venture company and the involvement of arvato in wider-community policies through the creation of a regional business centre lead to a level of entanglement between the public and private parties that is not present in outsourcing arrangements. In typical outsourcing arrangements private and public organisations do not launch a jointly owned company which aims to market and sell services to other local authorities. Additionally, the involvement of arvato to create 600 new jobs by establishing a regional business centre is unusual even for public-private partnerships in the UK. This task commits arvato to the East Riding region and involves the private partner for wider-community objectives.

To analyse the mode of governance it is necessary to map the organisational domains of the partnership. Figure 25 depicts the regional business centre, the joint venture company and those organisational units of the council and arvato which are involved in the delivery of the scoped services. The partnership domain includes those people who span the boundaries between the council and arvato and those functions that directly cut across the individual organisations.

Figure 25: Mapping of Organisational Domains
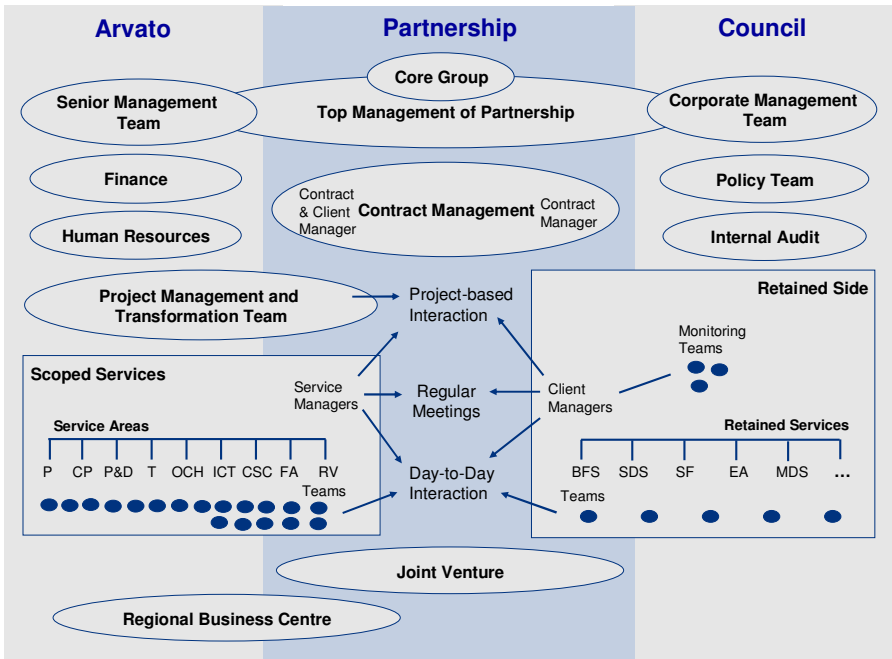
Own Exhibit.

The core group[22], the top management of the partnership, the contract managers and arvato's client manager are assigned to the partnership domain. Parts of the scoped and retained services as well as some tasks of the project management are also located within the partnership domain because of service splits[23] and the monitoring and service development activities of the council's retained side.[24] As a joint endeavour to market and sell the scoped services the joint venture company is placed in the partnership domain.

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[22] Please refer to chapter 6.5.2 for more information on the core group.

[23] For an example of a service split please refer to figure 23 in chapter 6.5.1.

[24] Please refer to chapter 6.5.1 for further information on the council's monitoring and service development activities.

As illustrated in chapter 6.1.1, the contract requires arvato to create 600 new jobs in the East Riding area by establishing a regional business centre. As a first step towards a regional business centre arvato has launched a call centre that delivers services to the private sector. Because the management of the call centre is independent from the council, the regional business centre is located within the arvato domain. However, the business centre is an explicit component of the partnership agreement. That is why a part of the centre is situated within the partnership domain. The council's and arvato's senior management team, arvato's HR and finance unit as well as the council's policy team and internal audit are located solely within the domain of the council or arvato. These functions indirectly impact the partnership but are not established for partnership purposes. For instance, the council's internal audit carries out Best Value Reviews and therefore looks at a wide range of public services including those which were transferred to arvato.

Figure 25 shows that a great deal of the collaboration between arvato and the council is situated within the partnership domain. A high level of interaction and a partnership orientation is required because of the complexity of services delivered. The services transferred to arvato are complex due to sectoral and service-specific factors. Because public services are embedded in the wider political context of the public sector, certain sectoral factors shape the service delivery. As illustrated by the critical incident *"Reduction of Housing Benefit"* in chapter 6.3.3.2 social services are provided to vulnerable people. The service delivery is situated within a political sensitive context driven by interest groups, councillors and local political organisations.[25] Moreover, as a local authority the East Riding of Yorkshire Council has to respond to changes in legislation arising from central government. The KPI changes[26] are one of many examples how central government affects the service delivery. The complexity of the scoped services is also increased by their knowledge intensive nature, the transfer of staff and splits in service delivery. Assessing benefit payments or checking the health of an employee are services that

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[25] Please refer to chapter 6.3.2.1 for more information on the political environment of the East Riding of Yorkshire Council.

[26] For further information on the national impact on the KPIs please refer to chapters 8.4.2 and 8.4.3.

require professional knowledge and expertise. PPPs that deliver corporate and central support services are more knowledge intensive than public-private partnerships that focus on construction projects. Moreover, the council's staff is transferred to the private sector partner which again increases complexity because it requires to manage people, their expectations and their public sector background. The service splits between arvato and the council also lead to a high level of interdependent exchange. The council retained certain services, in particular the strategic function of service development, in order to ensure that the delivery of the scoped services aligns with the council's wider policy.[27] Information needs to be exchanged between both partners. Figure 26 summarises the factors that contribute to the complexity of the delivery of corporate and central support services.

Figure 26: Complexity of White-Collar Services
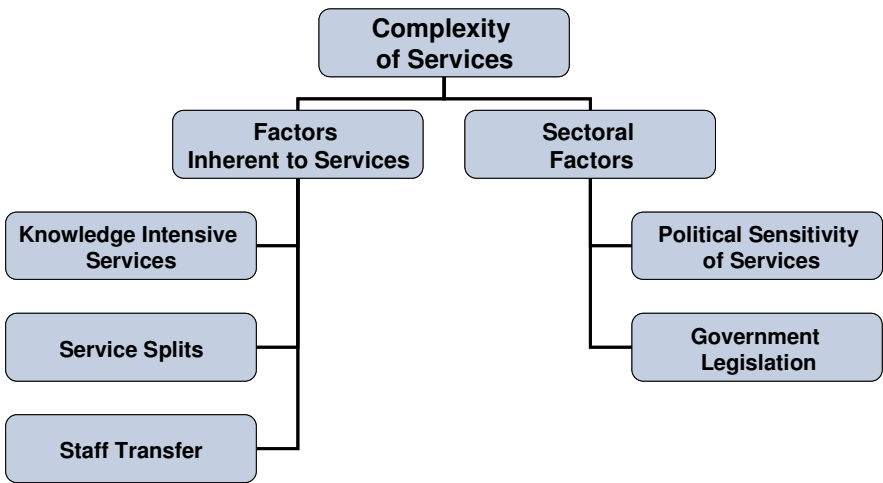
Own Exhibit.

Without a partnership approach the wide range of complex services would be difficult to provide. That is why the council and arvato have arranged for

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[27] For further information on the retained side please refer to chapter 8.5.1.

communication mechanisms[28] underpinned by a regular meeting structure. Furthermore, the retained and scoped services as well as the contract management function are carried out from shared premises. This enables informal communication between arvato and council employees.

The complexity of the scoped services and the joint venture work requires a mode of governance that allows for frequent communication and exchange between the involved organisations. Powell's (1990) stylised models of markets, hierarchies and networks introduced in chapter 2.1.3 are the basis of the following analysis. Figure 21 depicts Powell's typology. The marked fields are those modes and features which were present in the collaboration between arvato and the East Riding of Yorkshire Council. The dominant mode of governance is the network.

Table 20: Mode of Governance in the East Riding Case

Forms / Key Features	Market	Hierarchy	Network
Normative Basis	Contract - Property Rights	Employment Relationship	Complementary Strengths
Means of Communication	Prices	Routines	Relational
Methods of Conflict Resolution	Haggling - resort to courts for enforcement	Administrative fiat – Supervision	Norm of reciprocity – Reputational concerns
Degree of Flexibility	High	Low	Medium
Amount of Commitment Among the Parties	Low	Medium to High	Medium to High
Tone or Climate	Precision and/or Suspicion	Formal, bureaucratic	Open-ended, mutual benefits
Actor Preferences of Choices	Independent	Dependent	Interdependent

☐ Features present in the East Riding Case

[28] Further information is provided in chapter 9.2.1.3.

Own Exhibit.

In terms of the *normative basis* of the collaboration market and network modes of governance were identified by the interviewees. The market model with its emphasis on the contract and legal sanctions was dominant at the start of the collaboration. This is displayed by the different phases of performance and contract management. During the first three to six months there was a strong focus on the output specifications of the contract and the key performance indicators. Relationships, ways of joint working and a more laid-back attitude towards contract management became more important during the second year.[29] The latitude to embrace complementary strengths developed with the progression of the collaboration. At all times the council and arvato highlighted the mutual benefits which both parties gain by bringing together their specific public and private sector expertise. The normative basis of the collaboration was strongly shaped by the network mode of governance. In the year 2007, the network mode dominated the collaboration and the market mode of governance was less present.

As illustrated in chapter 6.5.2, the collaboration between arvato and the council is underpinned by regular meetings. These meetings and the detailed reporting mechanisms imposed by the council's monitoring team argue for a hierarchical mode of governance with regard to the *means of communication*. However, relational means of communication are also present within the collaboration. The interviewees emphasised the importance of relationships and informal communication for the success of the collaboration. Hence, in terms of communication both modes of governance the hierarchy and the network are present.

In terms of the *methods of conflict resolution* and the *climate* typical features of the network mode of governance could be identified. Powell (1990) notes that in networks individuals are "engaged in reciprocal, preferential, mutually supportive actions" (p. 303). The literature usually states that conflicts are resolved by

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[29] For further information please refer to chapter 6.2.3 and chapter 6.4.1.

normative procedures (Rhodes 1996, Peters 1998, John and Cole 1998, Agranoff and McGuire 2001). In the East Riding case, the critical incident "caps & collars in occupational health"[30] illustrates how the resolution of conflicts is underpinned by the norm of reciprocity. In this incident arvato and the council intended to reach an amicable solution for the overstepping volumes of referrals within the occupational health unit. The parties agreed that the council abstains from imposing a financial penalty. In return arvato forewent its claim for monetary compensation and offered to develop new ways of working to cope with the increase in the number of referrals that exceeded the contractually agreed cap. Contrary, in a stereotypical market mode of governance it would have been more likely that the parties go to court in order to resolve the conflict because exchange is determined by prices and noncooperative, unconstrained social interaction (Powell 1990). Interviewees from arvato and the council emphasised that a confrontational approach does not resolve conflicts. A successful partnership would need to focus on common objectives and a mutual understanding of each others situation. Moreover, the flooding in the summer 2007 demonstrates that arvato's staff acted as if it were the fifth department of the council.[31] This commitment and climate is typical for a network mode of governance as defined by Powell (1990).

Powell (1990) points out that networks are "lighter on their feet" than hierarchies (p. 303). A high *degree of flexibility* was present as the Petuaria Centre in Brough was established. The council's client manager noted that the partnership expedited the process. However, the flexibility of the actors within the collaboration is restricted by the monitoring efforts and the service splits. Hence, overall there is a medium degree of flexibility. The *interdependent preferences of choices* are also in line with the network mode of governance. Chapter 7.2.1 shows the strategic interdependence of most of the individual objectives of the council and arvato.

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[30] For further information please refer to chapter 6.4.4.1.
[31] For further information please refer to chapter 6.5.3.2.

The analysis demonstrates that the dominant mode of governance in the East Riding case is the network. The literature reviewed in chapter 2.1.3 asserts that a network mode of governance is associated with public-private partnerships (Huxham and MacDonald 1992, Kickert et al. 1997, Klijn and Koppenjan 2000). Additionally, the collaboration between the East Riding of Yorkshire Council and arvato government services fulfils the requirements of Budäus and Grüning's (1996) definition of public-private partnerships. There is an interaction between the public and the private sector, a process orientation, a potential for synergies, the identity and responsibility of the partners remain intact, and the collaboration is contractually formalised. The definition also entails a focus on pursuing complementary objectives. The East Riding case does not focus on complementary objectives as defined by Kurr (2004). The analysis in chapter 7.2.1.3 (figure 28) illustrates that individual objectives in a successful and stable public-private partnership can also be in harmony or symbiosis. It appears to be crucial for public management research to break down the different constellations of objectives in order to have a more nuanced and comprehensive view on the strategic issues underpinning public-private partnerships.

In terms of the level of formal institutionalisation (Roggencamp 1999) the public-private partnership between arvato and the council is neither an informal collaboration nor a joint venture. Although a joint venture is part of the partnership most of the collaboration is around the scoped services which were outsourced on the basis of a contract. Hence the collaboration is a contract-based public-private partnership with a medium level of institutionalisation.

7.2   *Discussion of Working Propositions*

This chapter discusses and revises the working propositions which addressed the three dimensions of the partnering capacity *strategy*, *power*, and *culture*. The working propositions help to identify the contribution of the empirical case to the three dimensions. Chapter 7.2.1 addresses the strategic dimension of the partnering capacity. The chapter analyses the individual objectives of the council and arvato, the incentive structure of the partnership, the partnership objectives, and the dissemination of objectives. The cultural dimension is investigated in chapter 7.2.2. The cultural differences and similiarities between arvato and the council are assessed, and the elements of the partnership's macroculture are identified. Chapter 7.2.3 focuses on the power dimension. The power relations between the public and private partners are analysed. Chapter 7.2.4 discusses the empirical findings which contradict the working propositions outlined in the previous chapters or which are part of the three dimensions (strategy, culture, power) and not considered by the working propositions.

7.2.1   Strategy

This chapter links the case study results to the strategic dimension of the partnering capacity concept by discussing the working propositions derived from the literature review. Chapter 7.2.1.1 analyses the individual objectives of the council and arvato. Chapter 7.2.1.2 focuses on conflicting objectives of the partners and how these are addressed by the incentive structure of the partnership. The constellation of individual objectives and partnership objectives are analysed in chapter 7.2.1.3. Finally, chapter 7.2.1.4 investigates the dissemination of objectives.

7.2.1.1 Individual Objectives of the Council and Arvato

The literature presented in chapter 3.2.1 points out that public-private partnerships brings two organisations together which are likely to have different and even conflicting objectives. The objectives of the public sector are multifaceted, but mainly tend to utilise the strengths of the private sector. The literature points out that public sector organisations aim to achieve cost savings and a more business-like operation, increase the efficiency and quality of services and refresh their technology (Reijniers 1994, Domberger and Fernandez 1999, Ahadzi and Bowles 2004). Moreover, they intend to get access to market expertise and skills including business process management, and change management and ICT skills (Bloomfield and Hayes 2004). The strategic objectives of the private sector are said to be monetarily motivated. By entering a partnership with a public sector entity private companies primarily aim to gain new investment opportunities in new markets and to set up long-term projects with a constant cash flow (Reijniers 1994, Van Ham and Koppenjan 2002, Wimmer 2004). The empirical findings of this research corroborate the account that private sector organisations have monetary objectives. However, the research reveals new insights into the objectives of the public sector. Table 22 summarises the council's and arvato's objectives that were pursued by establishing the public-private partnership.

Table 21: Individual Objectives of the Council and Arvato

Arvato's Objectives	Council's Objectives
Market Entry	Excellent Performance of Services (Efficiency, Cost Reduction and Quality)
Profitable Business Case	Economic Regeneration (Creation of Jobs)
Growth (Acquisition of New Partnerships)	Business Development of the Scoped Services (Market and Sell)

Own Exhibit.

Arvato's objectives were to enter the local government market, to set up a profitable business case and to become one of the leading service providers for public-private partnerships in the UK. These objectives are mentioned and discussed in the literature. The council's objectives, however, differ to a certain extent from those mentioned by public management researchers. The council's objective of excellent performing services falls in line with the theoretical accounts mentioned in chapter 3.2.1. The East Riding of Yorkshire Council uses the term 'excellent performing services' to refer to high quality, cost effective and efficient services and a top 10 % position in the comprehensive performance assessment that ranks local authorities according to their service performance. The council's objectives in terms of economic regeneration and the business development of the scoped services are not addressed by extant literature on public-private partnerships.

Involving a private sector company to market and sell public services to other local authorities is a new phenomenon.[32] The empirical findings indicate that this might be due to the fact that since the last few years local authorities in the UK have discussed the use of regional service delivery through shared services arrangements (Cabinet Office 2005, Communities and Local Government 2007). In particular, the Varney Review which was commissioned by HM Treasury viewed shared services arrangements as an integral part of public sector reform (Varney 2006). A shared services arrangement involves two or more local authorities from a region to work together to deliver a service for the purpose of achieving economies of scale. The East Riding of Yorkshire Council saw this development towards regional service delivery as an opportunity to market its services. The joint venture with arvato should facilitate this development by establishing the council as a showcase for excellent public services and capitalising on arvato's marketing and sales expertise.

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[32] The joint venture company established by BT and Liverpool City Council is another recent example.

The council's objective to tackle economic regeneration is primarily directed at creating 600 new jobs in the East Riding area. Since the last decades the council has experienced that many international companies left the area to settle in London or other economic centres. The council's chief executive viewed the partnership with arvato not merely as a means to improve public services but as an opportunity to achieve wider community aims. The public-private partnership with arvato should create new jobs which would lead to further inward investments. As depicted in the chapters 3.1 and 3.2.1, the literature does not mention local authorities that explicitly launch public-private partnerships for the purpose of creating jobs in a specific region. This might be due to the fact that almost all of the PPPs analysed by researchers deal with infrastructure and construction projects and therefore focus on financing a specific road, hospital, railway or school (Frilet 1997, Bennett 1998, Kanter 1999, Qiao et al. 2001, Jefferies et al. 2002, Hardcastle et al. 2005).

Development research on public-private partnerships indicates that in some cases the public sector intends to create employment at the local level by entering a partnership with private sector organisations (Bates 1997, Best and Forrant 2000, Baud et al. 2001, Ahmed and Ali 2004). However, these partnerships still involve the private sector primarily to deliver certain projects, such as waste management services (Minh 2002), expressways (Skosey and Kish 2006) and wind farms (Climate Group 2007). In each of these projects the creation of jobs is seen as a side effect of the partnership. The East Riding of Yorkshire Council, however, aimed to launch a public-private partnership in order to increase employment in the region. The objective of job creation was explicitly set upfront and during the procurement process. Arvato government services was directly engaged to create 600 jobs in the first four years of the partnership.

Figure 27: Impact of Institutional Environment on Council's Objectives
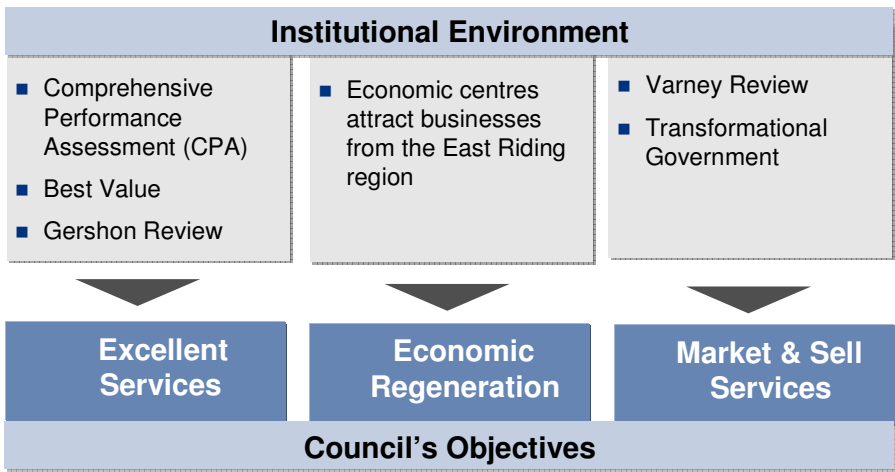
Own Exhibit.

As figure 27 illustrates, the objectives of the council were driven by changes in the institutional framework. The institutional framework set a favourable environment for the development of public-private partnerships that involve the delivery of corporate and central support services.

7.2.1.2 Conflicting Individual Objectives and Incentive Structure

The following paragraphs analyse the working propositions 1, 2 and 3. It is focused on individual objectives that conflict which each other and how the incentive structure of the partnership addresses this conflict. Critical accounts of New Public Management emphasise the sectoral differences between public and private organisations (Box 1999, Denhardt and Denhardt 2000, Denhardt and Denhardt 2003). Businesses will usually have a predominantly commercial orientation whereas local government will have a greater focus on equity, public accountability and a fail-safe and universal provision of services (Fainstein and Fainstein 1995, Frederickson 1997, Du Gay 2000). Spielman and Grebmer (2006) portray firms as profit-maximizing and public organisations as welfare-maximising

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entities. Hence, Carol and Steane (2000) point out that the individual objectives of private and public organisations are likely to conflict in a public-private partnership. The literature review led to the following working proposition:

WP 1:   *The objectives of private and public organisations are likely to conflict in a PPP setting.*

Proposition 1 is confirmed by the empirical findings of this research. Essentially, two objectives of the council, economic regeneration and service excellence, imply a certain potential for conflict. The council's objective of economic regeneration conflicts with arvato's objective to deliver a profitable business case. The council views the public-private partnership as an opportunity to achieve wider-community objectives. The creation of a business centre employing 600 people should act as a catalyst for sustainable economic regeneration in the East Riding region. As an international company arvato has no endogenous motivation to contribute to the regional development of the East Riding area. Creating 600 new jobs within the first four years of the partnership is a financially challenging task that can threaten the profitability of arvato government services.

The council's objective to achieve and maintain top performing services can also conflict with arvato's objective to make a profit. The objective of excellent service delivery consists of two antagonistic elements: efficient, fast and low cost services vs. high quality, comprehensive and informative services. Cost-cutting and the re-engineering of processes can lead to a lower quality of service delivery. For instance, the standardisation of customer-facing processes yields efficiency savings. However, a routinised and standardised work organisation gives priority to the pace of call processing rather than the accuracy and completeness of the response to a customer's query (Taylor et al. 2000, Schedler and Walther 2007). As described in chapter 6.1.1, the council aims to achieve both high quality and efficient services by entering the public-private partnership with arvato. Moreover, the council places a great emphasis on its reputation. The East Riding residents' perception of the council is a key concern for the local authority. Arvato's

objective of profitability and the financial model[33] of the partnership incentivise arvato to cut the costs of service delivery in order to make a profit. The annually decreasing payments from the council to arvato also facilitate efforts to make the service delivery more efficient and reduce the costs. Hence, the council's objective of service excellence meets arvato's objective of profitability with regard to efficient and cost effective services. On the other hand, it also conflicts with arvato's objective of profitability because arvato's intention to cut cost may threaten the quality of the scoped services. Moreover, high quality services are likely to require a high level of human and financial resources and therefore increase the service cost. The critical incident "caps & collars in occupational health"[34] illustrates the conflict between the quality objective and the profit objective. The occupational health unit experienced an increase of the number of referrals. Because the maximum volume of referrals agreed in the contract was exceeded, arvato did not want to recruit additional personnel. In order to still meet the KPI target, arvato's employees processed customers quickly. The time spent on individual customer queries was minimised, even if this would decrease the quality of the service.

The key instrument to align conflicting objectives and to avoid opportunistic behaviour (Lane 2000, Grimshaw et al. 2002) is the introduction of adequate incentives. Stiglitz and Wallsten (1999) emphasise that in a situation of separate interests between public and private partners more attention needs to be placed on the incentive structure of the partnership. The UK Treasury Green Book (HM Treasury 2003) also points out that it is important to built incentives into the contract to prevent any under-performance. The working proposition 2 is as follows:

WP 2:   *An adequate incentive structure compensates conflicting objectives and improves the partnering capacity of public and private organisations.*

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[33] Please refer to chapter 6.2.2 for further information.
[34] Please refer to chapter 6.4.4.1 for further information.

The working proposition 2 is confirmed by the empirical findings of the research. Although the partnership between arvato and the council does not apply a classic bonus malus system, incentives are induced by certain financial reductions and a cap on arvato's profit. In order to ensure that arvato delivers to the specified service standards the contract provides for 114 key performance indicators.[35] The quality of the scoped services is measured against the key performance indicators and reviewed by the retained monitoring team of the council. Many KPIs are linked to a financial penalty. If arvato fails to meet a target of a KPI, deductions of the council's monthly service payment will be made. Hence, the council's objective of high quality services is aligned with arvato's profitability objective because the payment mechanism relates to the performance standards. Furthermore, the contract determines the maximum profit arvato can achieve. As a result, arvato has no incentive to make more profit than it is allowed to. This mechanism ensures that the re-engineering efforts of arvato do not exceed a certain level and potentially deteriorate the service quality.

The conflict between the council's objective of economic regeneration and arvato's objective of profitability is addressed by financial penalties. These are due when arvato fails to meet the milestones for the job creation. The financial penalties are against the annual contract payment for all scoped services. Because of the potentially heavy reductions of the council's payments arvato has an incentive to create the required 600 new jobs in the East Riding area. The incentive structure of the contractual framework underpins and enables the partnership between arvato government services and the East Riding of Yorkshire Council. It ensures that the conflicting objectives of both partners do not dominate the partnership. As illustrated in chapter 6.1.3 almost every interviewee perceived no difference between the council's and arvato's objectives. In particular, lower-level staff from arvato and the council's employees said that the council's objectives are the same as arvato's objectives. This perception is also an indicator for how the incentive structure compensates the conflicting individual objectives of both organisations.

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[35] Please refer to chapter 6.4.1 for further information.

The existence of financial penalties and the cap on profits contributes to the stability and sustainability of the partnership.

The literature reviewed in chapter 3.2.1 states that partnerships that are built around contradicting objectives have a tendency towards opportunistic behaviour (Koza and Lewin 1999). Hence, the ability of public and private organisations to maintain their partnership is increased when there is a low degree of conflicting individual objectives:

WP 3:   *The lower the degree of conflicting individual objectives, the higher the partnering capacity of public and private organisations.*

As discussed before, the incentive structure of the contract prevents that the conflicting objectives adversely affect the partnership. Moreover, arvato's objective to enter the local government services market and to grow in this sector requires the partnership to be a success. And in order to be successful, arvato has to meet all of the objectives of the council. Arvato's market credibility would be substantially undermined if the council would terminate the contract because its objectives were not achieved. Furthermore, arvato's prospects to renew the contract at the end of the partnership period would be poor if the council's objectives would not be achieved. Hence, the council's objectives of economic regeneration and high quality services are pursued by the private partner although they conflict with arvato's objective of profitability. This is displayed by arvato's creation of more than the 75 contractually agreed jobs at the end of the last research period in December 2007. Moreover, 99 % of the performance targets were met and 65 % of the targets were exceeded in the year 2007.

However, it has to be acknowledged that most of the key performance indicators focus on the efficiency rather than on the quality of the scoped services. This is confirmed by a study of the National Audit Office on the customer service agenda of local authorities as referred to by Needham (2003). Quality of service is equated with the speed with which calls are answered. There is almost no concern for the

accuracy and completeness of the answer given by public officials. Hence, the focus is actually more on the efficiency rather than the quality of service delivery. Nevertheless, every customer-facing service area is evaluated by measuring the customer satisfaction. Arvato received excellent feedback from customers and achieved high satisfaction levels. The council's performance targets pertaining to customer satisfaction have been met since the start of the partnership.

Moreover, the empirical findings reveal that arvato's focus on efficiency gains does not necessarily conflict with the council's objective of high quality services. For instance, arvato's introduction of a revenues call centre was first considered by the council as a threat to customer satisfaction. After an approval process the council finally allowed arvato to launch a pilot. The call centre yielded efficiency gains by streamlining processes and implementing an auto attendant system.[36] More work was handled at the point of contact which, in fact, improved the customer satisfaction. Furthermore, a self-service, 24/7 telephone access to the Revenues service widened the customers' choice of access channels. In the first month after the launch of the call centre the percentage of incoming calls handled within 20 seconds increased from 12 to 60. Customer complaints were also reduced. A conflict between the supplier's focus on efficiency and the public organisation's objective of high quality services as described by Hebson et al. (2003) was not ascertained across all scoped services in the East Riding case. The degree of conflicting individual objectives was low and the ability to find mutual solutions was present in the partnership between arvato and the East Riding of Yorkshire Council.

This chapter has primarily focused on those individual objectives of both partners that are likely to conflict. The degree of conflict between arvato's objective of profitability and the council's objectives of economic regeneration and high quality services has been assessed as being low. The next chapter goes on to analyse both individual and partnership objectives of the East Riding of Yorkshire Council and arvato government services.

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[36] Please refer to chapter 6.3.3.1 for further information.

7.2.1.3   Constellation of Individual Objectives and Partnership Objectives

The following paragraphs incorporate the empirical findings into Kurr's (2004) matrix as it is displayed in figure 11 in the literature review. The strategic setting of the partnership is analysed in two subsequent steps. A first level of analysis summarises to what extent the individual objectives of the council and arvato contradict, require or are neutral to each other. In a second step, particular attention is paid to the overarching objectives of the partnership The results of the analysis help to locate the objectives within Kurr's matrix. The main advantage of Kurr's matrix is that it breaks down the different combinations of objectives that underpin an inter-organisational collaborative setting. Therefore, a deeper insight into the strategic objectives of arvato government services and the East Riding of Yorkshire Council can be gained.

In the following paragraphs the **individual objectives** of the council and arvato are compared with each other. As discussed in the previous chapter, arvato's individual objective of profitability conflicts with the council's objectives of economic regeneration and high quality services. As depicted in table 23, the objective of economic regeneration is considered as comprising a higher potential for conflict than the objective of high quality services. That is due to the fact that some projects[37] between arvato and the council revealed a certain compatibility of the council's quality objective and arvato's profitability objective. The council's objective of economic regeneration, however, would lead to severe conflict between arvato and the local authority if no financial penalties were agreed in the contract. Arvato would then have no incentive to comply with the council's objective. However, the objective of economic regeneration is neutral to arvato's growth objective. A successful delivery of all the contract requirements will increase arvato's credibility in the local government market and therefore the creation of 600 jobs adds positively to the joint venture work. However, most local authorities in the UK primarily involve private organisations to increase the efficiency and quality of public services. Hence, the objective of economic

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[37] Please refer to the Call Centre project of the partnership analysed in chapter 7.2.1.2.

regeneration is not a *conditio sine qua non* for the success of the joint venture work and therefore considered as being neutral to arvato's growth objective.

Table 22: Analysis of Individual Objectives

Objectives arvato / Objectives Council	Enter Market	Profitable Business Case	Growth (become leading provider)	Total Sum / No. of Columns
Service Excellence (Efficiency & Cost Reduction)	0 🟨	2 🔺	4 🔺🔺	2
Service Excellence (Quality)	0 🟨	- 2 🔻	2 🔺	0
Economic Regeneration	0 🟨	- 4 🔻🔻	0 🟨	- 1,3
Market & Sell Services	2 🔺	2 🔺	4 🔺🔺	2,7
Total Sum / No. of Rows	0,5	- 0,5	2,5	

🔻 contradict each other (-2)

🔺 require each other (2)

🟨 are neutral (0)

Own Exhibit.

Arvato can only achieve its growth objective when it excels in those criteria that are particularly valued by local authorities in the UK. The local authorities' decision to enter a public-private partnership is mainly driven by the ambition to achieve efficiency gains and reduce the costs of service delivery. A secondary motive is around the quality of services. Consequently, arvato needs to demonstrate its ability to deliver these requirements. The more arvato meets the East Riding of Yorkshire Council's objective of service excellence, the more successful will arvato be in acquiring new partnerships. Moreover, the council's objective to sell and market the scoped services by launching a joint venture fits well to arvato's growth objective. As a new player in the market arvato can bank on the council's relationships to other local authorities and on the council's expertise for the compilation of bid responses.

The council's objective to market and sell the scoped services also aligns well with arvato's objective to deliver a profitable business case. A profitable partnership with the East Riding of Yorkshire Council will back up arvato's plans to acquire more contracts in the local government market. Furthermore, the council's objective to market and sell the scoped services is in line with arvato's objective to enter the local government market. It would have been difficult for the council to find a partner that is willing to found a joint venture company that is devoted to market and sell the services scoped for the partnership. Most of the private players in the market who could achieve the other objectives of the council are well established and have several public customers who could perceive this in a negative way. Because arvato wanted to enter the local government market, the offer of the council was an excellent opportunity for the development of its business. Arvato's objective to enter the market is considered as being neutral to the other objectives of the council. On the one hand, arvato's objective to achieve a market entry leads to a supportive attitude towards the council's objectives of economic regeneration and service excellence. On the other hand, the fact that arvato was new to the market posed a risk to the council's objectives. The council could not be sure if arvato can deliver excellent services and the required jobs. Moreover, to achieve these objectives the council could have entered a partnership

with other private companies. Hence, the objectives do not necessarily require each other.

Finally, arvato's objective of profitability is in line with the council's objective to achieve cost reductions and an efficient service delivery. The financial model guarantees the council cost reductions due to the decreasing payments to arvato. Moreover, arvato has to increase the efficiency of the scoped services in order to be profitable and at the same time meet the KPIs.

To evaluate the extent to which the combination of strategic objectives contributes to the stability and sustainability of the partnership, it is necessary to identify the **partnership objectives**. According to Kurr (2004) the partnership objectives are those objectives that are communicated officially as the purpose of the partnership. As pointed out in the literature review, the existence of partnership objectives increases the probability that the strategic setting of a PPP is stable. The following working proposition was stated:

WP 4:   There is a positive relationship between the existence of partnership objectives and the partnering capacity of public and private organisations.

In the interviews, documents and commercial videos the East Riding of Yorkshire Council and arvato government services present the following objectives as the purpose of the public-private partnership: Service excellence (quality and efficiency), economic regeneration and the joint venture company with its aim to market and sell the scoped services. Hence, the council's individual objectives are also the objectives of the partnership.[38] The existence of partnership objectives proved to increase the partnering capacity of the East Riding of Yorkshire Council and arvato government services. The success of the public-private partnership can be ascribed to the strategic fit of arvato and the council. The partnership objectives

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[38] The powerful position of the council during the procurement process and the management of the partnership led to the situation that the council's objectives were accepted as the partnership objectives. Please refer to chapter 7.2.3 for more information on the distribution of power between the partners.

helped to decrease mistrust between the two organisations because both partners were oriented towards the same direction. Almost all interviewees referred to the partnership objectives as the foundation of the collaboration. They did not perceive a difference between the individual objectives of the council and arvato because the partnership objectives dominated the relationship.

To locate the objectives within Kurr's matrix two steps of analysis are conducted: Firstly, it is determined if the objectives are partnership objectives in order to locate them vertically; secondly, the results of table 23 are used to locate the objectives horizontally. As displayed in figure 28 the partnership objectives are located in the lower row of the matrix. Those individual objectives that are not labelled as partnership objectives are positioned in the upper row of the matrix. Arvato's goals to enter the market, to grow and to deliver a profitable business case are not regarded as partnership objectives. Based on the analysis of the individual objectives depicted in table 23, the strategic objectives are allocated to certain columns of the matrix. The location of each objective in the fields of the matrix (e.g.: Symbiosis, Harmony, Rivalling) depends on its relation to the other objectives.

For instance, the location of the objective "economic regeneration" depends on the analysis summarised in table 23. As it is calculated in table 23, the objective "economic regeneration" has the value –1,3. As a result, the centre of the red bubble "economic regeneration" is located at -1,3 on the vertical axis of figure 28. Because economic regeneration was stated as a partnership objective it is located in the lower row of the matrix.

Figure 28: Constellation of Objectives in the East Riding case
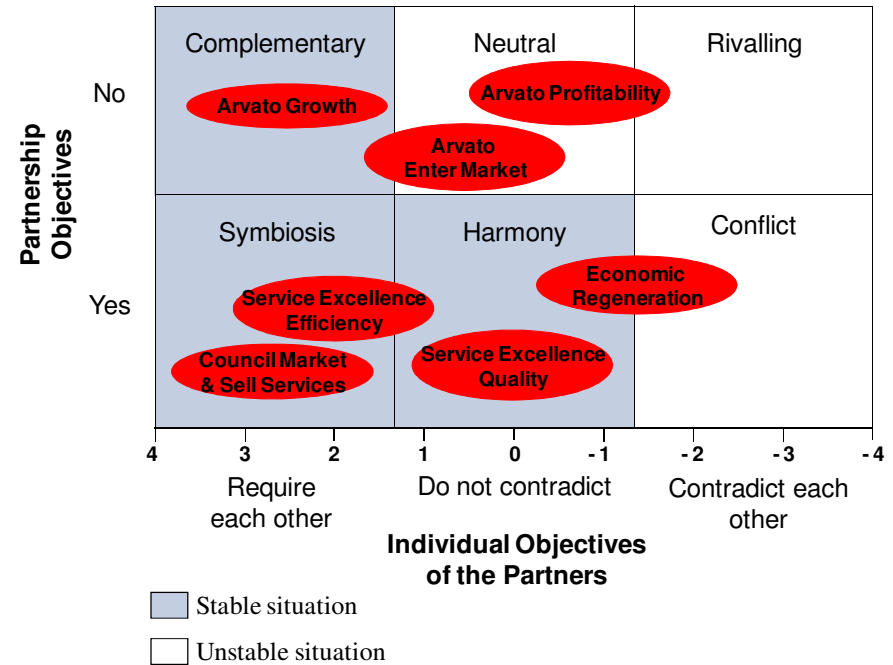
Figure 28 illustrates that most of the objectives are located in the blue fields of the matrix that contribute to the stability and sustainability of a partnership. Merely arvato's objective of profitability is completely located in a white field and therefore conducive to an unstable situation. Hence, the strategic setting of the partnership between arvato government services and the East Riding of Yorkshire Council supports the partnering capacity of both organisations.

7.2.1.4 Dissemination of Objectives

Individual and partnership objectives can be set upfront the start of a partnership. However, that does not guarantee the long-term success of a partnership. The extent to which the objectives are communicated throughout the involved organisations affects the partnering capacity. The literature points out that open communication facilitates mutual understanding, eases collaboration and leads to a higher acceptance of the partnership objectives by staff (Vangen and Huxham 1996b, Huczynski and Buchanan 2004, Trafford and Proctor 2006). By analysing ten PPP projects in the UK and Australia Noble and Jones (2006, p. 900) concluded that mechanisms that foster communication help to solve the problem of "autonomy distance". Autonomy distance refers to the lack of commitment of the staff to the objectives of the partnership. From the literature the following working proposition was derived:

WP 5:   *The higher the degree of the dissemination of objectives, the higher the partnering capacity of public and private organisations.*

The empirical findings of the research corroborate the working proposition. The partnership between the East Riding of Yorkshire Council and arvato government services is underpinned by a sophisticated set of communication mechanisms. Table 24 depicts the main communication mechanisms by allocating them according to their organisational levels (strategic, operational) and their organisational domains (arvato, partnership, council):

Table 23: Classification of Communication Mechanisms

Own Exhibit.

At the strategic level, senior managers and the top management of both organisations discuss the long-term direction of the partnership and all those issues which could affect the achievement of the objectives, such as certain projects, government legislation, the performance of the scoped services and much more.[39] The empirical findings further suggest to classify the communication mechanisms according to their organisational domains: Communication takes place either within the individual organisations or across the partnership. Arvato's SMT Meeting and the council's SMT Meeting and PPP board are situated within the individual organisation. The PPP board only involves employees from arvato if their input on special incidents is necessary. Contrary, the council's SMT Meeting extends into the partnership domain because arvato's Director of Operations &

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[39] For more information on the participants and the topics of the partnership meetings please refer to chapter 6.5.2.

Client Services is regularly invited to those meetings. The partnership domain includes those communication mechanisms that have been established for partnership issues and involve members from the council and arvato.

The operational level comprises all employees that deal with the day-to-day delivery of the scoped and retained services. This level is crucial in terms of the dissemination of objectives. The communication mechanisms within the individual domains and the partnership domain convey the objectives to the employees. In particular, the meetings, informal communication and newsletters facilitate a common understanding of the objectives of the partnership. As the partnership progressed the partnership domain was strengthened by the introduction of a partnership newsletter named "Partnership Matters". This was an addition to arvato's ("Spotlight") and the council's ("Grapevine") individual newsletters and staff magazines.

The interviews with team leaders and employee representatives revealed that the transferred staff were well aware of the partnership objectives and were committed to achieving them. The away day[40] in March 2007 illustrates how intensive communication improves the partnering capacity of public and private parties. The understanding of each others' business was increased and the strategic context of the public-private partnership was clarified. Participants from the council and arvato felt that the away day has improved team working across the services and the partnership. A major outcome of the away day was that communication processes should be improved by opening the council's SMT meeting for arvato and introducing a partnership newsletter and briefing sessions.

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[40] For further information on the away day please refer to chapter 6.5.3.1.

7.2.2 Culture

This chapter links the theoretical accounts presented in chapter 3.2.2 to the empirical results. The public management literature emphasis that the public and private sectors have two distinct institutional logics (Wilkinson 1994, Felts and Jos 2000, Zanetti and Adams 2000). Chapter 3.2.2 analysed the cultural differences by drawing on the conceptualisation of value creation and the notion of the public sector ethos. The following working proposition was derived from the literature review:

WP 6:   The culture of public organisations is likely to be different from the one of private organisations in a public-private partnership.

The literature review has revealed that the conceptualisation of value creation is different in the public and the private sectors. Private companies are owned by shareholders whereas public organisations are owned collectively by the society as a whole (Rainey et al. 1976). Halachmi and Bovaird (1997) point out that public sector organisations depend on various stakeholders and value is therefore multifaceted. The East Riding of Yorkshire Council's dependence on various stakeholders is apparent in the public-private partnership. The critical incident "Reduction of Housing Benefit" in chapter 6.3.3.2 shows that a wide range of different groups and persons have a stake in the public service delivery. The reduction of housing benefit caused negative reactions from chief executives of affected organisations, Members of Parliament, Councillors and parents of housing benefits recipients. The variety of stakeholders requires the council to be sensitive to the political consequences of its decisions. As a result, decisions in public organisations are often made through a political process (Stewart and Ranson 1988). The decision-making process is a value in itself and not a means to a certain output. Arvato's managers criticized the long decision-making processes of the council. However, they acknowledged that the council has to consider the impact of certain actions on its stakeholders. For instance, the implementation of an auto

attendant system[41] was delayed because the council intended to avoid an impact on the elections and the involved political parties. Moreover, the elected members of the council needed to approve the introduction of the system because of its significant impact on the way the incoming calls of the people of the East Riding are handled. For arvato, merely the improved efficiency of call handling and the cost savings were issues to consider.

The cultural differences between arvato and the council become even more evident when the key ideas of the public sector ethos are applied to the empirical findings. It is focused on the principles of accountability, public interest and motivation as defined by Pratchett and Wingfield (1996). In terms of the principle of accountability certain differences between employees from arvato and the council could be recognized, in particular at the managerial level. The retained side of the council exhibited a strong public sector ethos. The council's employees did not only accept the legitimacy of political policy they also identified themselves strongly with the East Riding of Yorkshire Council. The third element of the council's vision statement also displays that the council aims to establish a high level of identification of employees with the East Riding of Yorkshire Council: "The East Riding of Yorkshire Council will work to…build PRIDE in belonging to the East Riding of Yorkshire."[42] After the first months of the launch of the partnership with arvato the transferred staff were still deeply engrained in the public sector ethos. A cultural survey revealed that the transferred employees still identified with the East Riding of Yorkshire Council. However, the service heads of arvato appeared to be less entrenched in the public sector ethos as the next paragraphs illustrate.

As a private company arvato is not accountable to the citizens of the East Riding region. Arvato has to achieve a certain profit to meet the expectations of its shareholders. As analysed in chapter 7.2.1 arvato pursues a profit objective within the partnership. Hence, arvato tries to minimise financial risks. In the first year of

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[41] Please refer to chapter 6.3.3.1 for further information.
[42] Please refer to chapter 6.3.2.1 for further information.

the partnership the transferred employees found it difficult to settle in their new role as a service provider and delivered extra services to council managers that previously were their line managers. Arvato encouraged the employees to adjust to the new client-provider relationship to avoid operational frictions and extra-costs. A commercial orientation of arvato is also apparent in the way key performance indicators are managed. Arvato's service managers focused on achieving the KPI targets that had higher financial penalties at the expense of others. The collection of Council Tax and the critical incident in the occupational health unit give evidence for this behaviour. As illustrated in chapter 6.4.4.2 the financial penalties for missing the target of tax collection were much higher than those for failing to meet the customer complaint target. Because of the severe financial implications arvato's service head said that he focuses on meeting the collection target even if the complaints of the citizens would increase. Similarly, the Occupational Health Manager said that he would do anything to meet the key performance indicator "OH2" which sets the target for the percentage of referrals seen within two weeks of receipt.[43] Because "OH2" is linked to a financial penalty it had a higher priority than the KPI on customer satisfaction which had no financial penalty.

Working in the public interest is pivotal to all definitions of the public sector ethos. Public interest refers to a commitment to serving the public good. The vision statement of the East Riding of Yorkshire council reflects the council's orientation towards the community. It says that the council works to "improve the quality of life for our community". A focus on the public good is not as straightforward as a commercial orientation which clearly defines financial success and failure. A transferred manager said that his colleagues enjoy the commercial environment because it is not as complex as the public sector's ones. Moreover, he emphasised that the council managers were not primarily interested in the business perspective of certain partnership projects but paid attention to the political side of things.

Closely related to the public interest are the aspects of motivation. The literature argues that employees with a public sector ethos have an altruistic motivation rather than being driven by self-interest or profit motives. The interviews revealed

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[43] Please refer to chapter 6.4.4.1 for further information.

that the council's employees and most of the transferred staff appreciated their job because they could help and care for the people from the East Riding. The unselfish attitude of the council's employees can also be seen in their perception of the funding of the social events organised for arvato's staff. The council's employees argued that the council should allocate resources in a way that the welfare of the citizens is maximised. Free Christmas parties and summer barbeques were not seen as being appropriate to spend the taxpayers' money. Contrary, arvato introduced various financial rewards and incentives to motivate its staff. For instance, arvato's suggestion scheme rewarded innovative ideas with up to 10 000 GBP whereas the council's scheme offered a maximum of 100 GBP.

The working proposition 7 is confirmed by the empirical findings. In the East Riding case, the cultures of arvato and the council are different from each other. Subsequently, it needs to be analysed if these cultural differences impede the ability of the council and arvato to maintain their public-private partnership. Two studies mentioned in the literature review revealed that strong individual cultures create significant frictions between public and private partners (Hebson et al. 2003, Noble and Jones 2006). The cultural distance between the partners induces a sense of separateness which makes partnership working difficult. Contrary, organisations with similar values and methods of operating are more likely to fit culturally and therefore have a greater understanding of each others business (Child and Faulkner 1998). The following working proposition was derived:

WP 7:   *The weaker the cultural differences between public and private organisations, the higher the partnering capacity.*

Although certain cultural differences between arvato and the council can be assessed, most interviewees from both organisations highlighted the cultural similarities. The two interviewed employee representatives of arvato said that the transferred staff did not experience a clash of cultures. It appears to be that the transferred staff quickly adjusted to the new public-private setting. Teething problems like the adjustment to the client-provider relationship were resolved after

at least 12 months since the staff transfer. The cultural differences between arvato and the council were weak because the public-private partnership was built on three factors that ensured a high level of cultural continuity: a performance-based culture, similar values and the transfer of staff.

Contrary to public sector organisations typically portrayed in the public management literature the East Riding of Yorkshire Council had already achieved a certain degree of performance and output orientation before the launch of the partnership with arvato. A performance-based culture within the East Riding of Yorkshire Council enabled a public-private partnership in the first place. The council needed to have accurate information on the performance of its services in order to specify the performance targets for the public-private partnership. During the procurement process output specifications and service level agreements needed to be determined. Moreover, the council needed to be able to compare the performance of the partnership with the previous in-house performance. In order to monitor performance and to control the service provider, the council had to have performance management expertise. The East Riding of Yorkshire Council had a performance management system in place and had a long tradition of performance management. As illustrated by table 19 in chapter 6.4.1 the performance of the scoped services was measured by 91 KPIs before the launch of the partnership. Arvato was used to performance management and measurement as well because it is pivotal to various contractual settings. As a leading global third-party outsourcing provider arvato employs professional performance management techniques. Hence, the council and arvato speak the same language underpinned by a strong performance-based culture.

The core values of the council matched arvato's ones. Sue Lockwood, the council's Director of Corporate Resources, stressed the similarities between the Bertelsmann Essentials and the council's values.[44] Citizenship is an element of the Bertelsmann Essentials that refers to the social responsibility of the company and therefore was familiar to a public entity like the East Riding of Yorkshire Council. Moreover, the

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[44] Please refer to chapter 6.3.2.2 for further information.

work of the Bertelsmann Foundation was appreciated by the council's top management. It was regarded as a strong community-orientation and an interest in social and economic issues. For the council, it seemed to be important that a private partner is able to adapt to the value system of the public sector.

The third element that reduced the cultural differences between arvato and the council was the transfer of staff. As described in chapter 6.3.1, the transfer of 517 employees from the council to arvato involved a continuity of tasks, location, relationships and appearance. The public employees carried out similar tasks from the same premises as they did before the partnership. Even the appearance remained the same because staff in customer facing services wore East Riding uniforms and also had East Riding eMail-addresses. Moreover, it was not necessary to establish completely new relationships because the transferred and retained staff already knew each other. The transfer of the council's employees to arvato was also a cultural transfer.

Table 24: Factors Contributing to a Cultural Continuity

Factor	Description
Performance-based Culture	Continuity of various key performance indicators in the scoped services, experience with performance management, output orientation
Values	Citizenship and community-orientation
Staff Transfer	Continuity of tasks, location, relationships and appearance

Own Exhibit.

Hence, the three factors illustrated in table 25 contributed to a cultural continuity as the partnership started and progressed. The smooth transfer and the successful management of the partnership are due to this continuity because it enabled the partners to communicate on the basis of a mutual understanding. Working proposition 8 is confirmed by the empirical findings.

The next proposition states that a strong macroculture increases the partnering capacity of public and private organisations. A macroculture in a public-private partnership is the boundary-spanning culture that resides between the individual cultures of the public and private organisation. Several authors point out that a macroculture fosters commitment to the partnership, improves coordinated action and reduces opportunistic behaviour (Trice and Beyer 1993, Jones et al. 1997, Koza and Lewin 1999). Working proposition 9 is as follows:

WP 8:   *The stronger the macroculture of a public-private partnership, the higher the partnering capacity of public and private organisations.*

The empirical research identified a macroculture that is constituted by three elements: a community-orientated entrepreneurialism, the norm of interaction based on openness, mutual understanding, and the dedication to service excellence. The elements were identified by searching for those cultural elements that underpinned the interactions between arvato and the council. The notion of a *community-oriented entrepreneurialism* is used by the dissertation to describe the synthesis of public and private sector values. The public-private partnership between arvato and the council embraces arvato's notion of entrepreneurialism as well as the council's orientation towards the community. [45] The community orientation of the public-private partnership can be seen in the partners' sensitivity towards political context of the service delivery. A sensitive issues protocol was developed and meetings between arvato and the council focus on both the business and the political side of the service delivery. Moreover, the objective of economic regeneration promotes the community-orientation of the partnership. Entrepreneurialism is also visible in the partnership because arvato and the council intend to sell and market the scoped services. Moreover, the empowerment protocol which was jointly produced by the council and arvato on the away day in March conferred more autonomy upon the Level A. The protocol allowed the employees in the partnership to act in a more entrepreneurial way because they

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[45] Please refer to chapter 6.3.2.1 for further information.

could make decisions on themselves. The notion of community-oriented entrepreneurialism is similar to Brereton and Temple's (1999) public *service* ethos which is a mixture of public and private values.

The second element of the macroculture is the norm of interaction that emerged between arvato and the council. The *norm of interaction* is based on openness and a mutual understanding of each others' business. Arvato and the council had a clear understanding of the individual challenges each organisation has to face. Noble and Jones' (2006) observation that in public-private partnerships the private sector partners characterise their public counterparts as slow, inefficient and overtly bureaucratic was not apparent in the East Riding case. Contrary, arvato's managers emphasised that the political context of the council required special decision-making processes. Moreover, the council understood arvato's profit-orientation and supported it by offering help for the joint venture work and enabling arvato to make a margin in the delivery of the scoped services. The latter is visible in the laid-back approach to performance monitoring. The critical incident in occupational health, for instance, could also be handled by imposing financial penalties each month. Because of the mitigating circumstances and to satisfy the interests of both partners an alternative solution was developed.[46] In addition, the openness of both partners is apparent in the way the service standards are developed. Both the scoped and the retained side develop the key performance indicators.[47] For instance, the council informs arvato about recent changes in government legislation and discusses necessary KPI adjustments. The recent move from the CPA to the Comprehensive Area Assessment is an example for the involvement of arvato. The council and arvato appreciate the pragmatism and flexibility in terms of the revisions of some KPIs. Almost every interviewee mentioned the *away day* in March as an example for the openness and transparency between the council and arvato.[48]

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[46] Please refer to chapter 6.4.4.1 for further information.
[47] Please refer to chapter 6.4.3 for further information.
[48] Please refer to chapter 6.5.3.1 for further information.

The third element of the macroculture is the *dedication to service excellence* which is evident throughout the partnership. The public-private partnership is driven by the objective of top-performing services. Employees from arvato and the council were very keen on achieving the top 10 % target in the national performance ranking. Observations during the empirical phases of the research confirmed this ambitious culture: performance targets were written on the walls of the retained and the scoped services, awards were celebrated, mentioned in newsletters and shown at highly frequented places. Furthermore, performance management was intensified since the launch of the public-private partnership. The introduction of additional KPIs, financial penalties and daily monitoring of KPIs placed a strong emphasis on performance management.

Table 25: Elements of the Macroculture between ERYC and Arvato

Element	Description
Community-orientated Entrepreneurialism	The partners address both the commercial and political sides of their collaboration
Norm of Interaction	Openness, mutual understanding of each others' business
Dedication to Service Excellence	Ambitious KPI targets, strong emphasis on performance management in daily work.

Own Exhibit.

7.2.3 Power

The literature review conceptualised power by highlighting three sources of power: authority (French and Raven 1968, Hardy and Phillips 1998), resource control (Pettigrew 1973, Pfeffer 1981) and the fallback-position (Friedkin 1986, Markovsky et al. 1988, Cook and Yamagishi 1992). Power appears to be rarely distributed equally and the private sector organisation is more likely to be in a more powerful position than its public counterpart. The following working proposition was stated:

WP 9:   The private sector organisation is more likely to be in a more powerful position than its public counterpart.

The empirical findings do not confirm this perspective. On the contrary, the East Riding of Yorkshire Council appears to be in a more powerful position than arvato. In the following paragraphs, the three sources of power are analysed by applying them to the public-private partnership between the council and arvato.

Chapter 3.2.3 distinguished between legal and legitimate sources of **authority**. The literature review assumed that the legal authority in a public-private partnership is likely to be distributed equally because two organisations with equal rights are brought together. However, the legal authority in the East Riding case rests with the council because the collaboration with arvato is a contract-based PPP. The client-provider relationship which underpins the partnership leads to a situation in which the legal authority is with the council. The contract specified the output arvato has to deliver by defining the service standards. Moreover, contractual determined financial penalties sanctioned performance failures of arvato. In addition, the contract arranged for client managers and a retained side which enabled the council to control the standard of service delivery. Changes to the processes of the scoped services required the approval of the council's retained

side. This is illustrated by the revenues call centre project.[49] At first, arvato's plans to change the handling of incoming calls were not approved by the council. After a year, arvato was allowed to launch the call centre for a test period. Some managers of arvato said that the contract reflected the fact that arvato wanted to enter the market and therefore the contract would be in favour of the council's interests.

The legitimate authority is equally distributed between the council and arvato because both partners are expected to learn from each other. Linder's (1999) view that public-private partnerships imply a mentoring relationship in which the public managers should become like their private counterparts was not corroborated by the empirical findings. The council's employees should learn about arvato's management techniques but also arvato's managers should gain knowledge of the sectoral characteristics of public organisations. As a market newcomer arvato aimed to develop skills specific to the public sector. In addition, the joint venture work required both sides to learn from each other in order to be able to market and sell the scoped services in the local government market.

The **control of resources** is equally distributed between the council and arvato. Although arvato has greater financial resources, the council owns the equipment of the transferred staff and the premises where the scoped services are located. Furthermore, arvato has the managerial skills the council aims to gain through the partnership, such as ICT and process re-engineering skills. Contrary, the council has the expertise in the delivery of public services that arvato aims to develop. According to Grimshaw et al. (2002) a central source of unequal power relations in public-private partnerships is the experience of market-based contracting. Without strong expertise in the area of market-based services delivery, contractual management and the monitoring of services delivery is difficult for the public sector. The East Riding of Yorkshire Council, however, has strong expertise in the area of market-based service delivery. The council's contract manager of the partnership, for instance, had been involved in the procurement of a PFI and several other contracts since the 1980s.[50] Additionally, the retained side enabled

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[49] For further information please refer to chapter 6.3.3.1.
[50] Please refer to chapter 6.2.1 for further information.

the council to keep the expertise and knowledge that is specific to the scoped services.[51] As a result, the council is still able to review and control the performance of the scoped services that are delivered by arvato.

Finally, the **fallback position** of the council is better than that of arvato. The council has a power advantage because the council does not have as much to lose as arvato. For instance, the contract allows the council to take the transferred staff back in the case of a partnership termination. The reintegration would be almost seamless because the transferred employees are working in the same premises as before the launch of the partnership. Moreover, the council's retained side has kept the necessary skills and expertise to manage the scoped services. There would be no surprises in terms of the service delivery because process changes within the service areas were approved by the retained side. Furthermore, the council would take services back with an improved performance at lower costs back.[52] The council would benefit from arvato's changes to the processes and the introduction of new technology. However, it might be that the council would not be able to maintain the level of service performance because of arvato's ability to manage and motivate staff.[53] The termination of the partnership would also end the joint venture work. Hence, the council's opportunities to market and sell its services would be limited. Finally, the council would have the option to find a new service provider.

Arvato's fallback position is worse than the council's because an irregular termination of the partnership would damage arvato's reputation in the British public sector. For a new player in the local government market, a termination of the partnership would be a serious problem for arvato government services. It would be difficult to acquire new PPP projects with a failed partnership as a reference. Moreover, arvato's turnover would decrease in the case of a partnership termination.

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[51] Please refer to chapter 6.5.1 for further information.
[52] Please refer to chapter 6.2.2 for further information.
[53] Please refer to chapter 6.3.2.1 for further information.

Table 26: Power Distribution in the East Riding Case

Sources of Power		East Riding of Yorkshire Council	Arvato government services	Power Distribution
Authority	**Legal**	Contract - Output Specifications, SLAs - Financial penalties - Retained side, monitoring, approval process	/	Unequal, in favour of council
	Legitimate	Public sector expertise (mentor for arvato)	Private sector expertise (mentor for council)	Equal
Control of Resources		- Premises and equipment - Skills in public services delivery - Expertise in market-based contracting	- Financial resources - Managerial skills - Expertise in market-based contracting	Equal
Fallback Position		- Unproblematic reintegration of scoped services - Improved performance of services at lower costs - Fewer opportunities to market and sell services - Option to get new service provider	- Failure of market entry - Damaged reputation - Decrease of revenue - Employee costs	Unequal, in favour of council

Own Exhibit.

In addition, arvato would be left with the staff that was hired for the partnership. Those employees that were not transferred from the council to arvato would need to develop in other areas than the public sector. Table 27 summarises the analysis of the power distribution between arvato and the East Riding of Yorkshire Council and illustrates that the council is more powerful than arvato.

The literature review has pointed out that if unequal power relations are not accepted by both organisations it is likely that dysfunctional conflict arises. As a result the following working proposition was derived:

WP 10:   The higher the partner's acceptance of unequal power relations, the higher the partnering capacity of public and private organisations.

The working proposition is confirmed by the empirical findings. Arvato accepted the powerful position of the council. Rainer Majcen, arvato's Managing Director, emphasised that the partnership does not have a confrontational approach like it often appears in other PPPs. He said that it is quite special that "we accept that the council has so much say in so many things". As a result, there were less disagreements in terms of operational issues or strife about the strategic orientation of the partnership. It was not necessary to escalate disagreements to the quarterly business review because they were resolved at the lower level. Many interviewees pointed out that the partnership is driven by a genuine want to push things forward. Even situations in which both sides conflict, such as the caps & collars incident in the occupational unit[54], did not escalate.

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[54] Please refer to chapter 6.4.4.1 for further information.

7.2.4   Amendments to Working Propositions

This chapter analyses those empirical findings which contradict the working propositions outlined in the previous chapters or which are part of the three dimensions (strategy, culture, power) and not considered by the working propositions. The first chapter adds a new proposition to the strategy dimension in order to address the dynamic nature of strategy formulation and conflicting objectives. The second chapter addresses the power dimension. Working proposition 9 is modified because it was not confirmed by the empirical findings. The culture dimension is not included in this chapter because no amendments to the respective working propositions were made.

7.2.4.1   Strategy Dimension

The analysis of working proposition 3 revealed that the degree of conflicting individual objectives changes over time. The empirical findings suggest that priorities of the partnering organisations may alter due to internal strategic considerations or central government policy changes.

An example of an internally induced change of priorities was arvato's shift in management structure which took place between the end of 2006 and May 2007. The Managing Director Rainer Majcen wanted to facilitate the business development of the joint venture company and therefore needed to be less involved in the provision of the scoped services.[55] He delegated some of his tasks to the newly established role of a Director of Operations and Client Services. Moreover, he set up a dedicated team that carried out the tasks of the joint venture company. The shift in management structure gives evidence for arvato's emphasis on its growth objective which was not pursued in the first year of the partnership. Some of arvato's senior managers raised the concern that the joint venture work could conflict with the council's objective of service excellence because the bid

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[55] Please refer to chapter 6.2.1 for further information.

responses took away many resources from the service areas. However, the council understood the commercial realities of its partner. Furthermore, as is shown in the next chapter, the joint venture work fits well with the council's objective to market and sell its services to other local authorities. A conflict can only arise if the timing of the start of the joint venture work is inappropriate. If arvato, for instance, had started to deploy many resources for new PPP bids in the first year of the partnership, this would certainly have conflicted with the council's objective of service excellence. At the start of the partnership it was necessary to devote all efforts to demonstrating that arvato could deliver the services and to establishing a working relationship between arvato and the council. Hence, the degree to which the individual objectives of public and private organisations conflicts is dynamic and depends on time.

Another example of changes in the prioritisation of individual objectives is the central government's move from the Comprehensive Performance Assessment (CPA) to the Comprehensive Area Assessment (CAA) and the launch of the Right-Benefits-Initiative. Both the CAA and the Right-Benefits-Initiative, placed a greater emphasis on the quality of the whole service delivery rather than the pace of processing and the efficiency of specific services. Because many key performance indicators are driven nationally[56] the central government's shift in policy leads to the replacement and re-definition of many KPIs. Because of these policy changes the council's objective of service excellence was in flux at the end of 2007. In the first two years of the partnership the component of efficiency and cost reduction was emphasised whereas the central government's policy changes placed stronger emphasis on the quality component of the council's service excellence objective. This orientation towards quality could have conflicted with arvato's focus on cost reductions and efficiencies induced by its objective of profitability. The council was aware of this and therefore informed arvato about the policy changes early on. It was decided that arvato and the council would jointly

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[56] Please refer to chapter 6.4.2 for further information on the impact of national policy on the design of key performance indicators.

elaborate and modify the KPIs which were affected by the central government's policy change.

The way both partners respond to internal and external changes displays their partnering capacity. A common understanding of their respective objectives and the ability to find joint solutions is pivotal for a successful partnership and will decrease the degree of conflicting individual objectives. The two examples given above illustrate that the priorities assigned to individual objectives change over time. As a result, the degree to which the individual objectives of arvato and the council conflict is dynamic and changes over time. There can be times within a partnership in which both partners focus on individual objectives that conflict with each other. And there can be times in which the partners give priority to objectives that are mutually pursued. Hence, the empirical findings lead to the following proposition:

New Proposition: *The degree to which the individual objectives of public and private organisations conflict is dynamic and changes over time.*

7.2.4.2 Power Dimension

The empirical findings contradict working proposition 9 because the East Riding of Yorkshire Council has a power advantage to arvato government services. As a result, proposition 9 has to be modified. Unlike theoretical accounts of power distribution in public-private partnerships suggest, the council has a powerful position due to its good fallback position and its strong legal authority. However, it seems to be too soon to conclude from a single case study that public sector organisations in white-collar PPPs are generally in a more powerful position than their private counterparts. Arvato's market entry is a factor that weakens the private organisation's power position and does not regularly happen in public-private partnerships.

It is possible to discover a pattern that explains the strong power position of the council and that has a high degree of generalisability. A theme that cuts across the three sources of power (authority, control of resources, fallback position) is the role of the retained side and the client managers. In terms of legal authority the retained side enables the council to enforce the terms and conditions of the contract. The retained side monitors and controls arvato's adherence to the contract and the performance of the scoped services. Additionally, the council is experienced with market-based contracting. The knowledge that is specific to the transferred services is kept by the retained side and enables the council to review and control the performance. This expertise improves the council's power position in terms of the control of resources. Finally, the retained side improves the fallback position of the council. The retained side enables the council to reintegrate the scoped services and the transferred staff seamlessly. Hence, the empirical findings suggest that proposition 9 should be modified as follows:

Modification of WP 9:   *The more skilled the retained side of the public organisation, the higher the power advantage of the public partner in a public-private partnership.*

The next chapter goes on to introduce new propositions that do not fall into the three dimensions of culture, power and strategy.

7.3   New Propositions

This chapter discusses the empirical findings which are not within the scope of the three dimensions *strategy*, *culture* and *power*. Hence, this chapter generates new proposition which are solely based on the empirical findings. The new propositions are included to address the empirical phenomena of the case study in a comprehensive way. The inclusion of new propositions was guided by the question: What is necessary to describe and explain those empirical phenomena which address the partnering capacity concept and which are not considered by the working propositions?

The new factors of the partnering capacity introduced by the next two chapters can not be subordinated to one of the three dimensions discussed in chapter 7.2. The first chapter introduces socio-processual factors that were frequently mentioned by the interviewees. Subsequently, chapter 7.3 describes the structural factors which are also considered as being crucial for increasing the partnering capacity of public and private organisations. The chapters 7.3 and 7.3 illustrate the interdependence between the socio-processual factors, the structural factors and the dimensions. Finally, the last chapter summarises the new propositions.

7.3.1   Socio-Processual Factors

Socio-processual factors are considered as being a pivotal element for the partnering capacity of public and private organisations in white-collar public-private partnerships. Because of the complexity of services delivered and the network mode of governance, socio-processual factors are more important in white-collar PPPs than in traditional PPPs that focus on construction and infrastructure projects.[57] The next two chapters describe the socio-processual

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[57] Please refer to chapter 7.1 for further information.

factors *communication* and *relationships* by referring to their role in the East Riding case. An interviewee said that communication sits alongside relationships. Both factors enable the high level of interaction in the public-private partnership. Each factor is highly interrelated with the other factor and the three dimensions.

7.3.1.1 Communication

Communication with regard to the strategy dimension was already analysed by discussing working proposition 5 in chapter 7.2.1.4. The interviewees' strong emphasis on communication as a crucial partnering factor suggests that communication can not just be a means for disseminating objectives. A client manager's statement "It is communication that makes the partnership work" represents the significant impact that both parties assign to communication. As illustrated by table 24 in chapter 7.2.1.4 the partnership between the East Riding of Yorkshire Council and arvato is based upon a sophisticated set of communication mechanisms. Moreover, communication expedites the resolution of conflicts because the partners can exchange their views early on. The high level of communication mechanisms at the operational level of the partnership ensures that arvato's staff and the council's client managers tackle problems early. Hence, communication should be considered as a new element of the partnering capacity:

Proposition: There is a positive relationship between the existence of communication mechanisms and the partnering capacity of public and private organisations.

Communication is also an element of the partnering capacity concept because it addresses all of the three dimensions. The empirical data suggests that the communication mechanisms are central to the cultural dimension. Team Meetings, Newsletters, informal and print communication and various other instruments serve to construct a cultural identity within the individual organisations. For instance, the transfer of staff confronted arvato with a cultural challenge. The transferred

employees needed to get used to their new role as a service provider.[58] Arvato developed a paper, the chameleon concept, which was handed out to the scoped staff in order to illustrate the key aspects of a contracting environment. Briefing sessions and team meetings were accompanying measures that intended to induce a service provider culture. Moreover, a high degree of communication was necessary to establish a macroculture among the partners.[59] The development of a community-oriented macroculture, an understanding of each other business and the dedication to service excellence was driven by the sub-monthly, monthly and quarterly meetings between the council and arvato, the joint away days and informal communication.

Communication is also crucial to the power dimension. The monitoring of the scoped services requires regular exchange of information between the partners. In particular, the sub-monthly and monthly meetings are used to review the performance of the service areas. Without these communication mechanisms the council would lose the control over the services. Knowledge specific to the services would be lost and the fallback position would be worse because the costs of reintegrating the scoped services would be increased.

The communication mechanisms also frame and clarify the structural factors of the partnering capacity (contractual framework, client-management system, performance management system). The structural factors and their relation to the communication mechanisms are described in chapter 7.3.2.

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[58] Please refer to chapter 6.3.1 for further information.
[59] Please refer to chapter 7.2.2 for further information.

7.3.1.2 Relationships

According to an interviewee relationships were the safety net of the contract. Stable and reliable relationships helped to resolve disputes about the contract. Moreover, relationships enabled a certain degree of flexibility which increased the ability to adapt to internal and external changes. Relationships are important for the three dimensions *strategy*, *culture* and *power*. As a result, relationships could not be subordinated to one of these dimensions.

Relationships are linked to the strategic dimension because the achievement of the strategic objectives requires stable and reliable relationships. The council's Chief Executive was delighted about the fact that he has worked with the same arvato management team since the start of the bid process in 2003. In particular, the core group constituted by six top management members from the council and arvato have established working relationships since the procurement of the PPP. Interviewees referred to the core group as the nucleus of the partnership. Decisions about the strategic orientation of the partnership are made by the core group. Stable and reliable relationships between its members facilitate partnership working and a focus on common objectives. Moreover, reliable relationships help to endure disputes arising from conflicting objectives.

As presented in chapter 7.2.2 the cultural dimension involves relationships. The transfer of staff led to a continuity of relationships and shared cultural backgrounds because the retained and the scoped side were colleagues before the launch of the partnership.[60] Hence, employees from the retained and the scoped side could interact on the basis of a mutual understanding. However, at the start of the partnership arvato had to re-establish the relationships between certain transferred employees and some client managers from the council. Some transferred employees dealt with client managers that were previously their line managers. Because the employees were not used to the new client-provider culture they delivered extra services to their former line managers without agreeing a variation

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[60] Please refer to chapter 6.3.1 for further information.

to the contract. Hence, the previous hierarchical relationship between the certain client managers and transferred employees needed to be replaced by a client-provider relationship. Roles and responsibilities need to be clearly defined to reduce conflicts and confusion.

Power in the East Riding case appears to be also vested in the relationships established between the council and arvato. As pointed out in chapter 7.2.3 one of the council's sources of power is the legal authority which is based on the contract. The enforcement of the terms and conditions of the contract depends to a certain degree on the monitoring expertise of the council's retained side and the relationships between the client and service managers. The management of the contract is highly influenced by the relationships being built between the scoped and retained side.[61] The empirical findings suggest that the partnership employs a relational approach to contracting. Stable relationships are based on the experience of past behaviour and enable both sides to coordinate their actions more effectively. For instance, at the start of the partnership the council relied on contract mechanisms, such as the output specifications and the KPIs. As the partnership progressed the role of relationships increased and service standards were developed jointly. Based on the experience that arvato was able to deliver the services the council did not need to actively enforce the terms and conditions of the contract.

The important role of relationships in the East Riding case and the impact on the dimensions of culture, power and strategy lead to the following proposition:

Proposition: *The higher the degree of stable and reliable relationships between the retained and scoped side, the higher the partnering capacity of public and private organisations.*

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[61] Please refer to chapter 6.2.3 for further information.

Relationships also influence the structural factors of the partnering capacity (contractual framework, client management system, performance management system).

7.3.2   Structural Factors

This chapter introduces the structural factors of the partnering capacity. The next three chapters describe the following structural factors: the contractual framework (chapter 7.3.2.1), the client-management system (7.3.2.2), and the performance management system (chapter 7.3.2.3). The analysis shows that each factor is highly interrelated with the other structural and socio-processual factors and with the three dimensions.

7.3.2.1   Contractual Framework

The dissertation includes the contractual framework as a factor of the partnering capacity because of its significant impact on the ability of arvato and the council to maintain their partnership. During the procurement process the council and arvato agreed upon the key terms of the contract which impacted on the future success of their relationship. The contract structured the interactions between the council and arvato because it set out roles and responsibilities, instructions for performance reporting and details about the frequency and participants of the regular meetings. Moreover, the contractual framework managed the expectations of the partners and provided strategic orientation because it clearly stated the objectives of the partnership and determined the incentives for arvato to deliver the services to the required performance level. The payments from the council to arvato are determined as well as the service standards and financial penalties for performance failures.[62] Arvato's Financial Manager pointed out that the details of the output specifications took away some of the disputes. Additionally, the formal

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[62] Please refer to chapter 6.2.2 for further information.

communication mechanisms set out by the contract helped to reduce disputes. As a result, the contractual framework should be included in the partnering capacity:

Proposition: There is a positive relationship between the existence of a clear contractual framework and the partnering capacity of public and private organisations.

The contractual framework impacts on the socio-processual factors (Relationships and communication) as well as on power, culture and strategy. In terms of communication the contract determined most of the formal communication mechanisms by setting out the regular meetings between arvato and the council. Moreover, the contract also defined the roles and responsibilities of the top management, the contract managers, arvato's service managers and the council's client managers. Hence, the contract already arranged for those relationships that were seen as the basis of interaction.

As illustrated by the analysis in chapter 7.2.3, the contract is a source of power in the East Riding case. The output specifications of the contract, the financial penalties and the instructions for performance reporting increase the council's ability to control the delivery of the scoped services. Moreover, the contract included arrangements for termination and re-tendering. The council's right to re-employ the transferred staff leads to an improved fallback position of the council. The contract determined a clear distribution of power at the outset of the partnership. This led to a higher acceptance of power relations and reduced conflicts.

The contract also has a cultural impact because it requires the construction of a contract management culture. The council had to build a client-side management capacity which ensured that the scoped services were delivered to the agreed standards stated in the contract. As pointed out by the previous chapters, arvato had to inform the transferred staff about the principles of a client-provider relationship.

Finally, the contractual framework is related to the strategy dimension. In the East Riding case, the contract reflected the strategic objectives of the partnership and the individual priorities of the partners. In particular, the financial model of the contract set the right incentives. For instance, the partnership objective of excellent service delivery was addressed by agreeing on two essential components: decreasing payments from the council to arvato and rising KPI targets. The first component incentivised arvato to cut costs and make the delivery of services more efficient. As illustrated in chapter 6.2.2, most of the costs across all services were personnel costs that were reduced by natural employee turnover. However, in order to meet the rising KPI targets and to avoid financial penalties for performance failures arvato could not afford to reduce the number of staff significantly. Hence, the second component ensured that the service standards would not deteriorate. Moreover, the contract defined the KPIs by applying a benchmarking mechanism. The high complexity of the scoped services arising from changing government legislation confronted the council with the problem that service standards can vary over time and that some key performance indicators would need to be altered during the partnership period. To solve that problem the contract states that arvato should achieve a top 10 % ranking in the comprehensive performance assessments of the Audit Commission which compares the performance of English local authorities.

7.3.2.2 Client-Management System

The council's Chief Executive Nigel Pearson emphasised that a strong retained side is a success factor in every public-private partnership that is working well. In order to make the contract work in practice, appropriate organisational structures had to be designed. In particular, the interactions between the council's retained side and arvato's service managers shaped the partnership. In the following, the functions and tasks of the retained side are referred to as the client-management system. As illustrated by figure 25 in chapter 7.1, the retained side comprised the council's client managers and monitoring teams that were assigned to each of the

nine scoped service areas as well as those teams which deliver the retained services. The council's client managers primarily interacted with arvato's service managers. Because of service splits some of the retained services required frequent information exchange between arvato's service teams and the retained teams.[63]

The council's client management system facilitated communication and established stable relationships between the council and arvato. The client managers liaised with arvato's service managers in sub-monthly and monthly meetings. Informal communication was considered as key to deal with issues quickly. For instance, the quick and smooth launch of the Petuaria Centre in Brough was mainly due to the successful collaboration between the council's client manager and arvato's Head of Customer-Centric Services.[64] Their relational approach to contract management prevented that negotiations about contract and price variations were too time-consuming.

The client-management system is linked to the strategy dimension. The East Riding of Yorkshire Council did not transfer strategic roles and responsibilities to arvato in order to retain the skills necessary to determine the strategic development of the scoped services. Moreover, the council wanted to make sure that the services provided by arvato were in line with the council's policy. Changes of the council's policy were communicated to arvato by the client managers. Moreover, disputes arising from conflicting individual objectives were primarily resolved between the client managers and arvato's service managers.

The culture dimension is also present in the client-manager system. As pointed out several times in the previous chapters, the council's client managers and the transferred staff had to re-establish their relationships to form a client-provider culture. The client-management system significantly influenced the power distribution of the public-private partnership. The council wanted to retain service-specific knowledge in order to be able to review and monitor the performance of

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[63] Please refer to chapter 6.5.1 for further information on service splits.
[64] Please refer to chapter 6.5.3.3 for further information.

the services delivered by arvato. Moreover, the fallback position of the council was improved by the client-management system because the council was sure that the service delivery would not fail. In the event of contract termination the council would still have the necessary skills and expertise to deliver the scoped services. As a result, the client-management system should be included in the partnering capacity:

Proposition: There is a positive relationship between the existence of a robust client-management system and the partnering capacity of public and private organisations.

7.3.2.3 Performance Management System

The performance management system is included as a structural factor of the partnering capacity because it is a central mechanism to control and steer the delivery of the scoped services. In the East Riding case the performance management system underpinned most of the interactions between the council and arvato. The performance management system secured service improvements and value for money. It provided incentives due to the existence of financial penalties and enabled both partners to share a common understanding of the performance of the scoped services. Therefore, the following proposition is included:

Proposition: There is a positive relationship between the existence of an effective performance management system and the partnering capacity of public and private organisations.

Based on the empirical findings presented in chapter 6.4 the dissertation conceptualises the performance management system by referring to three components: performance planning, performance measurement and the performance review. In the East Riding case, performance planning takes the PPP objective of excellent service delivery and the objectives arising from the council's

service and performance plans into account. In addition, external drivers and accreditations were considered, such as national performance indicators, CharterMark and Beacon Council. The local authority prioritised the objectives and set key performance indicators and targets accordingly.

The performance measurement was carried out by arvato. It captured information about the actual performance across the services. As illustrated in chapter 6.4.1, arvato measured a set of 114 KPIs throughout the scoped services. This information was used to identify weak performing areas and to make decisions about what needed to be improved. Arvato's service heads compiled performance reports which were presented to the council's client managers.

The review of performance was primarily conducted by the council's retained side. The client managers assessed if financial penalties needed to be imposed. Moreover, they reviewed arvato's suggestions for major service improvements. The retained side also discussed with arvato's service managers how KPI targets could be enhanced to measure performance more accurately. As pointed out in chapter 6.4.3, the partners had a pragmatic and flexible approach to the management of performance targets. Additionally, the client managers involved the elected members of the council in the performance review process. Members were provided with guidance about how to review performance effectively. As a result, the elected members had a greater understanding of the different services and became increasingly engaged with performance management. The three components of the performance management system are considered as being iterative. Hence, figure 29 depicts the three components as a performance management cycle:

Figure 29: Performance Management Cycle in Contract-based White-Collar PPPs
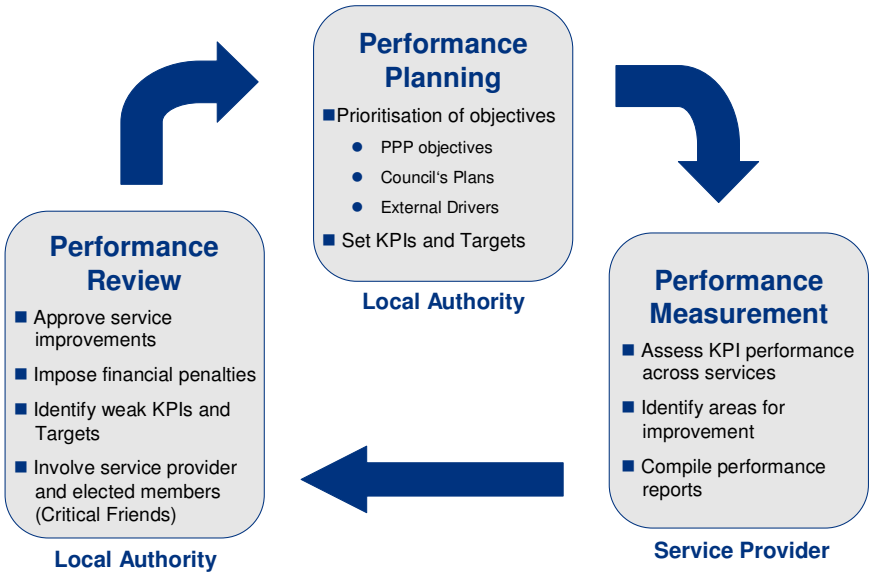
Own Exhibit.

The socio-processual factors are central to the performance management system. Performance management is not a monolithic and rigid system. It is influenced by operational events in the service areas, national legislation, council policies and much more.[65] In order to allow a certain degree of flexibility and adaptability frequent inter-organisational communication is required. In the East Riding case, the sub-monthly and monthly performance meetings facilitated relationship building and inter-organisational communication. Stable relationships and regular communication mechanisms are the basis of effective performance management.

The performance management system is linked to the strategy dimension. The key performance indicators measure the progress towards the objectives. In the East Riding case, both partners were therefore able to assess the extent to which they had achieved the objective of excellent service delivery. The planning process

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[65] Please refer to chapter 6.4.3 for further information.

prioritised the strategic objectives and broke them down by setting KPIs and targets for each service area. As described in chapter 6.4.4.2, the way priorities were set can lead to a situation in which individual KPIs conflict with each other. In revenue services the tax collection target could easily conflict with the KPI for complaints. The high financial penalty on the tax collection target incentivised arvato to focus on the performance of tax collection. Hence, the design of KPIs, targets and penalties significantly influences the extent to which the strategic objectives of the partnership are achieved.

The performance management system had a significant impact on the partnership culture.[66] Although performance management was carried out by the council before the launch of the partnership, it was intensified as arvato was involved in the service delivery.[67] A strong performance culture was visible in the performance measurement. Since the start of the partnership 23 additional KPIs were introduced. Moreover, arvato established daily monitoring of KPIs in order to investigate trends continually. The review of performance was changed due to the introduction of financial penalties.

Finally, the council's strong power position was based on the fact that it retained the performance planning and review processes. As a result, the council was in control of the strategic direction of the services and could determine the development of the service standards. The knowledge about and the right to set key performance indicators and the existence of financial penalties enabled the council to steer the services delivered by arvato.

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[66] Please refer to chapter 9.2.2 for further information about the partnership culture.
[67] Please refer to chapter 8.4.1 for further information.

7.3.3   Summary of New Propositions

The inclusion of socio-processual and structural factors in the partnering capacity concept has generated five new propositions. These propositions are derived from the empirical findings and address the partnering capacity elements *communication*, *relationships*, the *contractual framework*, the *client-management system*, and the *performance management system.* The new propositions are included to explain the empirical findings of the case study in a comprehensive way.

Table 27: Synopsis of New Propositions

Proposition
There is a positive relationship between the existence of communication mechanisms and the partnering capacity of public and private organisations.
The higher the degree of stable and reliable relationships between the retained and scoped side, the higher the partnering capacity of public and private organisations.
There is a positive relationship between the existence of a clear contractual framework and the partnering capacity of public and private organisations.
There is a positive relationship between the existence of a robust client-management system and the partnering capacity of public and private organisations.
There is a positive relationship between the existence of an effective performance management system and the partnering capacity of public and private organisations.

Own Exhibit.

Chapter 8.1 provides a summary of the propositions which guided the conceptualisation of the partnering capacity. These propositions include the confirmed and modified working propositions in chapter 7.2 and the new propositions stated in table 28.

7.4   Core Challenges of Public-Private Partnering

The empirical findings reveal that the white-collar PPP faces challenges needed to be managed appropriately to maintain a successful collaboration. Four core challenges are identified: focus on relations vs. focus on the contract, community orientation vs. commercial orientation, focus on performance vs. focus on quality and focus on monitoring vs. space for innovation. The challenges underpin the interaction between public and private partners. Each challenge implies two alternative directions for developing the partnership. The tensions constituted by the two alternative directions vitalise the partnership and should not be taken away; rather the partners should capitalise on them by managing them the right way.

The challenge *community orientation vs. commercial orientation* was present in the East Riding case. Naturally, the council had a stronger community orientation than arvato because public managers emphasised the political implications of process changes. Moreover, the council paid more attention to involving their stakeholders in the decision-making processes. Arvato, on the other hand, was driven by a stronger commercial orientation that focused on manageability in terms of time and money. The different orientations can generate dysfunctional conflict that threatens the partners' ability to maintain their collaboration. Arvato and the council were able to reconcile their different orientations and developed a mutual understanding of each other's situation. For instance, a sensitive issues protocol was developed to increase arvato's community awareness.[68] The council's commercial awareness was strengthened by the introduction of the empowerment protocol which allowed public and private employees to make more decisions on themselves and therefore act more entrepreneurial. This dissertation calls this synthesis of orientations *community-oriented entrepreneurialism*.[69] The development of a community-oriented entrepreneurialism does not mean that the different orientations of public and private organisations are not present anymore. These orientations remain intact within the partnering organisations and are considered as positive differences

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[68] Please refer to chapter 6.3.3.2 for further information.
[69] Please refer to chapter 7.2.2 for further information.

because they induce healthy tensions. The community-oriented entrepreneurialism eases the inter-organisational collaboration because it enables mutual understanding.

The challenge *focus on relationships vs. focus on the contract* needed to be tackled by the East Riding of Yorkshire Council and arvato government services. A strong focus on the contract carries the risks of inflexibility and inefficiency because changes are subject to contract variations and involve discussions about how to interpret the terms and conditions of the contract. Necessarily, a contract is incomplete because it can not anticipate and specify every possible circumstance in the future. A strong focus on relationships, however, jeopardises the stability of the partnership because the control over the service delivery could be lost due to, for instance slackly monitoring. The East Riding of Yorkshire Council placed a strong emphasis on contractually determined procedures and regulations at the start of the partnership. As the partnership progressed, the role of relationships increased and service standards were developed jointly. Based on the experience that arvato was able to deliver the services the council did not need to actively enforce the terms and conditions of the contract. However, the contract remained central to the interactions between the partners. The East Riding case shows that partners in white-collar PPPs increase their ability to maintain their partnership when they balance the tensions constituted by the challenge between contract focus and emphasis on relationships.

The challenge *focus on cost reduction vs. focus on quality* arises from the financial model that underpins contract-based public-private partnerships. Most contract-based PPPs in the UK apply a financial model in which the supplier quotes a fixed price for a defined programme of work. The unitary charge usually goes along with a few variable pricing mechanisms which are based on demand. This is also the case in the PPP between the East Riding of Yorkshire Council and arvato. As illustrated in chapter 6.2.2, the council's payments for the provision of the scoped services are reduced each year. Arvato has to reduce the costs of service delivery in order to make a profit. Primarily, this is done by downsizing the number of

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employees due to the cost structure of white-collar PPPs.[70] On the other hand, the financial model arranges for financial penalties which are imposed if arvato fails to meet the key performance targets. The KPIs should ensure the quality of service delivery and are increased over the contract length. Essentially, arvato has to meet the rising KPIs with fewer employees delivering the services. Arvato faces this challenge by the introduction of new IT and streamlining of processes. The launch of the revenue call centre illustrates that it is possible to achieve higher service quality at lower costs.[71]

However, the critical incident "caps and collars in occupational health" demonstrates that the key performance indicators do not necessarily measure the quality of service delivery. As illustrated in chapter 6.4.4.1, the KPI "OH2" evoked a tendency to process customers quickly. The time spent on individual customer queries was minimised, even if this would decrease the customer satisfaction. Hence, the challenge is to develop meaningful key performance indicators. The council and arvato met regularly to review the key performance indicators and develop the service standards.[72] Both partners had to find the right balance between getting the cost level down and increasing the quality of service delivery.

The challenge *focus on performance review vs. space for innovation* underpinned the partnership between arvato and the East Riding of Yorkshire Council. The monitoring activities conducted by the council's client managers required arvato's service managers to submit monthly performance reports and to adhere to the agreed service standards. Moreover, performance failures were sanctioned by financial penalties. In particular, the first months of the partnership were characterised by a strong performance orientation in the scoped services. However, the focus on reviewing and controlling performance was seen as disadvantageous as efforts were undertaken to move the services forward by introducing processual and technological innovations. The introduction of new technologies or the reorganisation of processes may result in a temporary drop in performance. Hence,

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[70] Please refer to chapter 6.2.2 for further information.
[71] Please refer to chapter 6.3.3.1 for further information.
[72] Please refer to chapter 6.4.3 for further information.

some service managers were reluctant to introduce innovation due to potential performance risks entailing financial penalties. The council and arvato agreed that a KPI may be suspended retrospectively if it can be verified that the cause of a potential downfall in performance is a particular innovation.

Each of the four challenges provides public and private partners with two opposing directions. A partnership that focuses solely on one direction of each challenge would threaten the long-term success of the collaboration. The case study evidence suggests that successful white-collar PPPs do not commit themselves to one of the two directions, rather they embrace both. Actors with a high partnering capacity are able to capitalise on the tensions constituted by the challenges.

8.   Framing and Specification of Partnering Capacity

This chapter frames and specifies the concept of *partnering capacity*. Chapter 8.1 provides an overview of the propositions which underpin the partnering capacity concept. These propositions include the confirmed and modified working propositions as well as the new propositions generated in chapter 7.3. Chapter 8.2 embeds the partnering capacity elements and the core management challenges in a framework. Subsequently, chapter 8.3 suggests partnering capacity strategies which improve the ability of public and private organisations to maintain their partnerships.

8.1 Summary of Propositions

This chapter summarises the propositions that shaped the development of the partnering capacity concept. These propositions include the confirmed and modified working propositions as well as the new propositions generated in chapter 7.3.

Table 28: Summary of Propositions

No.	Proposition
1	The objectives of private and public organisations are likely to conflict in a PPP setting.
2	An adequate incentive structure compensates conflicting objectives and improves the partnering capacity of public and private organisations.
3	The lower the degree of conflicting individual objectives, the higher the partnering capacity of public and private organisations.
4	The degree to which the individual objectives of public and private organisations conflict is dynamic and changes over time.

| 5 | There is a positive relationship between the existence of partnership objectives and the partnering capacity of public and private organisations. |
6	The higher the degree of the dissemination of objectives, the higher the partnering capacity of public and private organisations.
7	The culture of public organisations is likely to be different from the one of private organisations in a public-private partnership.
8	The weaker the cultural differences between public and private organisations, the higher the partnering capacity.
9	The stronger the macroculture of a public-private partnership, the higher the partnering capacity of public and private organisations.
10	The more skilled the retained side of the public organisation, the higher the power advantage of the public partner in a public-private partnership.
11	The higher the partner's acceptance of unequal power relations, the higher the partnering capacity of public and private organisations.
12	There is a positive relationship between the existence of communication mechanisms and the partnering capacity of public and private organisations.
13	The higher the degree of stable and reliable relationships between the retained and scoped side, the higher the partnering capacity of public and private organisations.
14	There is a positive relationship between the existence of a clear contractual framework and the partnering capacity of public and private organisations.
15	There is a positive relationship between the existence of a robust client-management system and the partnering capacity of public and private organisations.
16	There is a positive relationship between the existence of an effective performance management system and the partnering capacity of public and private organisations.

Own Exhibit.

8.2 Partnering Capacity Framework

The partnering capacity as defined by the thesis is the ability of public and private organisations to maintain their partnership. The discussion chapter has identified the eight elements that affect the partnering capacity: strategy, culture, power, communication, relationships, the contractual framework, the client-management system, and the performance management system.

The elements of the partnering capacity are interrelated. Chapter 7.3 illustrates the interdependence between the socio-processual factors (communication, relationships), the structural factors (contractual framework, client-management system, performance management system) and the three dimensions (strategy, culture, power). In order to illustrate the links between the elements figure 31 depicts the partnering capacity as a cube.

Figure 30: Elements and Core Challenges of Partnering Capacity

Own Exhibit.

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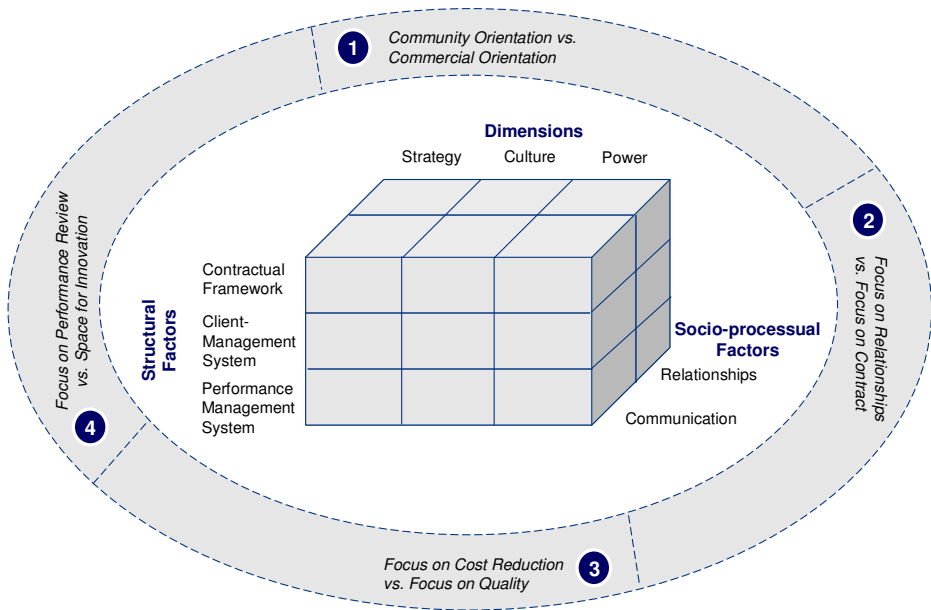
The cube is surrounded by the four core challenges of partnering capacity: community orientation vs. commercial orientation, focus on relationships vs. focus on contract, focus on cost reduction vs. focus on quality and focus on performance review vs. space for innovation. A successful interplay of the eight partnering capacity elements will help to manage the four challenges appropriately.[73] The partnering capacity elements facilitate the process of balancing the two alternative directions posed by each challenge. Chapter 7.4 describes how the East Riding of Yorkshire Council and arvato approached the four challenges.

The literature review introduced four approaches to capacity development which either focus on individuals, organisations, the institutional framework or they encompass all three perspectives. The thesis conceptualised the notion of partnering capacity as an organisational capacity. As a result, particular attention was paid to organisational elements that affected the ability of public and private organisations to maintain their partnership. Figure 32 locates the partnering capacity at the organisational level. The elements of partnering capacity reside at the inter-organisational level. Both organisations, the local authority and the service provider, shape the way the eight partnering capacity elements work in practice.

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[73] Strategies to increase the partnering capacity are outlined in chapter 8.3.

Figure 31: Partnering Capacity Framework
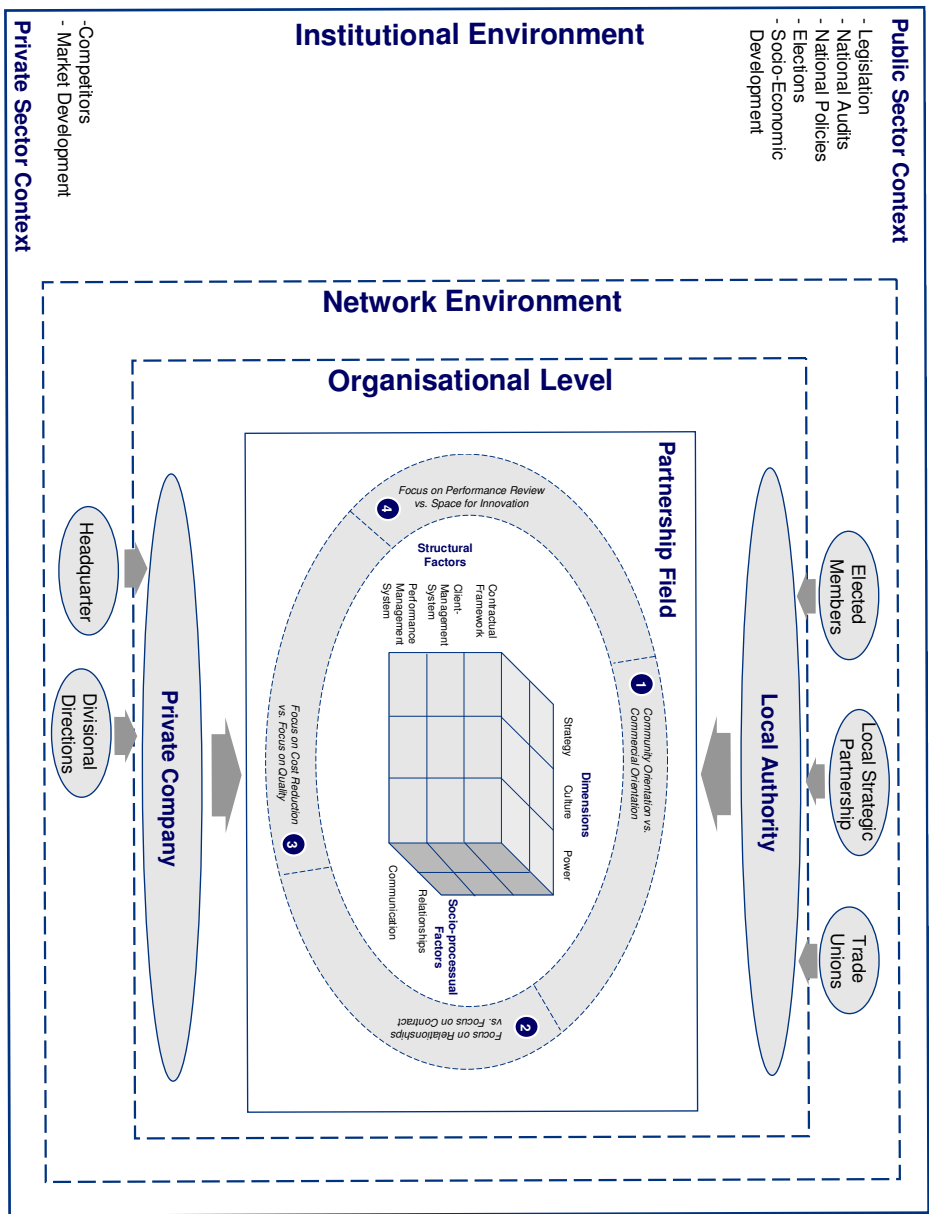
Own Exhibit.

Although the institutional and network environment are not within the scope of the research the partnering capacity of public and private organisations is embedded in the context of external factors. The network environment comprises the wider organisational network of the local authority and the private company. As illustrated by the empirical findings, various stakeholders influence the management of a public-private partnership. For instance, the elected members of the council are involved in decision-making processes and the private company has to fulfil the financial expectations of its shareholders.

The institutional environment comprises external factors, such as the market growth, competitors of the private supplier, national legislation, national policies and audits. The case study results suggest that the institutional environment impacts the partnering capacity in two respects. Firstly, the empirical results revealed that the central government's push towards a competitive public sector influenced the council's strategic decision to set up a public-private partnership.[74] Secondly, the institutional environment also influences the ability of public and private organisations to maintain a partnership. The long-established performance and contract management culture in the East Riding of Yorkshire Council goes back to the Conservative Governments' Compulsory Competitive Tendering regime and the Best Value regime introduced by the Labour party. The resulting performance and contract management culture enabled the council to monitor and manage arvato's adherence to the contract. It equipped the council with the necessary skill set and performance-orientation to talk the same language as its private sector counterpart.

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[74] Please refer to chapter 7.2.1.1 for more information on the impact of the institutional environment on the council's strategic objectives.

8.3 Partnering Capacity Strategies

The partnering capacity framework introduced by the previous chapter conceptualises the elements which affect the ability of private and public organisations to maintain their partnership. In addition, the interdependency of the eight elements is illustrated by the partnership capacity cube. This chapter goes on to answer the third research question of the thesis: How can public and private organisations increase the ability to maintain their partnership? Recommendations and strategies for improving the partnering capacity are derived based on the partnering capacity framework. The partnering capacity strategies are structured around three partnering phases and the eight partnering capacity elements.

The empirical results revealed that the ability of public and private organisations to maintain their partnership can be increased in different phases of the collaboration. The interviewees mentioned several phases impacting the partnering capacity, such as the bid process, the lead-in/transfer of the services, the settling-in phase and the growth and service development phase. The thesis distinguishes three successive phases in which specific partnering strategies should be employed: the procurement phase, the settling-in phase, and the stabilisation and development phase. Figure 33 depicts the three partnering phases. Actions to improve the partnering capacity are allocated to each phase. Hence, most partnering capacity strategies are not universally applicable rather they depend on the specific phase of the partnership. A successful implementation of the partnering capacity strategies helps to successfully manage the challenges of public-private partnering.

	1 Procurement Phase	**2** Settling-In Phase	**3** Stabilisation and Development Phase
Strategy	- Agree Partnership Objectives - Set incentive structure	Disseminate Objectives	Review Objectives
Culture	Find partner with cultural fit	Set visible cultural boundaries	Develop Partnership Culture
Power	Establish unequal power relations	Reinforce power distribution	Maintain power distribution
Communication	Set formal communication mechanisms	Develop communication mechanisms	Intensify inter-organisational communication
Relationships	- Establish core group - Define roles & responsibilities	Re-establish operational relationships	Strengthen inter-organisational relationships
Contractual Framework	Set robust contractual framework	Focus on contract	Enable relational approach to contract management
Performance Management System	- Agree roles & responsibilities - Set meaningful KPIs & Targets - Review performance	Stringent performance management	Allow space for innovation
Client-Management System	Select retained services and employees	Close monitoring and interaction	Monitor the resources committed to retained side

Figure 32: Partnering Capacity Strategies

Own Exhibit.

8.3.1   Procurement Phase

The procurement phase includes the bid process, the final contract negotiations and the approval process.[75] After the local authority has selected a supplier as the single preferred bidder based on the Best and Final Offers (BAFO), the contract details are negotiated. In the East Riding case, the procurement phase took three years. The procurement phase is important to the partnering capacity because the decisions made during the procurement of the contract have an impact on how well a successful partnership can be created.

Within this phase both parties should select a partner with the right *cultural* fit. Chapter 3.2.2 pointed out that the sectoral differences of public and private organisations are likely to cause significant frictions in a partnership. For the local authority, it is crucial that the service provider has a certain understanding of the public sector culture. The private company should be able to adapt to the value system of the public sector which emphasises the public good, altruism, and loyalty to the wider community. As illustrated by the case study findings, arvato understood the long decision-making and approval processes emanating from the public managers' concern for the political consequences of change processes. During the procurement process the bidders' sensitivity towards the public sector culture can be assessed by looking at their community orientation (corporate social responsibility), their public sector experience and the top managers' dedication towards the needs and characteristics of local authorities. For the private company, it is important that the local authority had established a performance-based culture characterised by professional methods of performance management and a certain output orientation. This would ease the inter-organisational collaboration because the private company could communicate with the local authority on a common basis.

The distribution of *power* between the partners is already determined in the procurement phase. By agreeing on the terms and conditions of the contract the

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[75] Please refer to chapter 5.2 for further information on the procurement process.

legal authority and the fallback positions are largely set. The council as the purchaser of the services can call for the legal authority and mainly influence the content of the contract. Service standards are defined, monitoring and approval processes determined, the meeting structure is set out, and financial penalties are designed. These contractual mechanisms enable the council to control the service provision. Moreover, the termination arrangements of the contract impact on the fallback position of the parties. If the council is able to reintegrate its services and former employees seamlessly at the end of the partnership its power position is strengthened. In the East Riding case, the unequal distribution of power between the partners proved to be conducive to the partnering capacity of the council and arvato. Hence, partnerships in which one partner is more powerful than the other are likely to be more stable than partnerships with an equal distribution of power. Clear lines of authority help to settle arguments and reduce disagreements about objectives and operational issues. However, the unequal distribution of power needs to be accepted by both partners in order to minimise dysfunctional conflict. The private partner will accept a stronger power position of the council if he is reassured about his return on investments. Therefore, the council should allow the private company to make a reasonable profit and convey an understanding for the private company's needs.

The multiple objectives of private and public partners should be skilfully negotiated, packaged and laid down in the contract. The partnering capacity element *strategy* is essential for improving the ability of public and private organisations to maintain their partnership. The individual objectives of public and private organisations are likely to conflict due to their distinct sectoral backgrounds. Therefore, a public-private partnership requires the involved organisations to align their objectives to a certain extent. This dissertation calls this process strategic alignment. It is realised by implementing an appropriate incentive structure and determining partnership objectives. As illustrated in chapter 7.2.1.2, conflicts between the individual objectives of private and public partners can be decreased by implementing an incentive structure that prevents one party from increasing its benefit at the expense of the other and therefore enables both partners

to achieve their individual objectives. In particular, the financial model of a public-private partnership offers various options for the creation of incentives.[76] Moreover, the empirical findings suggest that public and private partners should state joint partnership objectives which represent the overarching strategic direction of the collaboration. The strategic objectives of the partnership should be carefully considered and precisely articulated during the procurement process. Partnership objectives clarify the purpose and intent of the relationship between the partners and they increase staff commitment. Moreover, they manage expectations and provide strategic orientation.

The partnering capacity of public and private organisations will be increased if a robust *contractual framework* is developed during the procurement process. The contract sets out the key foundations on which the collaboration of the private company and the local authority will be based. Hence, the partners should reach a clear mutually agreed understanding of the contract details in order to reduce disputes which could arise from the interpretation of the contract. The empirical findings suggest that a robust contractual framework includes clearly defined milestones and performance targets, an adequate financial model, and a certain flexibility to respond to changing circumstances by setting out change procedures and formal communication mechanisms. The contract must reflect the partnership objectives by delineating appropriate milestones and performance targets. These should specify the intended output of the partnership. Moreover, the financial model should determine the payments from the local authority to the supplier as well as the financial penalties for performance failures. A set of meaningful key performance indicators need to be designed in order to be able to identify performance failures. In order to be robust the contract should be detailed and specific, but also offer a certain flexibility to respond to changing circumstances. As pointed out in the introduction of the dissertation, the average contract length of white-collar PPPs is eleven years and therefore the whole service-delivery mechanism could be completely different by the end of the contract. For both partners, it is necessary to make provision for future changes in the contract by

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[76] Please refer to chapter 6.2.2 for information about the financial model of the East Riding case.

specifying what would happen in certain events, such as legislative changes, the introduction of new services and significant changes in service volumes. Because not all possible changes can be foreseen, the contract should contain change procedures which describe how responses to internal and external changes are proposed, evaluated and approved. Flexibility is also enhanced by determining formal *communication* mechanisms. The contract should consider a communication strategy outlining the communications channels and how each will be used. For instance, the contract must define sub-monthly, monthly, quarterly and annual meetings which are attended by managers from both sides of the partnership. These regular meetings are an opportunity for both partners to discuss and resolve issues arising from internal and external changes.

Even where a robust contractual framework has been put in place, the partnering capacity of public and private organisations may be low if an effective *performance management system* is not established. The components of an effective performance management system are depicted in figure 29 in chapter 7.3.2.3 and include performance planning, performance measurement and the review of performance. During the procurement process the partners should agree on the roles and responsibilities associated with the performance management of the scoped services. The empirical findings suggest that the performance measurement should be conducted by the supplier, whereas the performance planning and the performance review should primarily be done by the local authority. By this allocation of roles and responsibilities costs are decreased and the council can be confident that it does not loose the control over the service delivery. The key performance indicators and performance targets should be meaningful. They should not conflict with each other, address the partnership objectives, and accurately represent the actual performance of the services. The KPIs should be measurable and not too complex in order to prevent unwanted outcomes and provide the partners with a shared understanding of the service performance. The service provider should measure performance across all scoped services, identify areas for improvement, and report the service performance regularly to the local authority. The local authority should review the performance,

approve changes to the scoped services, improve the KPIs and targets, and impose financial penalties in the case of performance failures.

In order to make the partnership work in practice, organisational structures need to be designed which facilitate inter-organisational exchange between the partners. During the procurement process, the local authority should decide which services and employees will be retained. The retained services and employees constitute the *client-management system*. Strategic functions should not be transferred to the private partner because the local authority has more expertise in policy making. For instance, a white-collar PPP would be more successful if the local authority focuses on the strategic development of the scoped services and the impact of local policies and national legislation. The partners' ability to maintain their partnership is increased when both sides can capitalise on their individual strengths. Moreover, the local authority should select skilled employees to monitor the supplier's adherence to the contract. To manage and oversee a long-term partnership the retained staff would need to be experienced with contract management and performance management. The employees should have good communication and relationship skills because they interact frequently with the service managers and top management of the private company. Typical issues to discuss include the service performance, contract variations, problem resolution actions, and changes to processes or systems within the scoped services. The empirical findings suggest that it is advantageous to involve the retained staff intensively in the procurement process because they will have a greater familiarity with the contractual terms in later stages of the partnership.

During the procurement phase *relationships* between the top management of the local authority and the supplier should be built. The empirical findings suggest that these relationships help to resolve disputes and increase partnership working. The core group which consisted of six top managers from the council and arvato was even referred to as the nucleus of the partnership. Moreover, the roles and responsibilities of the partners must be clearly defined in order to minimise conflicts and confusion. Roles and responsibilities should be set out at all levels

ranging from the top management of the partnership to the team leaders of the transferred and retained services.

8.3.2 Settling-In Phase

The settling-in phase comprises all tasks necessary to strengthen the operational foundation of the partnership. It starts with the transfer of staff and services from the council to arvato. In the East Riding case, the settling-in phase lasted for one and a half years since contract commencement. After the *strategic* direction was decided in the procurement phase, public and private managers should announce it internally. The partnership objectives need to be disseminated throughout the involved organisations in order to gain the employees' commitment for the partnership. In particular, it must be ensured that the transferred staff acknowledges and accepts the message from management because the launch of a public-private partnership entails significant changes. Staff in both transferred and retained services would be uncertain about changes to operational processes and day-to-day interactions if the partnership objectives are not communicated effectively.

The transfer of services and employees has a significant *cultural* impact. The local authority and the private company need to find the right balance between continuity and discontinuity in order to achieve a transition without disruption and deterioration in the performance of the services. In the East Riding case, the continuity of tasks, location, relationships and appearance proved to support a seamless transition.[77] However, the level of continuity should not be too high as the transferred employees need to identify with their new private sector employer and the private sector culture. The cultural boundaries between the client and the provider should be visible in order to induce a change towards a greater performance-orientation in the public sector employees' attitude.

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[77] Please refer to chapter 7.2.2 for further information.

It is crucial in the first year of the partnership to re-establish operational *relationships*. The transfer of employees will inevitably lead to a continuity of relationships and shared cultural backgrounds because the retained and the scoped side were colleagues before the launch of the partnership. This can be beneficial to the partnering capacity, however, it is necessary that the relationships between certain transferred employees and some client managers from the council are re-established. Because the transferred employees are not used to the new client-provider relationship they may deliver extra services to their former line managers without agreeing a variation to the contract.

During the settling-in phase a stringent *performance management* should be employed. Both partners should promote a strong performance-orientation at the start of the contract. Right after the transfer of employees and services, the public and private organisations should make sure that their partnership can achieve the desired objectives. The local authority has to review the supplier's performance in the scoped services and scrutinise the performance reports in terms of timeliness, accuracy and comprehensiveness. Financial penalties should be imposed if necessary. The supplier should self-monitor the scoped services on a daily basis in order to make quick adjustments to the service delivery if the performance is below target. During the settling-in phase performance reports should be refined and standardised. Moreover, the transferred staff becomes used to the increased orientation towards performance. The authority's monitoring team and the company's service managers should develop joint ways of working in order to enable effective performance management.

During the settling-in phase, the interactions between the local authority and the service provider should primarily be guided by the *contract*. A strong focus on the output specifications, reporting procedures and the KPIs defined by the contract strengthens the operational foundation of the partnership. Consequently, the local authority's *client managers* must closely monitor the service provider's adherence to the contract. The distribution of *power* which was set out during the procurement phase should be reinforced in the settling-in phase.

Finally, *communication* mechanisms should be developed by both partners in order to increase their partnering capacity. In particular, the settling-in phase requires extensive intra-organisational communication in order to disseminate objectives, reinforce the power distribution, set clear cultural boundaries, and re-establish operational relationships. Communication mechanisms may include newsletters, surveys, posters, forums, and meetings at various hierarchical levels. Inter-organisational communication is required for the management of the contract, the performance management and the client management. Primarily, informal communication and the sub-monthly, monthly, and quarterly meetings facilitate communication between private and public partners.

8.3.3   Stabilisation and Development Phase

The stabilisation and development phase is characterised by the partners' confidence that the PPP is able to deliver the services to the agreed standard. The predominant issue in this phase is to move the development of the scoped services forward. The long-term nature of white-collar PPPs requires a certain flexibility to adapt to changing circumstances. Hence, a key task during this phase is to enable a certain level of flexibility. Moreover, most of the challenges outlined in chapter 7.4 should be resolved.

The *strategic* orientation of the PPP and the partnership objectives should be reviewed by the partners and they should agree which objectives require more efforts to achieve. The findings from the East Riding case illustrate that the objective of top performing services was very important in the settling-in phase, but became less central in the stabilisation and development phase. Moreover, the constellation of individual and partnership objectives may change in later stages of the partnership. As described in chapter 7.2.4.1, the prioritisation of objectives can change over time due to internal strategic considerations or central government

policy. Therefore, it is necessary that both partners align their strategic orientation constantly during a partnership.

Moreover, a *partnership culture* should be developed by aligning the individual organisational cultures and negotiating their differences. The empirical findings suggest that a partnership culture that is built around the core values of both organisations increases the partnering capacity. PPPs involve organisations from two distinct sectoral backgrounds and value systems. The East Riding case shows that a community-oriented entrepreneurialism is a eligible synthesis of public and private sector values.[78] The way a partnership culture is shaped might be specific to each case. However, a partnership culture that increases the partnering capacity of public and private organisations should include a norm of interaction which is based on openness and a mutual understanding of each others' business.

During the stabilisation and development phase inter-organisational *communication* should be intensified. Particularly, away days between the retained and the scoped side should be organised in order to identify areas of improvement. Moreover, the members of the senior management teams should be invited to take part in the team meetings in order to increase the understanding for each others' business.

After the first years of the partnership the challenge between a focus on *relationships* and a focus on the *contractual framework* should be resolved. While the start of the partnership should be characterised by a strong contractual focus with stringent performance management, the later stages of the PPP should allow for a relational approach to contract management. A relational approach would speed approval processes up and provide greater flexibility for the management of the scoped services. Hence, inter-organisational relationships must be strengthened.

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[78] Please refer to chapter 7.2.2 for further information.

During the stabilisation and development phase the local authority should re-consider the purpose of the *client-management system*. The early stages of the partnership are likely to require more monitoring staff because many teething problems may occur and the partnership may focus on efficiency and performance. As the partnership progresses it might be beneficial for both partners to reduce the level of monitoring. The private and public organisations may have then developed joint ways of working, established routines and may have achieved a deeper understanding of their mutual needs. The level of monitoring should be proportionate to the outcome. To assess the proportionality of the client-management system it is necessary to assess its costs and benefits. Over the whole lifecycle of a white-collar PPP the resources committed to the retained side should be monitored. However, the distribution of *power* should still be maintained.

After the stringent *performance management* of the settling-in phase, the partners should create scope for innovation during the stabilisation and development phase. The private company should extent the size of their cross-functional project management team which focuses on developing technological and processual innovations. However, the empirical results suggest that the service managers might be reluctant to introduce innovations in their service areas due to the risk that performance may drop after a change project. The implementation of innovations may have severe financial implications because of the penalties triggered by performance failures. The service heads should be encouraged to introduce innovations by agreeing a procedure detailing how the local authority and the service provider would act in cases of performance failures induced by the implementation of innovations. Additionally, it might be advantageous to reduce the level of monitoring and reviewing performance in order to increase the supplier's ability to drive service improvement.

9.   Conclusion

This dissertation defined the notion of partnering capacity in order to conceptualise the ability of companies and local authorities to maintain white-collar public-private partnerships. A framework was developed comprising the inter-organisational elements and challenges that affect the partnering capacity. Based on the framework, partnering capacity strategies were derived in order to recommend feasible and pragmatic actions which improve the ability of public and private organisations to maintain their partnership.

The partnering capacity concept is informed by the literature on public-private partnerships, inter-organisational collaboration and capacity development. The theoretical perspectives shaped the conceptual foundation for the partnering capacity concept and enabled to derive working propositions which summarised the general direction of the research. The working propositions were applied to the empirical findings of the white-collar PPP between the East Riding of Yorkshire Council and arvato government services. Additionally, the case study generated in-depth insights into a white-collar PPP and led to the generation of new propositions. The elements of the partnering capacity were conceptualised by the propositions. Furthermore, the analysis of the empirical findings led to the inclusion of the core challenges, the network environment, and the institutional environment in the partnering capacity framework. Finally, partnering capacity strategies were derived which primarily address public and private managers who plan to launch or are involved in the management of a white-collar public-private partnership.

The development of the partnering capacity concept was the research objective. The following research questions were put forward to achieve the objective of the thesis:

(1) Are there inter-organisational elements that affect the ability of public and private organisations to maintain their partnership?

(2) How are the elements of a partnering capacity interrelated?

(3) How can public and private organisations increase the ability to maintain their partnership?

The first two research questions are addressed by the conceptualisation of the partnering capacity framework. In total, eight partnering capacity elements were identified which could be grouped into three categories: dimensions (strategy, culture, power), structural factors (contractual framework, client-management system, performance management system), and socio-processual factors (relationships, communication). These eight elements are highly interdependent.[79] The way these elements are applied in a white-collar partnership impacts on the ability of public and private organisations to maintain their partnership. The empirical findings revealed that public and private partners have to manage the following four core challenges appropriately: community orientation vs. commercial orientation, focus on relationships vs. focus on contract, focus on cost reduction vs. focus on quality, and focus on performance review vs. space for innovation. A successful interplay of the partnering capacity elements capitalises on the tensions induced by the core challenges.

Each partnering capacity element can be shaped in a specific way by both public and private partners. The dissertation suggests 28 partnering capacity strategies which improve the ability of public and private organisations to maintain their white-collar PPP. Hence, the partnering capacity strategies address the third research question. The thesis recommends different strategies for the following three phases of public-private partnering: the procurement phase, the settling-in phase, and the stabilisation and development phase. The implementation of the partnering capacity strategies help to resolve the four core challenges of public-private partnering.

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[79] Please refer to chapters 7.3 and 8.2 for further information.

Although the partnering capacity concept was defined as an organisational capacity, the dissertation provides a holistic perspective which embeds the partnering capacity in the context of external factors. The empirical findings revealed that the wider organisational network (trade unions, elected members of the council, arvato headquarter) and the institutional environment (national policies, market development) influenced the partnering capacity. However, these external factors were only considered as far as they had an impact on the organisational level.

The thesis addresses both the scientific community and practitioners. This twofold direction is quite common in public management dissertations because the research field is practice related (Adams and White 1994). Public management is an 'applied' discipline similar to social work, medicine and law (Miller and King 1998). The next chapters summarise the contributions to theory and practice. Subsequently, the limitations of the dissertation are outlined and suggestions for further research are made.

9.1   *Contributions to Theory*

The main contribution to the scientific community is that the study developed a comprehensive construct of partnering capacity. The discussion of working propositions (chapter 7.2) and the empirical derivation of new propositions (chapter 7.3) add to theory development in the research of public-private partnerships. Chapter 8 summarises the research results by conceptualising the partnering capacity. However, this chapter provides a synopsis of the dissertation's contributions to theory.

> 1.   White-collar public-private partnerships are a new form of collaboration between public and private organisations at the local government level. They differ from traditional public-private partnerships and white-collar outsourcing and can be defined by distinct features.

Since the 1990s most of the public-private partnerships emerging in the UK have been applied to blue-collar fields, such as highways and metropolitan transport systems, bridges, schools, hospitals, ports, prisons and railways. Consequently, public management research focuses on PPPs that involve infrastructure and construction projects. Public-private partnerships are said to employ an intermediary mode of governance, usually referred to as network. This study has identified a new form of PPP at the local government level which delivers corporate and central support services including revenues, payroll, financial services, ICT, human resources, and customer services. Since the first deal in the year 1998 more than a dozen contracts have been signed. However, current public management research has not yet conceived these partnerships as a new form of PPP. Contrary, practitioners have recognised the new development and referred to these partnerships as *Strategic Service Delivery Partnerships*. However, this term is too broad as central government subsumes collaborative relationships between local authorities and other organisations in the public, private or voluntary sectors under this term (ODPM 2004, Communities and Local Government 2008). Moreover, other practitioners also view ICT outsourcing contracts as service

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delivery partnerships (Whitfield 2008). White-collar public-private partnerships cover a range of different services and are not limited to a single service area. They bundle multiple services and often involve both front- and back-office services. Based on the findings of this study, the following features of white-collar PPPs could be identified:

> (1) Contractually formalised collaboration between public and private organisations for the delivery of white-collar services.
>
> (2) Bundling of services: at least three different services (often front- and back-office services).
>
> (3) Network mode of governance due to the complexity and quantity of the scoped services.
>
> (4) Low degree of conflicting individual objectives.
>
> (5) Long-term contract duration: average contract length is 11 years.
>
> (6) High contract value: average contract value is 208 million GBP.
>
> (7) Transfer of staff from the public organisation to the service provider.

The data on average contract length and value are based on a compilation of white-collar PPPs which occurred between 1998 and 2005. A comprehensive list is available in appendix A1 of this study.

2.	The thesis gained new insights into the strategic dimension of public-private partnerships. To assess the strategic fit of public and private organisations, it is necessary to analyse the constellation of the partners' individual objectives and the partnership objectives. Moreover, public management literature states that local authorities aim to achieve efficiency savings and quality improvements by launching public-private partnerships. The white-collar PPP analysed by this research illustrates that local authorities can involve private companies to achieve wider-community objectives.

Public management literature predominantly analyses the individual objectives of the public sector organisation which enters a public-private partnership. The motives of the private partner are either assumed or not considered at all. This study, however, revealed that both perspectives are necessary to gain a comprehensive view of the strategic situation. The individual objectives of both organisations can be displayed in a matrix and evaluated according to their strategic fit. Each constellation of individual objectives can be assessed by analysing the extent to which the individual objectives require, contradict or are neutral to each other.[80] In a second step, those individual objectives are identified which are officially stated as the overarching objectives of the public-private partnership. Subsequently, the constellation of individual and partnership objectives can be assessed. Contrary to extant public management literature, this study claims that a stable public-private partnership does not necessarily need to have complementary objectives, the individual objectives can also be in harmony or symbiosis. Some individual objectives can even be rivalling or conflict with each other as long as the majority of constellations are conducive to a stable situation. By transferring concepts from strategic management research and extant literature on inter-organisational networks to the public management domain, a more nuanced and comprehensive view of the strategic issues underpinning public-private partnerships.

Moreover, public management literature emphasises that the public sector launches public-private partnerships in order to increase the efficiency and/or the quality of public assets and services. This study points out that public organisations can also involve private companies to achieve wider-community objectives. One of the partnership objectives explicitly stated by the East Riding of Yorkshire Council was the creation of 600 new jobs in the region. Economic regeneration was considered as a key aspect of the PPP because local companies had moved from the East Riding region to economic centres like London since the last decades. The PPP was seen as a strategic opportunity to attract further investments and jobs. The East Riding case shows how local authorities can think out of the box and involve

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[80] Please refer to chapter 7.2.1.3 for further information.

private companies for purposes that are beyond the traditional paradigm of increased efficiency and quality improvements. Public management research may take into account that this could be a new development in the strategy of public-private partnering.

3.   Contrary to traditional accounts of power relations in PPPs, the public organisation investigated by this dissertation is in a more powerful position than its private counterpart. In addition, an unequal distribution of power can be conducive to the partnering capacity if both partners accept the imbalance of power.

Literature usually portrays public sector organisations as being in a less powerful position than its private counterpart. By analysing three sources of power in the East Riding case (authority, resource control, fallback position), this dissertation concluded that the council has a power advantage to arvato.[81] This may be due to the fact that the East Riding of Yorkshire Council is a high performing authority and has learnt about market-based contracting. The East Riding case may be an indicator for a recent development at the local government level. The reforms of the last years may have had an impact on the power position of local authorities in PPPs because public organisations got used to professional contract management and negotiations with suppliers.

Moreover, the case study illustrated that the unequal distribution of power between the partners proved to be conducive to the partnering capacity of the council and arvato. Clear lines of authority help to settle arguments and reduce disagreements about objectives and operational issues. However, the unequal distribution of power needs to be accepted by both partners in order to minimise dysfunctional conflict. The private partner will accept a stronger power position of the council if he is reassured about his return on investments. Therefore, the council should allow the private company to make a reasonable profit and convey an understanding for the private company's needs. The extent to which these findings are transferable to

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[81] Please refer to chapters 7.2.3 and 7.2.4.2 for further information.

other PPPs is questionable. It is possible to argue that unequal power relations which are accepted by both partners stabilise the collaboration and increase the ability of public and private organisations to maintain their partnership. However, a certain degree of instability might create healthy tensions between the partners which lead to innovations and performance enhancements.

4.	The concept of partnering capacity has to take socio-processual and structural factors into account.

The conceptualisation of partnering capacity enables researchers to gain in-depth insights into the workings and the management of inter-organisational relations in white-collar public-private partnerships. The dissertation pointed out that the inclusion of socio-processual and structural factors into the concept is necessary to understand how the ability of public and private organisations to maintain their partnership can be increased. Because of the complexity of services delivered and the network mode of governance, socio-processual factors are more important in white-collar PPPs than in traditional PPPs that focus on construction and infrastructure projects. This study identified *communication* and *relationships* as socio-processual factors of partnering capacity.[82] Both factors enable and facilitate the high level of interaction required in white-collar PPPs. As a result, research on partnering capacity needs to account for these aspects in greater detail. Even though mainstream research[83] feels uncomfortable with such ambiguous terms, they can not be neglected if the phenomenon should be embraced in its entirety.

The thesis considers structural factors as elements of the partnering capacity concept because these enabled and structured inter-organisational exchange. Structural factors include the *contractual framework*, the *performance management system*, and the *client-management system*.

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[82] Please refer to chapter 7.3.1 for further information.
[83] Please refer to table 9 in chapter 3.1 for a compilation of research on critical success factors in PFI/PPP construction projects.

> 5.   The partnering capacity elements are highly interdependent.

The elements of the partnering capacity are highly interrelated. Chapter 7.3 illustrates the interdependence between the socio-processual factors (communication, relationships), the structural factors (contractual framework, client-manager system, performance management) and the three dimensions (strategy, culture, power). The partnering capacity elements have a mutual impact upon each other and can not be conceptualised in a linear and consecutive manner. Therefore, the study chose a cube as a graphical representation of the interdependence between the partnering capacity elements.

> 6.   The high level of interaction induced by the complexity of white-collar services gives rise to new managerial challenges.

The in-depth study of the East Riding case identified four managerial challenges which underpin the collaboration between the council and arvato. These challenges are: community orientation vs. commercial orientation, focus on relationships vs. focus on contract, focus on cost reduction vs. focus on quality and focus on performance review vs. space for innovation. Each challenge provides the public and private organisations with two alternative directions for developing the partnership. The tensions constituted by the two different directions vitalise the partnership and should not be taken away. The partners should capitalise on them by managing them the right way. Partners should not commit themselves to one of the two directions, rather they should embrace both by applying appropriate partnering capacity strategies. These strategies are presented in chapter 8.3. The high level of interaction induced by the complexity[84] of white-collar services gives rise to the four challenges. As a result, research on the management of white-collar public-private partnerships should take these challenges into account.

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[84] Please refer to chapter 7.1 for further information about the complexity of white-collar services.

White-collar public-private partnerships are dynamic and develop over time. The prioritisation of individual objectives may alter due to internal or external changes. Moreover, the phases of white-collar PPPs require different partnering capacity strategies.

The East Riding case provided two examples for changes in the prioritisation of individual objectives. Arvato's prioritisation of individual objectives altered due to internal strategic considerations, whereas the council's prioritisation was influenced by central government policy changes. As a result, the degree to which the individual objectives of public and private organisations conflict or require each other is not fixed, but changes over time. There can be times within a partnership in which both partners focus on individual objectives that conflict with each other. And there can be times in which the partners give priority to objectives that are mutually pursued. Research on white-collar PPPs needs to address this dynamic strategic nature.

Moreover, the partnering capacity strategies also depend on time. In order to maintain white-collar PPPs, public and private partners need to adjust their actions to the different phases of the partnership. This study identified three stages of public-private partnering: the procurement phase, the settling-in phase, and the stabilisation and development phase. Strategies to increase the partnering capacity can differ significantly depending on the phase of the partnership. For instance, the early stages of a white-collar PPP require close monitoring, whereas after a few years the local authority may consider to decreasing the monitoring efforts.

9.2 Contributions to Practice

The main contribution to practitioners is that the study gives suggestions about how the partnering capacity in white-collar PPPs can be strengthened. Based upon the identification of the partnering capacity elements, the dissertation recommended partnering capacity strategies which should be applied in different stages of the collaboration. These 28 partnering capacity strategies aim to improve the ability of public and private organisations to maintain their white-collar PPP. Both public and private managers are addressed by these strategies. The next paragraphs do not reiterate the content of chapter 8.3, rather they focus on key aspects which cut across those strategies.

1.	Start building your partnering capacity prior to contract commencement.

The study revealed that the partnering capacity can be developed prior to contract commencement. During the procurement phase decisions are made which have a long-lasting impact on the ability of public and private organisations to maintain their partnership. The selection of the service provider is crucial because the local authority needs to find a partner with the right strategic and cultural fit. After a service provider has been chosen, both public and private partners negotiate contract details which set out the foundations on which the collaboration will be based. Performance targets, the financial model, incentives, and change processes should be clearly defined. Additionally, formal communication mechanisms and roles and responsibilities should be agreed. Relationships between the top management of both organisations need to be established before the operational launch of the partnership. Each partnering capacity element needs to be addressed during the procurement process.

> 2. Ensure that organisational boundaries are maintained, particularly in the early stages of a white-collar public-private partnership.

Public management literature usually portrays public-private partnerships as hybrid and intermediary forms of organising which break down conventional boundaries between public and private organisations. This dissertation revealed that especially white-collar PPPs require a high level of cross-boundary interaction due to service splits, changing government legislation, knowledge-intensive services, and the political sensitivity of the scoped services.[85] Although inter-organisational ties between public and private partners should be established, this does not mean that organisational boundaries should entirely blur. Instead, organisational boundaries should still remain intact and the partners should capitalise on their differences. In particular, the early stages of the partnership call for a clear distinction between the local authority and the service provider. As pointed in chapter 8.3.2, visible cultural boundaries need to be set and operational relationships should be re-established at the start of the partnership in order to induce a change towards a client-provider culture and greater performance-orientation.

> 3. Establish adequate control mechanisms to ensure that the partnership objectives will be achieved.

Public and private managers can increase their ability to maintain their partnership by establishing control mechanisms which ensure that the partnership delivers on its promises. The contract should clearly set out strategic objectives, milestones and output specifications. Elements of a performance management cycle should be outlined including performance planning, performance measurement and performance review. Another key control mechanism described by the contract is the financial model. Sanctions for performance failures and incentives for service improvements should be agreed. To enforce the terms of the contract a stringent performance management should be employed. The private partner should monitor

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[85] Please refer to chapter 7.1 for further information.

the scoped services on a daily basis in order to make quick adjustments to the service delivery if the performance is below target. The local authority should continuously review the supplier's performance.

This study gives a surprising suggestion to private managers: It is advantageous for both partners that the local authority has a strong retained side which controls the service delivery to a certain extent. A strong retained side helps to maintain healthy tensions between the partners. The local authority's client managers should monitor the service provider's adherence to the contract. The dissertation showed that a high performing white-collar PPP requires a skilled retained side because it enables public and private partners to have a joint understanding of the performance and the requirements of the scoped services. Moreover, the retained side can lead to a growing confidence of the local authority that the supplier is able to manage and improve the scoped services. The existence of the retained side can also reduce the public managers' suspicion about the motives of the service provider because the client-management system involves a high level of inter-organisational exchange between the partners. The main focus of the retained side should be the output of the service delivery, instead of the service input, in order to allow the private partner to its apply business process re-engineering and change management expertise.

4.	Strengthen inter-organisational ties between the client and the service provider in later stages of the partnership.

Public and private partners should build a partnership culture, disseminate partnership objectives and intensify inter-organisational communication and boundary-spanning relationships in order to develop their partnering capacity. Partnership objectives should be communicated throughout the involved organisations at the start of the partnership in order to clarify the purpose of the relationship between the partners and to increase staff commitment. After operational relationships have been re-established and adapted to the requirements of a client-provider setting, the partners should concentrate their efforts on

intensifying inter-organisational relationships and communication by, for instance, organising joint away days. As pointed out before, white-collar PPPs require a high level of cross-boundary interaction due to service splits, changing government legislation, knowledge-intensive services, and the political sensitivity of the scoped services. Moreover, a partnership culture should be created that is based on shared values, openness and a mutual understanding of each others' business. As illustrated by the East Riding case, a *community-oriented entrepreneurialism* can be accepted by both partners because it synthesises public and private sector values. Partners should be sensitive to the political context of the service delivery and at the same time promote an entrepreneurial spirit.

5.	As the partnership progresses, partners should allow for flexibility in order to adapt to changing circumstances and to enable innovations in the service delivery.

The predominant issue in later stages of white-collar partnerships is about the development of the services by introducing processual and technological innovations. The higher the service standards rise over the contract length, the more it becomes necessary to reconsider established ways of working. Moreover, internal and external changes may require the partners to alter their approach to service delivery. The council's policies or central government legislation can change. In particular, the long contract duration of white-collar PPPs makes it impossible to anticipate all future changes. As a result, partners should allow for a certain degree of flexibility. A relational approach to contract management speeds up approval processes and enables both partners to act more flexibly in terms of changes to the service delivery. Moreover, private managers should be encouraged to introduce innovations by agreeing a procedure detailing how the local authority and the service provider would act in cases of performance failures induced by the implementation of innovations.

9.3   *Research Limitations*

The results of the dissertation are limited in terms of their generalisability. Due to the single case study design the partnering capacity concept has a low degree of statistical generalisability. However, a statistical generalisation was not the objective of the research, rather it aimed to explore a new empirical phenomenon and to conceptualise the ability of public and private organisations to maintain their white-collar partnership.

The partnering capacity concept can only be applied to white-collar public private partnerships. The 15 white-collar PPPs[86] which were identified at the start of the research are all characterised by similar components. For instance, they transfer staff from the public to the private organisation and involve corporate and central support services. The complexity created by white-collar services is very likely to lead to similar management challenges. The partnering capacity elements and strategies will be applicable and beneficial to other white-collar PPPs. However, the insights provided by this research might not be applied to infrastructure and construction PPPs because the complexity of delivered services and the level of interaction between private and public organisations are different. Moreover, public-public partnerships and partnerships involving the voluntary sector lead to different cultural and organisational implications which were not considered by this research.

Moreover, the research was conducted in a particular geographical area. As described in chapter 4.1.2, the analysis was restricted to the United Kingdom. This limits the generalisability of the results. The UK's public sector has undergone several significant reforms in the last decades which have established a favourable environment for the launch of public-private partnerships. Moreover, local authorities in the UK deliver a greater set of public services than, for instance,

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[86] Please refer to appendix A1 for further information.

German ones. Hence, a partnering capacity concept developed for white-collar PPPs situated in other countries may emphasise different elements.

Moreover, the strategic situation in the East Riding case is special because arvato wanted to enter the local government market. The success of the partnership was a key prerequisite for acquiring additional PPP deals. As a result, arvato allowed the local authority to have a say in many operational issues. The potential for conflict may be higher in white-collar PPPs in which the service provider is an established player in the local government market. However, the elements pivotal to the partner's ability to maintain their partnership are likely to remain the same.

Finally, there are limitations to the phases of white-collar PPPs. The research identified three phases of public-private partnering ranging from the procurement to the development of the services. Essentially, the research could only analyse the first five years of the partnership between the East Riding of Yorkshire Council and arvato government services by conducting interviews and using historical documents. Future phases of the partnership could not be investigated because the research project did not last for the whole contract length.

9.4   Suggestions for Further Research

The partnering capacity concept provides an opportunity to explore a variety of questions pertaining to public-private partnerships. The partnering capacity concept limits its focus to inter-organisational elements that increase the ability of public and private actors to maintain their partnership. However, the partnering capacity may have consequences for the involved organisations which were not within the scope of the dissertation. For instance, further research could investigate the impact of a high partnering capacity on the partner's financial and political situation. Research addressing the financial results could shed light on the following questions: Does a high partnering capacity yield increased cost savings? Does a low partnering capacity lead to higher monitoring and management costs?

The literature review illustrated that the capacity concept resides on three different levels: the institutional, the organisational and the individual level. This study focused on the organisational level of partnering capacity. As briefly outlined in chapter 8.2, the institutional environment impacts on the partnering capacity of public and private organisations. The central government's push towards a competitive public sector, the performance ranking of local authorities, and a favourable legislation (tax refund) have positive effects on the partnering capacity. More research is required to investigate the link between the institutional environment and the ability of public and private organisations to maintain their partnership. In addition, more attention could be paid to the individual level of the partnering capacity. The role of individual people and their boundary-spanning skills could offer additional insights into the partnering capacity concept.

The dissertation analyses the first five years of the partnership between the East Riding of Yorkshire Council and arvato government services by conducting interviews and using historical documents. New managerial challenges might emerge in the final phase of the partnership. Longitudinal studies could provide additional insights into the partnering capacity of public and private organisations over the whole contract length. Methodologically, further research could approach

the partnering capacity concept from a quantitative angle. It could test the propositions developed by this dissertation.

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APPENDIX

A1 White-Collar Public-Private Partnerships in UK Local Government

Duration of contract	Partnership	Scoped Services	No. of Staff (transfer)	Value of contract
1998-2008	Sheffield City Council and Liberata	- ICT - Housing Benefits - Creditors - Debtors - Revenues - Cashier - Payroll	450	£275M
2000-2010	Lincolnshire County Council and Hyder Business Services (HBS)	- ICT, - Property services - Finance services - Personnel service	1,088	£306M
2001-2011	Blackburn with Darwen Borough Council and Capita	- IT - School support services - Housing benefits administration - Council tax collection - HR - Property, highways management and regeneration - Call Centre	470	£205M
2001-2013	Bedfordshire County Council and Hyder Business Services (HBS)	- ICT - HR - Finance - Contract Management - Administrative Support - Call Centre	550	£265M
2001-2011	Liverpool City Council and	- Revenues & Benefits	850 (seconded	£300M

	British Telecom/ Joint Venture	- HR - Payroll - Call Centre - ICT services	to the joint venture)	
2001-2011	Middlesbrough Council and Hyder Business Services (HBS)	- IT - Revenues & Benefits - HR	1,045	£250M
2002-2009	Bromley London Borough Council and Liberata ICT service (sub-contracted to Sx3)	- administration of Housing Benefit - Revenues & Benefits - Council Tax Benefits - National non-domestic rates - sundry debtors - mortgages, loans and cashier - Liberata has sub-contracted the ICT managed services to Sx3 -	150	£68M
2003-2013	Bath and North East Somerset Council and Hyder Business Services (HBS)	- ICT services - Payroll - HR administration	70	£70M
2003-2015	Rotherham Metropolitan Borough Council and British Telecom/ Joint Venture	- Call Centre - One Stop Shops - Revenue and Benefits - ESD access channels - HR & Payroll Service Improvement plan	550 staff are seconded to the new company	£150M
2004-2016	Milton Keynes Council and Hyder Business Services (HBS)	- finance - HR - IT - Payroll - Housing Repair - various environmental	730	£200M

		- services - administrative support		
2004-2014	Suffolk County Council and British Telecom/ Joint Venture	- ICT - HR - Finance - Contact Centre - One Stop Shops	700	£330M
2005-2013	East Riding of Yorkshire Council and arvato government services	- Revenues - Financial Assessments - Payroll Services - Creditor Payments - ICT Services - Customer Service Centres - Print and Design - Training - Occupational Health	517	£140M
2005-2017	Mendip District Council and Capita	- Housing benefits - Financial and accounting services - Payroll - Collection of revenues - Elections management - ICT -	50	£30M
2005-2020	Pendle Borough Council and Liberata	- Customer Services - Benefits & Revenues - ICT - Property - HR -	185	£100M
2005-2020	Thurrock Borough Council and Vertex	- Administration services - Financial services - Customer Services - Engineering and Transportation - Facilities - HR	600	£427M

		- ICT - Payroll Services - Procurement and Property Services - Revenues		

A2   List of Interviewees

Table A

No.	Name	Interview Date	Organisation	Position
1	Gill Chappell	25.01.07, 05.03.07, 05.12.07	arvato	Head of Human Resources
2	Andrea Appleton	07.03.07	arvato	PA to Managing Director
3	Sigrid Deissenberger	24.01.07, 25.01.07, 05.12.07	arvato	Project Manager / Bid Manager
4	Rainer Majcen	25.01.07, 22.11.07	arvato	Managing Director
5	John Buttle	25.01.07, 05.03.07, 09.03.07	arvato	Revenues Manager
6	Caroline Hopkins	25.01.07	arvato	Head of Customer Centric Services / Director of Operations and Client Services
7	Graham McFayden	24.01.07	arvato	Project Manager
8	Richard Parkin	05.03.07	arvato	Head of Finance
9	Julian Rice	06.03.07, 06.12.07	arvato	Senior Occupational Health Nurse
10	Tim Gregson	07.03.07	arvato	Head of ICT

11	Peter Schriewersmann	24.01.07, 09.03.07	arvato	Project Management Assistant
12	Dave Marsden	07.03.07	arvato	Team Leader Revenues
13	Colin Rowe	08.03.07	arvato	Training and HR Manager
14	Bebby Cawkell	09.03.07	arvato	Team Leader Financial Assessments
15	John Kirkman	05.03.07	arvato	Financial Assessments Manager
16	Mike Williamson	05.12.07	arvato	Project Manager / Client Manager
17	Andy Carell	24.01.07	arvato	Marketing Manager
18	Kerry Ward	04.12.07	arvato	Area Team Leader (East), Employee Representative
19	Paul Ashcroft	04.12.07	arvato	Technical Officer (Billing & Collection), Employee Representative
20	Michelle Rowbottom	03.12.07	arvato (Secondee)	Customer Services Network Manager
21	Harry Dodgeon	09.03.07, 04.12.07	Council	Partnership Manager - Partnership & Commercial Services
22	Elaine Whittaker	09.03.07	Council	Service Development Manager - Partnership & Commercial Services
23	Katie Irwin	06.03.07	Council	Technical Manager - Partnership Support Team
24	Susan Lockwood	08.03.07	Council	Director of Corporate Resources
25	Nigel Pearson	08.03.07	Council	Chief executive
26	Bernice Lade	04.12.07, 09.03.07	Council	Revenue Support Manager
27	Amanda Wilde	07.03.07, 03.12.07,	Council	Client Manager
28	David Smith	05.12.07	Council	Head of Human Resources

A3   Interview Guide   (Example)

	Name	Position	Date	Type of Interview
government arvato services				Semi-structured

Introduction

- major contribution to dissertation
- tape-recording

1.   General Info & Procurement Process

Could you please describe your job within the partnership? What are your areas of responsibility?

Did you work for the council before?

When you compare your service area with the others, do you think that your area interacts quite often with the council? (Partnering intensity)

From your point of view: Is the relationship with the council based on a partnership or outsourcing approach?

How would you assess the impact of national policy on partnership with arvato (CPA, Gershon, Tax Refund, etc.)?

Did other external factors promote the decision to set up a collaboration with arvato?

What do you think is especially important for enabling and maintaining a collaboration between public and private partners?

2. Objectives

Does the partnership have objectives which are mutually pursued by the council and arvato?

How were and are the partnership goals communicated within the organisations?

Which objectives does the partner pursue within the partnership?

Which objectives does our organisation pursue within the partnership?

How gained the council an understanding of arvato's business?

How gained arvato an understanding of the council's business from your point of view?

Do you think that the council needs a greater commercial awareness?

3. Incentives

What kind of payment system is in place in your service area? Unitary payment or transactional payment?

If you achieve efficiency savings: Who will receive the efficiency savings? The council or arvato?

Are there any bonuses that the supplier can win for service delivery above the contract requirements? Have any bonuses been paid in the last few years?

4.   Organisational Interfaces

Which services within your area have a process-split due to the partnership? Services that are in part delivered by arvato and the council

Why did the council retain certain services of your service area?

Could you describe a typical situation where a part of the service is delivered by arvato and the other part retained by the council? From a process-perspective

In terms of internal organisational interfaces: What are the services you have constant interaction with? Which ones are delivered by arvato?

Why are there organisational interfaces to other service areas?

What kind of interactions take place between the council staff and arvato employees in day-to-day operation?

5.   Staff Transfer

Was any staff seconded to your service area?

How many council employees were transferred to your service area?

Did the staff's job description change (different tasks)?

Why was council staff transferred to arvato?

What is the advantage/disadvantage of the staff transfer and secondment?

Which employees were retained by the council and why?

6.   Client Manager System/ Monitoring

Do you think that the council's contract management is appropriate?

How many KPIs in your service area have a financial penalty?

Have any penalties been imposed since the launch of the partnership? And why have these been imposed?

By whom are you monitored? Who are your client managers? What is the size of the monitoring team?

Do you think that the size of the client team is appropriate?

Were the most experienced people retained by the council to become client managers?

7.   Risks

What are potential risks and who manages them?

Do you think that within the partnership there has been an appropriate allocation of risks?

What would happen if the partnership fails? Who would be in a better situation: the council or arvato?

8.   CULTURE

Did you modify your approach to outsourcing due to the public sector origin of your partner? How did you modify?

What are differences between public and private employees?

Do the employees with public sector origin transfer a certain public sector thinking to arvato?

What did the council learn from arvato?

What did arvato learn from the council?

Does the public sector origin add to the partnering relationship between arvato and council?

In which service areas do the public sector employees work now (the same; where are most of them)?

What notion do you favour: 'citizen' or 'customer'? And why do you have this preference? (citizen: old-fashioned, too political)

What is different to an inhouse solution…
    …in terms of day-to-day management?
    …in terms of communication processes
    …in terms of customer service or other sevice areas

What might be different to an alliance with a private sector company…
    …in terms of day-to-day management?
    …in terms of communication processes

…in terms of customer service or other sevice areas

9. Business Process Re-engineering

Did the council employ process management before the collaboration with arvato?

Does the contract give you scope to be innovative?

What are the most significant changes in service delivery and since the launch of the partnership? To what extent were business process changed?

Could you state which of the following activities have been tried to realise: reorganisation, routinisation and automation of tasks/processes?

Does the council try to prevent certain BPR activities?

Does the council have a veto right in terms of changes made to processes or organisational structure?

10. Disagreements & Resolution

What are typical disagreements between the council and arvato?

How are these disagreements resolved?

In critical situations: Is it risky for you to rely on the council?

What were teething problems of the collaboration and successful strategies to solve them?

Which contractual mechanisms serve to settle disagreements?

Which informal ways serve to settle disagreements?

Which approach 'contractual' or 'informal' is the most applied one?

What recommendations would you give to improve the partnership?

Curriculum Vitae

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Studium

04/2006 – 09/2008	Universität St. Gallen (CH) Doktoratsstudium: Betriebswirtschaftslehre
03/2008 – 04/2008	University of California, Berkeley (USA) Visiting Scholar
09/2004 – 12/2005	University of Lancaster (GB) Masterstudium: Information Technology, Management and Organisational Change
10/2001 – 09/2004	Universität Bayreuth (D) Bachelorstudium: Philosophy & Economics

Berufserfahrung

Seit 08/2008	Bertelsmann Arvato, Senior Consultant in der Abteilung arvato government services (Berlin)
08/2006 – 07/2008	Bertelsmann Arvato, Assistent der Geschäftsleitung in der Abteilung arvato government services (Berlin)
2003 – 2006	Studienbegleitende Praktika beim Fraunhofer Institut, der Detecon International, der CSC AG, dem Europaparlament und der CPC Unternehmensmanagement AG