HayGroup®

Relationship counselling

Positive partnerships across public and private organisations

Public-private partnerships are increasingly being seen as a way to deliver services more cheaply, productively and efficiently, yet these collaborations have a history of high profile failures – often resulting from a clash of cultures. This paper examines Hay Group's latest research into why these relationships fail and explores factors that can help to deliver success >>

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Introduction

This is a time of major upheaval in the provision of public services. Public sector organisations are looking for new ways to deliver services more effectively and efficiently – often through partnerships and collaborations with the private sector.

However, Hay Group's latest research among top leaders of both public and private organisations reveals doubts among public sector leaders over the likelihood of success of private sector partnerships, as well as opposition and resentment towards the trend.

With other vehicles, such as social enterprises, offering alternative partnership options for the public sector, the onus is on private sector companies in particular to prove that they can be worthy and valuable partners.

We find that partnerships often fail because organisations tend to focus on 'hard' governance issues, but neglect the 'softer' aspects, such as ensuring the partners have compatible cultures, objectives and people.

This paper discusses how best to address those issues that are essential to establishing a mutual understanding and a good working relationship that delivers the right outcomes.

Hay Group has extensive experience of working with organisations on both sides of the fence and we have a deep understanding of the cultural, leadership and behavioural challenges that make or break partnerships. We know what questions partners should be asking and what conversations they should be having. So, whether the partnership is in its early exploratory stages, is signed up and ready to roll out or has been around for some time, we can help build trust and put in place the critical success factors required.

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The drive for change

As the public sector grapples with dwindling budgets and increasing demand, the number of partnerships between public and private sector organisations to deliver public services is expected to increase dramatically over the next three years.

The range in nature of these collaborations in future will be broader, from purely transactional deals covering shared back office services such as cleaning and catering, through operational partnerships on routine functions such as refuse collection and highways maintenance, to strategic partnerships covering increasingly complex frontline services, such as delivering adult social care.

There is an urgent need to establish why so many past partnerships have either not been as successful as hoped for or have even broken down. The question is, what can be done to ensure harmonious and productive liaisons in the future?

Hay Group recently conducted extensive research among senior leaders in both public sector organisations and in private sector companies that work closely with them. The results contain fascinating insights on their experiences and expectations of partnerships, their understanding of why they fail and their views on how to help them succeed.

The overarching message from the research is that **success depends on the people involved**. Problematic public-private partnerships (PPPs) usually result from **non-technical and non-contractual challenges that arise in working relationships**. The research suggests problematic areas including a **lack of executive and project leadership, communication issues** or **insufficient clarity** in defining a **common purpose** and **vision** for the partnership. There is also a perception that there are **two very different management styles – public and private – that prevent effective partnership**; and a **lack of confidence** from the public sector that **private sector organisations can deliver public services.**

With other vehicles offering real alternative options for the public sector – such as social enterprises or collaboration with other public sector organisations – this is an important call to action for private sector companies. They need to allay doubts and prove that they understand what is needed of them.

Case study: How not to do it – NS&I and OutsourceCom

The introduction of a public-private partnership at National Savings & Investments (NS&I) in 1999 was one of the most significant steps in transforming the organisation's culture. But the move attracted both collective and individual resistance, according to Andrew Smith, writing in New Technology, Work and Employment 23:3, 2008.

The scheme was originally proposed by John Major's government in 1996, which believed that a private sector partner would bring in the capital investment and expertise to modernise the organisation. However, the unions saw the PPP as a threat to job security and organisational stability, while individual employees resisted adopting the values of the new corporate culture.

OutsourceCom took over the employment of more than 4,000 operational staff and had some initial successes: it reduced costs, increased productivity, insourced external contract work and began modernising operations. However, a National Audit Report in 2003 criticised OutsourceCom's initial running of the account, stating it underestimated the scale and complexity of the modernisation of National Savings. OutsourceCom's new management team introduced major changes that exacerbated industrial relations issues.

For example, OutsourceCom attempted to introduce performance related pay without conducting thorough research to understand existing shop-floor cultures, so was seen as more concerned with increasing productivity and reducing labour costs. The union and members were unanimously opposed to individual monitoring, and the dispute was taken to ACAS.

OutsourceCom's attempts to win hearts and minds by emphasising new opportunities also failed: workers became disillusioned when promised promotions and new jobs failed to materialise. A series of road shows where senior managers discussed the difficulties encountered and outlined their plan of action had the opposite effect from that intended as the clear pressure to make further cuts and efficiencies demoralised staff.

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Trouble brewing

Currently, just 17 per cent of public sector organisations deliver more than 40 per cent of services through partnerships. This is expected to more than double to 38 per cent in three years' time. At the same time, almost two out of five (37 per cent) lack confidence that public-private partnerships will succeed in delivering their objectives.

While only 16 per cent of public sector leaders expect to outsource a greater or considerably greater amount of critical frontline services in the coming year, this is set to almost double in the next three years to 29 per cent.

However, our research unveiled startling evidence of a lack of confidence and trust from public sector leaders in private sector partnerships:

- Only 20 per cent agree that the private sector should be involved in running public services as a matter of principle.
- Less than a fifth (19 per cent) of public sector leaders rate previous private sector partnerships as successful – only three per cent as highly successful.
- Almost half (44 per cent) do not believe that public-private partnerships will deliver value for money.
- More than a third of senior public sector managers (37 per cent) are opposed to collaboration with the private sector.
- Nearly half do not believe that private firms can, or will, necessarily run public services more efficiently (45 per cent) or deliver better quality public services (49 per cent) than the public sector.
- More than half of public sector leaders object to the assumption that private firms are more efficient (55 per cent) and more effective (57 per cent) at delivering public services.

A worryingly high proportion of public sector leaders also fear that service delivery (44 per cent) and staff morale (60 per cent) will suffer from private sector collaboration. **Almost half (46 per cent) believe that the profit motive is fundamentally incompatible with public service delivery.**

Barriers to success

In all, more than half of public sector leaders (52 per cent) believe that partnerships between public and private organisations are likely to fail if current ways of working do not change, citing incompatibilities between motives, cultures and processes.

Almost half describe the two sectors' underlying objectives as 'incompatible' (47 per cent). This perceived incompatibility also extends to organisational culture, values and behaviours (41 per cent), management culture and values (46 per cent) and work processes and systems (44 per cent).

To succeed, there will need to be a change of mind-set and more effort to develop mutual understanding and shared objectives.

For future public-private partnerships to be a success, around two thirds of public sector managers believe that there needs to be a mutual understanding of the partner's culture, values and behaviours (67 per cent), a mutually agreed set of values and principles (68 per cent) and clearly articulated mutual benefits (61 per cent).

Yet in agreeing current partnerships, only 15 per cent have defined overall success parameters for the initiative and only 18 per cent have an agreed set of values for the partnership.

In terms of skills and behaviours:

- Three quarters think flexibility and openness to new ways of working are needed, yet under half (44 per cent) think these skills are prevalent in their organisation.
- Almost three quarters (74 per cent) believe having the ability to manage disagreement is needed, yet under half (46 per cent) think this skill is prevalent in their organisation.
- Almost half (46 per cent) think that commercial skills are important, yet only 25 per cent believe these skills are prevalent in their organisation.

> "There are two management styles – public and private. A third management level is required… to manage the two styles"

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Sources of friction

So, what underpins some of these barriers? Our work with public and private sector organisations over the years highlights some key factors:

Suspicion: It is clear that some public sector leaders believe that profit and public service cannot comfortably be bedfellows; these leaders need to learn to be more tolerant and to recognise the efficiency that a profit motive can foster. For their part, private sector partners need to be honest and transparent about the margins they will make, while also demonstrating their passion and sincerity about wanting to improve services that make people's lives better. After all, the private sector understands only too well the need for good service: without satisfied customers, a business is worth nothing.

Colloquialism: Partners will bring different perspectives, cultural expectations and terminology which, if not explored openly, can lead to misunderstanding and mistrust. Clear communication and constructive dialogue are critical for partners' mutual understanding. It is unlikely that partners will change and the best one can hope for in a relationship is to understand each other's differences and find a way to work with them. Aim to tolerate and accept cultural differences or even find ways to see them as complementary strengths.

Micromanagement: Indicative of a lack of trust between organisations, micromanagement can stifle opportunities, energy and enthusiasm – and is the quickest route to inertia and bureaucracy. Outcomes and service level agreements should be agreed and then partners should be left alone and trusted to get on with the work. Contrary to popular belief, it is possible to be explicit when setting targets about the softer elements of service delivery, including elements such as patient experience – getting the right performance measures in place is critical.

Secrecy and poor conflict management: A lack of openness can allow hidden agendas and conflict to fester. Outstanding leaders welcome challenge, request and display honesty and are not afraid to tackle conflict. Equally critical is having key, agreed processes in place for raising issues and managing conflict.

Imbalance: Some partners try to dominate rather than share, resulting in conflict or passive agreement. What is needed is active and genuine engagement. Partners should also be particularly sensitive to perceived imbalances in power and authority. Good governance arrangements can make this explicit from the start.

Closed shops: While relationships are critical, strong dependence on a few personal relationships can make a venture vulnerable to changes in personnel. Likewise, just because the joint chief executives get on, it doesn't mean the operatives on the ground will – and vice versa. Successful, resilient collaborations benefit from engaging and sharing with wider stakeholders.

At heart, these issues all point back to the same fundamental problem: the danger of focusing on contracts rather than cultures and delivery mechanics rather than working methods. Partners need to work hard to develop the mutual understanding that is essential for success. In other words, it is much more critical for partners to establish what they want to achieve (the outcomes) and how they want to work together, than the detailed mechanics of delivery.

The soft wiring

What is clear from the recent research and from Hay Group's experiences of dealing with organisations on both sides of the fence is that while many partnerships spend time thrashing out the mechanics of their relationship – the hard wiring – they have a tendency to neglect the soft wiring. This is what causes partnerships to founder.

Keen to 'just get on with it', they fail to appreciate that the same due diligence that they conduct on the legal, financial and contractual side is needed in exploring the culture, values and language of a potential partner. Sometimes public sector procurement processes don't encourage these conversations to happen.

A cultural audit

When public sector organisations are looking for a partner, it is not enough to establish simply whether potential partners can do the job and to pore over the legal and technical minutiae. There also needs to be close scrutiny of culture, vision and ethics, as well as behaviours and working practices, to ensure that the two partners can work together. They need to have upfront conversations about performance that are not contractually led.

Both sides must thoroughly investigate the areas in which partners may be seen as incompatible, and make efforts to agree a common agenda, values and principles and to articulate the benefits and objectives that each side is striving for. Potential friction points should be identified.

Time spent doing this sort of preparatory homework and cultural audit is never wasted: potential partners will be impressed that you have made the effort to understand the way they think and work, to explore differences and build trust in a safe environment before entering a deal.

Skills and behaviours

At the same time, organisations on both sides will need to start thinking about the type of skills and behaviours they need from their employees in a cross sector and collaborative context. Critical will be leaders who understand a range of sectors, have not only excellent commercial skills but empathy, influencing and relationship building and facilitation skills. Whilst we should be wary of believing in stereotypes of public and private sector managers, there is real potential here for cross sector learning. Many in the public sector are already highly experienced at partnership working and astute negotiators of the political context. However, they have highlighted the need to build stronger commercial skills and confidence in taking calculated risks and there is interesting learning to be gained from a private sector perspective on customer service.

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Communication

Communication – as ever – is key, both internally and externally. Members of staff need to be engaged with the process, especially those long serving public sector workers who may be sceptical about the motives and practices of private partners. If the deal involves frontline staff, it is critical that they understand the values and ethos of the organisation they are representing.

Once the deal is done, both partners need to work hard to ensure the relationship remains strong by continuing to communicate. They should endeavour to tolerate and accept cultural differences or even find ways to see them as complementary strengths. Like in a marriage, it takes effort to understand each other, to voice concerns and ensure they are addressed.

Case study: Close cooperation and effective communication – South Gloucestershire Council and Unisys

South Gloucestershire Council explored, and then entered, a seven year strategic partnership – starting in 2003 – with Unisys to modernise its revenues and benefits service processes and technology and to create greater customer focus.

The division had weak business processes and old IT from different suppliers, the result of South Gloucestershire being created out of three predecessor councils. The success of the project was helped by the fact that senior officers accepted that improvement was needed and that skills gaps existed around business transformation and change management.

Unisys and the council carried out system design and evaluation work jointly. No staff transferred to the private sector and delivery of services remained the council's prime responsibility.

The partnership enabled the council to use the knowledge of the private sector: it resulted in dramatic improvements in service to customers and organisational capacity as well as financial savings.

Because the contract was based on an output specification, it anticipated and responded to change. During the process the council started to build capacity and initiate its own change agenda rather than just respond to external stimuli. Like any partnership, it takes time and effort to build relationships. By experiencing the difficult times of conversions and changes and staying together through them, the council jointly built a stronger relationship for the future.

Getting the right cultural fit with a partner company was vitally important and contributed directly to the success of this approach.

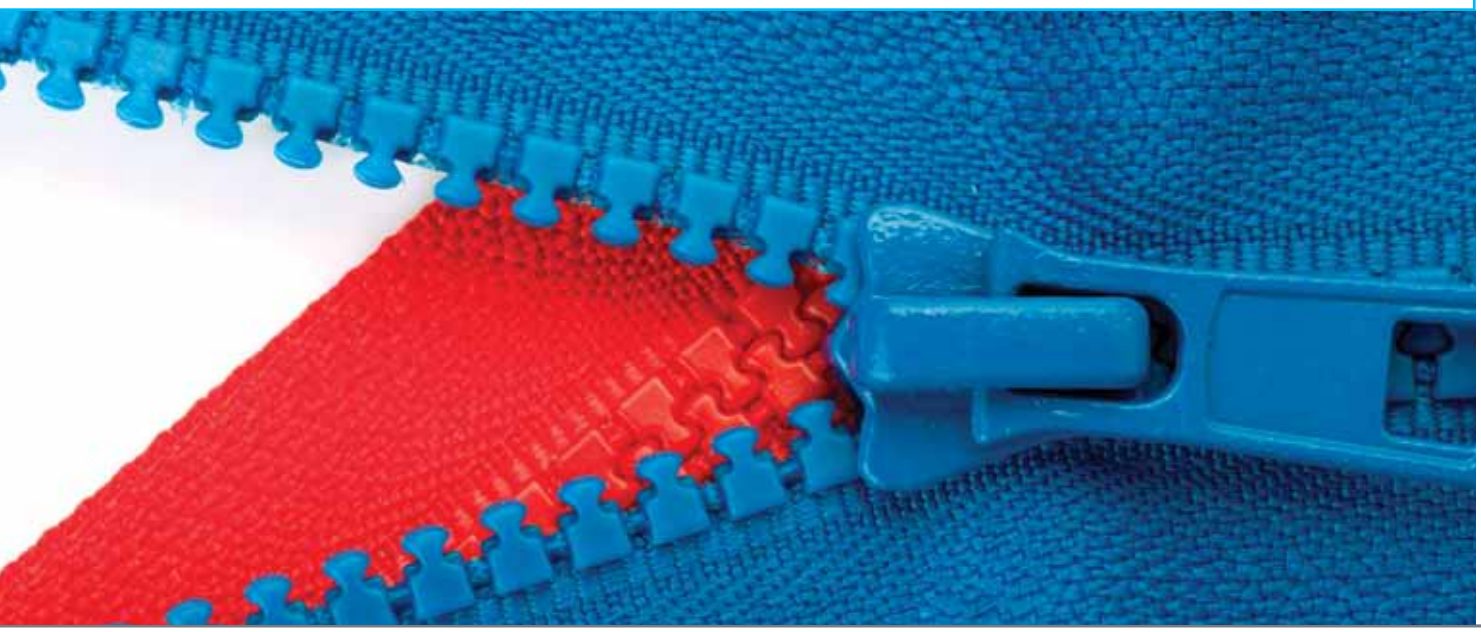
Some questions to ask

In establishing the partnership

- Does each party have a common vision and purpose and do they really understand the objectives of the other side?
- Can the objectives be achieved without conflict?

In making the partnership work

- Are meetings and communications focused on the right issues?
- Is the decision making process clear and are the right people involved at the right time?
- Do people know who is accountable for what?
- Are partners getting people with the right skills in place?
- Are leaders acting in the best interest of the partnership?
- Are partners responsive and willing to adapt their ways of working to resolve issues and meet the needs of others?
- Can you identify any cultural differences that could derail the partnership?



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How Hay Group can help

Whether you are bidding on a multimillion-pound contract or something more modest, you need to understand any potential incompatibility that might, sooner or later, stymie the deal.

Hay Group can help with this process. We have worked with many public and private sector organisations and have a deep understanding of the cultures and behaviours that can hinder effective collaboration.

Before the deal

- Conduct a culture audit on both sides to explore areas of overlap and stretch and potential sources of conflict
- Assess cultural bridges, areas of underlying common values and cultural compatibility
- Run 'back-to-the-floor' exercises so each side can experience the other's working environment
- Organise joint visioning and common purpose workshops
- Assess leaders' styles and their ability to operate in a partnership environment
- Conduct partnership behavioural modelling
- Stress test working behaviours to establish how the partnership will fare if conflict arises
- Carry out a skills audit to identify areas of weakness

During the partnership

- Work with top teams on goals, roles, accountabilities, processes and relationships
- Help design the partnership structure; management processes and systems; the specific jobs; and appropriate reward systems
- Run leadership development programmes that specifically build skills essential for PPP management
- Conduct post-deal climate assessments to judge the impact of issues on an ongoing basis.

Rescuing a rocky relationship

Despite the best intentions of both sides, partnerships can still hit the rocks some months in or even years later.

Cultural differences emerge; reality hits and organisations can fall out dramatically. No problem is ever resolved by going back to the contract: rather than hitting each other over the head with what they see as each other's contractual failings, partners should bring their different views into the open and explore ways to resolve them.

Hay Group can work to get partnerships back on track. By re-examining the partners' vision and purpose; culture and communications; skills and accountabilities; ways of working; leadership behaviours and clarity of decision making, we can help to re-energise relationships and ensure they achieve their objectives and deliver on their promises.

Case study: The Ministry of Defence (MoD)

The MoD regularly has to work with external partners and understands the importance of gaining true value. In one example, their MARS programme team conducted an in depth capability assessment of potential alliance partners over a considerable period of time, to lay sound foundations for future success. Tendering firms were obliged to go to significant lengths to demonstrate their ability to partner effectively. Assessing teams travelled to potential partners' sites across the UK for short notice visits to see for themselves whether the claims made about leadership and collaborative approaches stacked up against reality. Managers underwent interviews and submitted written evidence. The benefits here were two fold. Firstly, the MoD team felt a high degree of confidence in potential partners' ability to work with them. Secondly, the approach to 'courting suitors' demonstrated to potential partners that they were taking an open, considered and genuinely committed approach to partnering, enabling an informed choice before confirming alliance partners.

About the research

We interviewed 200 senior public sector leaders currently involved in private sector collaborations (split across local government, healthcare, uniformed services and universities). Furthermore, 20 senior decision makers in major PPP partner companies (the major outsourcers) were interviewed with a different questionnaire set. Research took place during the summer of 2011.

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