

Predicting the Success of a Public Private Partnership

USING CULTURE TO SEE THE FUTURE

By Ron Wiens and Brian Kelly

Choosing a partner means looking beyond what any potential partner is committing to deliver, even when the partner is willing to make the commitment legally binding. If you want to increase the probability of success, you have to go beyond the contract and look behind your partner's curtain. You need to take the time to evaluate your partner's culture before signing on the dotted line.



AT A GLANCE:

- ◆ Choosing a partner is difficult because we are trying to predict future performance.
- ◆ Culture affords deep insight into a potential partner's behaviours, attitudes and beliefs.
- ◆ By understanding a potential partner's culture, you can make a reasonable prediction of behaviours and from that gain insight as to what the future holds for the partnership.
- ◆ There are six cultural elements that will tell you a lot about your potential partner's ability to deliver value over the life of the partnership.

Predicting the Success of a Public Private Partnership

Being a public service delivery organisation means that you are constantly caught between a rock and a hard place. Demand for service almost always outstrips the capacity for delivery. Recognising this, and despite what the public may think, government bodies are constantly looking for ways to do things faster, better, cheaper. One of these ways, that local councils are increasingly turning to, involves the creation of public private partnerships (PPP). Here, a council partners with a private organisation for the delivery and improvement of a specific set of services. The rationale being that the selected private partner has a superior delivery engine. The expectation is that the PPP will be able to realise gains, a portion of which will be shared with the council. There is a further expectation that when the services are eventually returned to the council, they will be returned in a superior state.

But, here's the rub. If you do not select your partner wisely, hoped-for gains may quickly turn into very real losses. While some councils have achieved significant results through partnering, more than one council has found these efforts to be both painful and expensive.

A council entering into a partnership is responsible for putting in place a contract that clarifies expectations, lays out appropriate penalties for performance failures, and provides ways and means to exit the contract should the partnership deteriorate past the point of recovery. Even with a perfect contract in place, however, a non-performing partnership is a disaster. It is not good enough to have a contract that simply protects your interests. If the result of a non-performing partnership is degraded services, the contract will not protect you from loss of trust both with the public and your staff. The responsibility of a council, therefore, is not simply to put in place a contract that protects it and its citizens, but also to select a partner who will be successful and deliver value.

It would be a lot easier if the selection of a partner was solely a quantitative process. Unfortunately, there are no black and white measures to guarantee success. When it comes to art versus science, the partner selection process still involves some artful measures. And here's the second rub. Soft measures can make public sector bodies distinctly

uncomfortable. But, by embracing the ‘softer’ side of partner selection, councils enhance their ability to predict future performance. It is our experience that many partnerships fall short of expectations precisely because the selected private partner did not have the culture required to drive long term PPP success.

We are not downplaying the importance of existing procurement procedures. What we are saying is that these procedures by themselves are incomplete and need to be supplemented with cultural considerations.

We have found that there are six cultural elements that will tell you a lot about your potential partner’s ability to deliver value over the life of the partnership. These six elements can be used as success predictors for a public private partnership. What follows is an overview of each of these predictors.

SUCCESS PREDICTOR ONE

THE ALIGNMENT BETWEEN YOUR PARTNER’S CORE BUSINESS AND THE SERVICE BEING OUTSOURCED

When the service being outsourced is core to your potential partner’s business, it is much more likely that your partner will keep one eye on cost reduction and the other on the innovations and improvements that will keep the service delivering value over the long term.

While it seems counter-intuitive that anyone would go to a dentist to have their tonsils removed, it is not unheard of for a council to choose a partner who is not a functional expert in the areas being outsourced. When the service being outsourced is not core to a potential partner’s being, it is less likely that their people go to bed at night thinking about the function and how to move it forward. For services that are not core, it is also less likely that a partner will have put in place the infrastructure and made the investment necessary to gain the thought leadership that enables it to deliver faster, better, cheaper on a sustained basis.

So, why would a council choose a partner whose business is not core to the service being outsourced? The answer tends to be that the council sees the partner as a competent manager, likely to deliver on the cost reduction commitments as negotiated. The council, however, also needs to be concerned about the state of the service when it is eventually returned at the end of the contract. If the potential partner is weak on functional innovation, the council risks receiving back an antiquated service with demoralised staff.

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WHAT TO LOOK FOR IN A POTENTIAL PARTNER:

- ◆ Is your potential partner an experienced practitioner in the service being outsourced - is the service core to your potential partner's business?
- ◆ Does your potential partner have a track record of appointing managers, to the partnership, who are functional experts in leading and transforming their assigned service areas?
- ◆ Does your potential partner invest in the service's future - does it employ people who research and develop best practices for the service being outsourced?
- ◆ Does your potential partner have a track record in operationalising best practices?

SUCCESS PREDICTOR TWO**THE DEPTH OF INVESTMENT IN CONTINUOUS IMPROVEMENT**

You want to look into the eyes of your potential partner's front line workers and see if there is an excitement and a passion for making things better tomorrow than they are today.

It is pretty much the norm that when your private partner takes responsibility for a service, it will come on the scene with plans for a significant transformation in order to kick-start the new way – the 'big bang' approach. While often necessary, the 'big bang' approach is not sufficient on two accounts. One, it has been our experience that successful large scale transformations generally realise 30-40% of the performance gains that are being looked for. And two, when the 'big bang' is completed, everyone gives a sigh of relief, declares victory, puts down their pens, and commences the return journey to yesterday's performance levels.

The obvious question is what will give the other 60-70% of the performance gains and keep the partnership at the top of its game? The answer is a culture of continuous improvement - a culture in which every team and every member of the team is thinking everyday about how to make things better, faster and cheaper. Moreover, it is a culture in which people have been given the authority, training, and tools to enable change on an ongoing basis.

All potential partners will say that they practice continuous improvement. The reality is some do not. And, why not? One reason is that when a private partner takes over a service, many public sector workers come with it. This means that the private partner needs to make a substantial investment in developing a culture of continuous improvement amongst

these workers. It is much easier for the private partner's management to be the driver of change and treat the workers as the unthinking implementers of their change programmes. Much easier, but once again, the service and organisation that will be returned at the end of the partnership will be a lot less than it could have been.

To determine the degree to which this success predictor is present in any potential partner will require the council to do a bit of digging. This digging involves walking around a PPP that your potential partner is currently involved with and speaking with their front line, former public sector staff. You need to hear directly from these front line workers what their approach to continuous improvement is, what kind of support they get for it and what their team is doing to move their piece of the organisation forward. You want to look into the eyes of your potential partner's front line workers and see if there is an excitement and a passion for making things better tomorrow than they are today.

One final point, you also want to look outside the PPP at the 'internal workings' of your potential partner's organisation to see the extent to which continuous improvement is core to their being.

WHAT TO LOOK FOR IN A POTENTIAL PARTNER:

- ◆ Has your potential partner established performance agreements with its staff, both within its PPPs and its own 'internal' operations that makes clear the expectation of ongoing contributions to their team's performance?
- ◆ Does your potential partner have a formalised methodology for, and provide training to all staff on continuous improvement?
- ◆ Does your potential partner have well-developed metrics that provide feedback on their PPPs performance?
- ◆ Is your potential partner able to provide reference accounts that show these metrics in use with sustained performance gains?
- ◆ Do the councils of your potential partner's other PPPs concur that their services have steadily gotten better, faster, cheaper?
- ◆ Does your potential partner believe enough in its continuous improvement capabilities to embrace regularly escalating service level agreements?

SUCCESS PREDICTOR THREE

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THE IMPORTANCE ATTACHED TO A SATISFIED CUSTOMER

In a partnership, once trust goes out of the window, the openness and the free and easy sharing of information that is required for partnership success also goes out of the window.

This predictor relates to the level of importance your potential partner places on how its customers ‘feel’ about the services they are receiving. In terms of soft measures, this is about as soft as it gets. More than one service provider has argued: “as long as I am meeting my service level agreements, feelings don’t matter”. But feelings do matter. If a customer is upset, even irrationally so, you want a partner who is concerned, shows empathy and who is trying to understand what is driving these feelings. The downfall of not paying attention to feelings is the deterioration of trust. In a partnership, once trust goes out of the window, the openness and the free and easy sharing of information that is required for partnership success also goes out of the window.

It doesn’t matter how well a potential partner is meeting its SLAs, the consequences of upset customers can be dire. Upset customers are not going to serve as reference accounts, and when it comes to contract renewal time, upset customers are far less likely to continue the relationship. So, if a potential partner is not placing a great deal of value on how its customers feel about the service they are receiving, then the concern becomes - are you looking at a partner with a business model that is primarily focussed on short term gain?

And how do you determine whether customer satisfaction is important to your potential partner? Well, you talk to its customers. Does your potential partner frequently measure customer satisfaction? Pay attention to the language that your potential partner uses when it talks about its customers. If customer satisfaction is important to them, then no matter how difficult or intense an issue may be, your potential partner will always speak of its customers in a collegial and respectful manner. Moreover, your potential partner will have a value system that ensures this approach exists at all levels within its organisation. And finally, a significant portion of the bonus which its senior managers receive will ride directly on the ratings their customers have given them.

WHAT TO LOOK FOR IN A POTENTIAL PARTNER:

- ◆ Do the attitudes and behaviours of your potential partner’s staff, in their other PPPs, show a commitment to customer satisfaction?
- ◆ Does your potential partner regularly measure customer satisfaction?
- ◆ Do your potential partner’s measures demonstrate that they understand what drives customer satisfaction?

- ◆ Is a significant portion of your potential partner's management team's reward/bonus/evaluation based on their customer satisfaction rating?

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SUCCESS PREDICTOR FOUR

COMMITMENT TO THE COUNCIL'S FUTURE

You want a partner who works hard both at understanding your future and how it can contribute to the realisation of that future.

If your partner is to deliver substantial value to you, then you want a partner who works at understanding your business, your issues, your opportunities and your priorities. You want a partner who works hard both at understanding your future and how it can contribute to the realisation of that future. You want a partner who has the courage to disagree. When your partner believes you are going down the wrong path, you want a partner who will stand up and say so.

You want to be concerned if your potential partner sees its role as primarily operational, i.e. taking care of the day to day and responding to change requests as the council raises them. Providing such a reactive service is one way that a partner can minimise its costs, especially if the service is not core to its business. However, in terms of helping the council to move forward, this approach is something akin to a boat anchor.

The ability to deliver solutions in a timely manner requires a partner to have a deep understanding of where its client's business is going. It is this understanding that gives the partnership the runway needed to deliver what is required when it is required. To get this level of proactive delivery means the partner has people, as part of its relationship management function, sitting at its clients' planning tables.

All of this means that you are dealing with a partner who has made a significant investment both in building a relationship management function and bringing on-board staff with strategic thinking abilities. These investments are a demonstration of your potential partner's commitment to the partnership's long term success.

WHAT TO LOOK FOR IN A POTENTIAL PARTNER:

- ◆ Does your potential partner have a well developed approach to relationship management, i.e. does it invest time and resources in understanding the council's business?
- ◆ Does your potential partner have a reputation for proactively bringing solutions to the table - are they viewed by their other council clients as providers of strategic advice?

- ◆ Is your potential partner able to speak ‘hard truths’ to its clients in a way that it is heard, understood and appreciated - does your potential partner have a reputation for helping its clients see and stay clear of the minefields that line the path to success?

SUCCESS PREDICTOR FIVE

THE IMPORTANCE ATTACHED TO SATISFIED STAFF

Success requires that staff experience the PPP as a compelling place to work.

In today’s organisations, ‘knowledge’ is king. Knowledge is a resource locked in the human mind. Creating and sharing knowledge cannot be forced out of people.[†] Every individual possesses unique insights that can be put to use only with his/her active cooperation. Knowledge workers are quasi volunteers in that they can choose to make their knowledge known or not and can choose whether they impart all of it, part of it or none of it! The job of any potential partner is to build a culture that gets staff working together, freely giving up their knowledge in order to move the partnership forward. The success of a PPP is dependent on having a partner who can engage and leverage knowledge workers.

It was Charles Handy who said: *“It’s the organisation’s responsibility to provide purpose if they want to retain good people, if you want to retain talent, you’ve got to create cause. Otherwise, you get a relationship in which I am working for you purely because I’m earning money. Then you get very short term thinking, very selfish thinking.”*

The corollary to the above quote is that when people are deeply connected to cause, the result is extraordinary performance. When people are connected to a common cause, there is genuine caring about the success of the whole. This caring is the source of power that drives the organisation and the individuals within it to incredible heights. Cause gives people courage. Cause keeps an organisation focused. Cause gives us reason to change. Without cause, we are like one of those silver balls in a pinball game – bouncing around hoping to score well. Without cause, this year ends up looking a whole lot like last year.

It is your partner’s job not only to delineate the partnership’s cause, but also to help staff connect with it. It is understanding how the PPP is going to positively touch society, its clients and the lives of other human beings that allows staff to connect with the PPP’s future and in so doing they will pursue it with passion.

Success requires that staff experience the PPP as a compelling place to work. To put it even more simply, staff drive customer satisfaction and if staff are not happy, it will be reflected in your PPP’s performance.

[†] see *‘Fair Process: Managing in the Knowledge Economy’* W. Chan Kim & Renée Mauborgne, HBR Jan 2003

It all comes down to the management style of your potential partner. First, does your potential partner believe in building an enriching work environment and experience? And two, does your potential partner have a track record of building PPPs with such a work environment?

WHAT TO LOOK FOR IN A POTENTIAL PARTNER:

- ◆ Does your potential partner believe that staff satisfaction is critical to the performance of the PPP?
- ◆ Does your potential partner regularly measure (at least twice a year) staff satisfaction?
- ◆ Is a significant portion of your potential partner's management team's reward/bonus/evaluation based on their staff satisfaction rating?

WHAT DRIVES SUCCESS?

There is a significant amount of research which shows what makes an organisation successful and differentiates it from the competition is its ability to 'stick to it'.

❖ *Jim Collins' book **Good To Great** was based on seven years of research involving 1,435 Fortune 500 companies. His research concluded what moved a company to greatness in terms of its bottom-line performance was picking "one big thing and sticking to it".*

❖ *Nitin Nohria, William Joyce and Bruce Roberson, in their paper "**What Really Works**", (Harvard Business Review, July 2003) followed 160 companies over a 10 year period. They concluded that strategy was less important than the ability to implement a strategy and that success came less from the specifics of any given strategy and more from the leader's ability to highly focus their organisation on the delivery of a single strategy.*

SUCCESS PREDICTOR SIX

THE ABILITY TO BUILD AN ENVIRONMENT IN WHICH PLANNING & DELIVERY TO PLAN ARE CORE COMPETENCIES

Have you ever considered that organisations are actually drowning in good ideas? How can there be a problem with too many ideas? The problem is that new ideas are seductive. It is easy to fall in love with the next great idea before you have finished with the previous one. This changing of horses in mid-stream can become a habit, a habit that leads an organisation to lose its strategic focus. †

Ideas are important and choosing the idea in which to invest is critical to an organisation's success. However, study after study demonstrates that the really successful organisations differentiate themselves by their ability to implement. Once an idea is chosen, successful organisations are able to stay focussed and invest the time and resources required to transform the idea into their reality.

So, what you are looking for in a partner is strategic ability, discipline and courage. The strategic ability to choose a direction from a sea of opportunity coupled with the discipline and courage to stay focussed on its implementation.

You want a partner who knows how to build a culture of delivery. You want a partner who knows how to get everyone involved in the planning process and who knows how to get everyone aligned around the common objectives. You want a partner who has the governance infrastructure that builds, right across the partnership, a sense of responsibility to deliver accordingly to plan.

Because of the times we live in, it is now the case that every manager will be responsible for leading and managing change projects on an ongoing basis. This means that today pretty much all of an organisation's front line managers need to be competent project managers. They need to know how to plan a project, how to do a work breakdown, how to estimate and how to track and report on progress. Now, it's the case that most if not all potential partners value and practice sound project management. So, what you are looking for is a partner that is not only competent in project management but is also competent in building those skills in others, e.g. the managers who are relocating from council. You are looking for a partner who has a track record in building partnerships in which project management became a core competency.

WHAT TO LOOK FOR IN A POTENTIAL PARTNER:

- ◆ Does your potential partner have a formalised approach for the production of the PPP's annual business plan?
- ◆ Does your potential partner's planning approach result in every team having an annual work plan that is driven by a common set of partnership objectives?
- ◆ Does your potential partner work its business plan, i.e., does it have a culture of holding people accountable for the commitments made in the business plan, and does your potential partner have a governance process to track each team's progress against plan?
- ◆ Does your potential partner have a straightforward yet disciplined project management approach that all the PPP managers understand and follow when delivering the change projects within their annual work plans?

CONCLUSION

Choosing a partner is difficult. It is difficult because we are trying to see into tomorrow. We are trying to predict a potential partner's future performance. The accuracy of this prediction is dependent on understanding what drives the potential partner, what makes the partner who they are. What will our partner pay attention to and focus on over the life of the partnership? Choosing a partner is difficult because in essence we are trying to predict behaviours.

The good news; an organisation's culture affords deep insight into its behaviours, its attitudes and what the organisation holds sacred. As well, culture tends to be stable over time. So by understanding a potential partner's culture, we can make a reasonable prediction of behaviours and from that gain insight as to what the future holds for the partnership.

† see *'Damn The Ideas'* R. Wiens, Totemhill, 2008

Choosing a partner means looking beyond what any potential partner is committing to deliver, even when the partner is willing to make the commitment legally binding. If you want to increase the probability of success, you have to go beyond the contract and look behind your partner's curtain. You need to take the time to evaluate your partner's culture before signing on the dotted line.



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