*A Guide to Effective*

# Public-Private Partnerships

**Catherine Chung, Denise Huie, Katelyn Yoo and Dilip Soman**

**12 May 2015.**

Rotman School of Management
UNIVERSITY OF TORONTO

# Research Report Series
# Behavioural Economics in Action

**Rotman School of Management**
**University of Toronto**

## Correspondence and Acknowledgements

# TABLE OF CONTENTS

# Introduction

The term "public-private partnership" (PPP) refers to an engagement between public services or public infrastructure and its partners in the private sector. We choose to embrace the term as defined by the Canadian Council for Public-Private Partnerships:

> *A cooperative venture between the public and private sectors, built on the expertise of each partner that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.*

Canada is becoming a leader in PPPs and the Government is committed to supporting the further development of the Canadian PPPs market. In 2008, the Government established PPP Canada Inc., a federal Crown corporation to lead efforts to encourage the use of PPPs where they can generate better value for money. PPP Canada manages the $1.25 billion PPP fund, the first infrastructure program in Canada dedicated to supporting infrastructure projects delivered through a PPP approach. For instance, recently, Canada's Economic Action Plan 2013 proposes to provide $1.25 billion over five years on a cash basis to renew the P3 Canada Fund. This project will improve the delivery of public infrastructure for Canadians and provide better value for money for taxpayers. Under PPP arrangements, governments continue to own the infrastructure assets while the private sector plays a larger role in their design, construction, operation and maintenance. In doing so, the private sector assumes a greater share of project risks. The risk transfer gives incentives to the private sector partner to deliver projects on time and on budget, lowering costs over the full life cycle of assets. PPPs mean that Canadians benefit from quality, high-performing infrastructure.

There are an abundant of resources on infrastructure related PPPs and information on how to maintain a partnership once it has been formed. However, there is little information in the literature on how to go through the process of selecting suitable partners. Our goal is to provide a framework to assist in the selection and evaluation process to attain successful partnerships.

# Method

As part of the research conducted to compile this guide, numerous of PPP cases were reviewed and analyzed. The cases were selected based on their diversity in criteria: industry, location, objectives, framework, partner selection criteria, success factors of the PPP, pitfalls, monetary size of the engagement, number of partners and the level of partner engagement. In addition, in-depth literature was consulted as well as interviews with faculty from the Rotman School of Management were conducted to gain additional insight and broader perspective on selecting suitable partners for and developing successful PPPs.

Although our findings suggested great variability in a multitude of factors that affect the success of a PPP, our research allowed us to put together a general framework for building successful PPPs.   A list of PPP cases that was used in our analyses has been provided in the appendix.

The list demonstrates many different ways PPPs can vary, and key lessons that were learned from their success factors as well as pitfalls.

For example, the Supplier Connection, a free online portal for small businesses, was created and delivered by a unique PPP formed between IBM Foundation, part of Obama Administration's supplier initiative and one of the fifteen largest US corporations.  It allowed small suppliers access to networks of large corporations and more than $300 billion in supply chain spending and provided large corporations with diversity in their supply chains.

On the other side of the world, the Ministry of Textiles and Industry and Joint Apparel Association Forum (JAAF) formed a PPP in Sri Lanka to create the College of Apparel and Textiles (COAT) in order to sustain and grow the industry.

In Africa, the formation of the Water and Electricity Services Provision was as a result of the PPP between the Government of Gabon and Société d'Énergie et d'Eau du Gabon (SEEG).  The multi-utility service provision allowed cost reduction through the sharing of resources and is the first "real" water concession in Africa.

Another example of a successful PPP was established in the US between Share Our Strength (SOS), a national anti-hunger group, and two private partners, Calphalon and American Express.  SOS was able to raise money and build its brand reputation by providing a network of well-known chefs for the Calphalon-hosted fundraising events and Calphalon gained publicity by providing their products for the events. American Express was also able to boost its image among restaurants by having representatives speak at these events and in return donated a portion of every transaction to the cause.  The PPP was one in which the partners were committed and

open to consider change and growth, yielding more than $23 million in the past 10 years.

On the flip side, the London Underground Design-Build-Finance-Operate (DBFO) project implemented by a PPP between the UK Department of Transportation and private partners, Tubelines and Metronet, demonstrated important pitfalls that hinder the chance of success in PPPs.  There was a lack of transparency concerning financial dealings and the project was overly complex; it was open-ended, ill-defined and had a high degree of uncertainty on sub-projects that spread out over a 30 year period in many different locations.  The outcome resulted in both private partners going bankrupt and financial distress for the UK Department of Transportation.

Another example of a sub-optimal PPP arrangement concerns the impact of public interest.  Controversy lined the Taiwan Electronic Toll Collection (ETC) project where the Ministry of Transport and Communications partnered with Far Eastern Company to deliver infrastructure improvements to Taiwan's highways.  The ETC project faced resistance from citizens, which turned out to be detrimental to its outcome because partners' neglected to consider the public interest in the planning of the project.

However, in a similar situation, the Facility Management project for the Royal Ottawa Health Care Group (ROHCP) in Ontario is an example of a successful PPP in which ROHCP partnered with Brookfield LePage Johnson Controls and transitioned employees from the public health care sector to the private sector as part of a plan to reduce costs.  Seeking private involvement in the health sector was understood to provoke an adversarial reaction from the public and other organizations; however, ROHCG was able to deliver one of the largest transitions of employees in health care from public to private sectors and justifiably gained significant recognition as a leader for this type of transition.  In five years, the partnership yielded total savings of over $6 million through reduced administrative resources.

The contrasting examples of the ETC and Facility Management projects demonstrate the importance of recognizing that adequate planning and analysis is required for a PPP to build enough resistance to handle setbacks effectively.

We believe that this guide provides actionable recommendations on how an organization can select suitable partners built on a strong foundation, and further provide a comprehensive framework and scorecard in measuring and evaluating the public-private partnerships.

# Public-Private Partnerships (PPP)

**Summary**
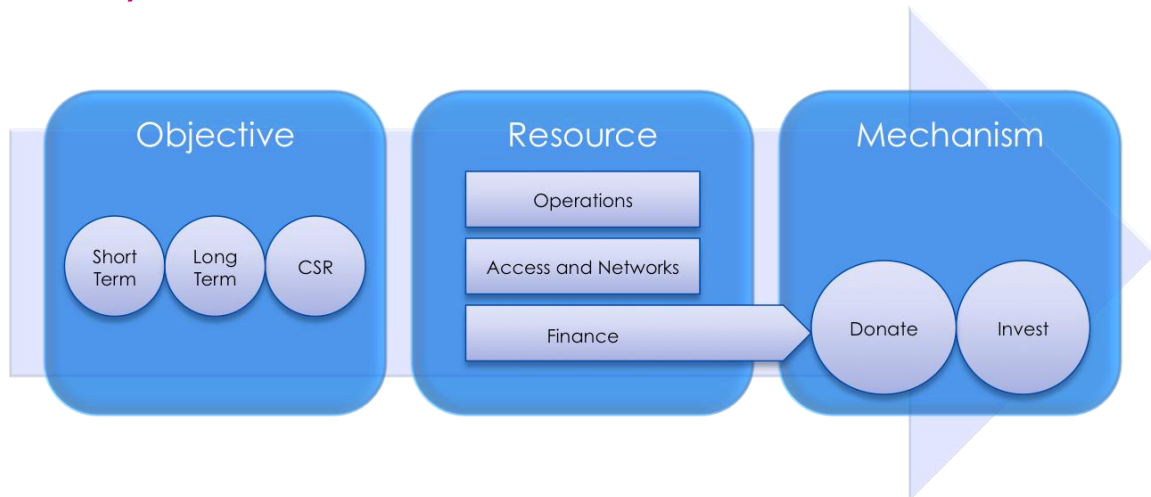
Although the list of PPP examples suggests that partnerships are formed along many different dimensions, we categorize them into three generally categories: **1) its objectives, 2) the resources that are exchanged and utilized,** and **3) the mechanism in which financial resources are transferred.**

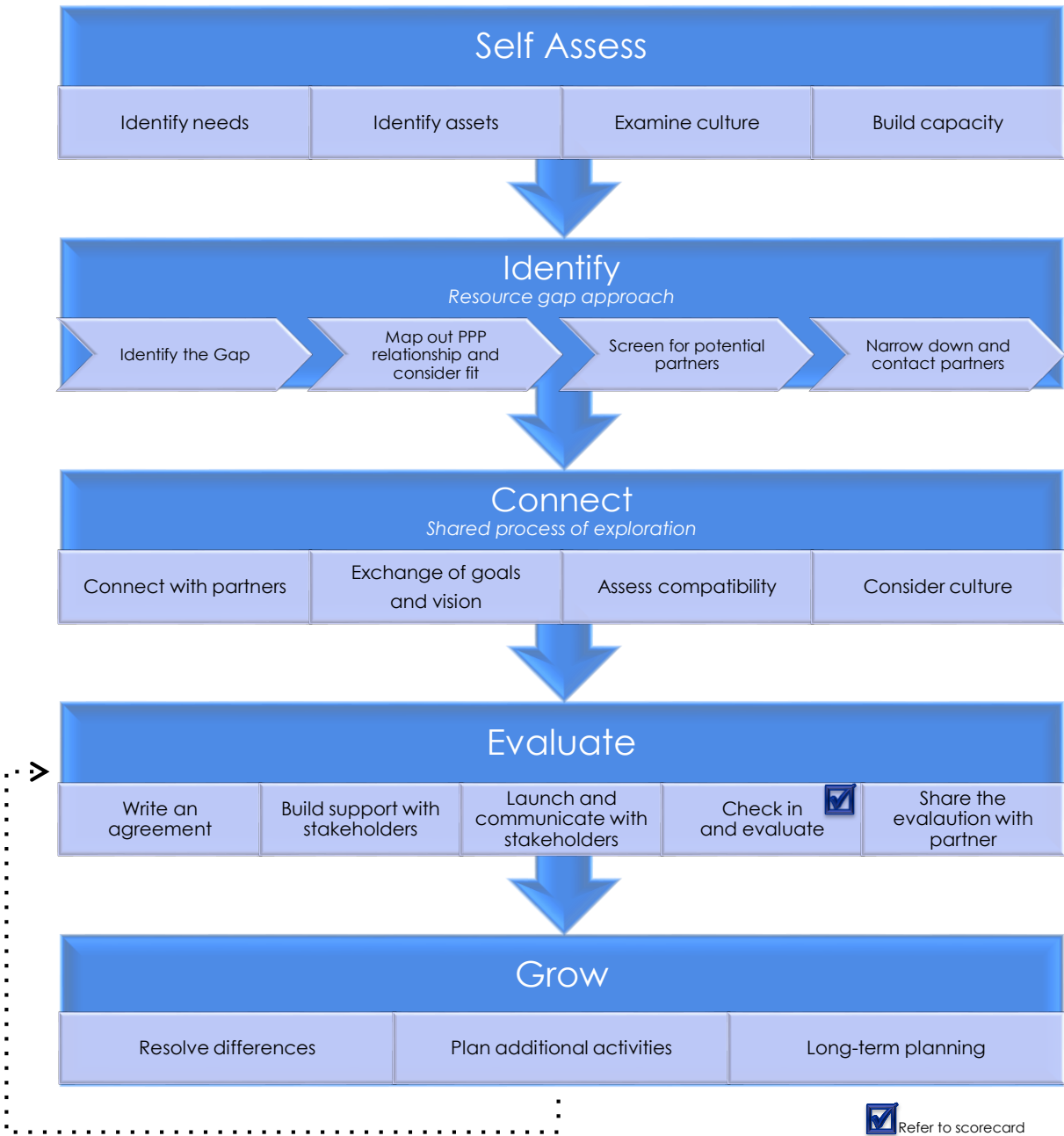*Objectives:*  The objective of the PPP can be short term, long term, or for the purpose of ongoing corporate social responsibility.

*Resources:*  PPPs facilitate the exchange of resources such as operations (e.g. content expertise, facilities and equipment, economies of scale), access and networks (to other potential funders), and finance (cash and risk).

*Mechanism:*  Partners in a PPP either donate or invest financial resources.

## Partner Selection

### Self Assess

| Identify needs | Identify assets | Examine culture | Build capacity |

### Identify
*Resource gap approach*

| Identify the Gap | Map out PPP relationship and consider fit | Screen for potential partners | Narrow down and contact partners |

### Connect
*Shared process of exploration*

| Connect with partners | Exchange of goals and vision | Assess compatibility | Consider culture |

### Evaluate

| Write an agreement | Build support with stakeholders | Launch and communicate with stakeholders | Check in and evaluate ☑ | Share the evalaution with partner |

### Grow

| Resolve differences | Plan additional activities | Long-term planning |

☑ Refer to scorecard

Adapted and modified from:
Sagawa, Shirley, and Eli Segal. *Common Interest, Common Good: Creating Value through Business and Social Sector Partnerships*. Boston, MA: Harvard Business School, 2000. Print.

**Self-Assess**. It is important to begin the selection process by considering the organization's *short and long-term needs*. The practitioner should identify factors that will encourage or inhibit partnerships in order to analyze whether or not to pursue a cross-sector alliance. Is it important to ask whether a partnership would best utilize their resources and address their needs.

Aside from knowing your needs, it is important to be aware of your own *assets* and what you can offer to the prospective partners. In the Taste of the Nation PPP, Share our Strength public partner did a great job of assessing its own needs as well as identifying what it can provide to its private partners, Calphalon and American express. This ranges from simple well-known social sector name to having the ability to demonstrate impact through expertise or a charismatic leader. In order to choose a suitable partner, it is helpful to take a thorough look at your own organization early in the process such as through employee surveys as it will reveal a lot about the *company's culture*. The views and beliefs of employees should be taken into consideration as part of the planning process as their view and attitude toward the company will be shaped in part by its identification with a cause. If employees do not support the cause, this can result in lower employee morale or even a higher turnover rate.

Last part of the self-assess stage is to *build capacity* through appointment of responsible staff that have knowledge or affinity for social issues and develop a structure for managing a cross-sector relationship. Social sector organizations should invest in preparing staff and board members when consider entering into partnerships with corporate businesses as this shows commitment. Great communication is the key to successfully maintain and attract corporate partners. It is essential to have bold but reasonable and measureable objectives.

**Identify**. The next step is to *identify the gap* using a *Resource Gap Based Approach* shown in Table below. The practitioner needs to identify which area needs additional support, such as marketing, operational expertise, and/or financial resources as shown in figure below.

## A Resource Gap Based Approach

| Access to Networks? | Operational Expertise? | Financial Resources? |
|---|---|---|
| Look for companies that spend a lot of money on marketing | Look for companies that have a prominent presence in that respective industries | Look for companies that have a strong financial standing |
| i.e) 6S Marketing, Cornerstone | Food Related: i.e) agropur, Loblaws<br><br>Health and Awareness: i.e) Goodlife | i.e) Insurance companies, banks, corporate companies |

Modified from:
Sagawa, Shirley, and Eli Segal. *Common Interest, Common Good: Creating Value through Business and Social Sector Partnerships*. Boston, MA: Harvard Business School, 2000. Print.

For example, if PHO is looking to increase vegetable and fruit consumption in children as a way to increase health awareness among youth, looking for companies that are health conscious or are able to provide the necessary food resource will be a great place to go. In this particular example, reaching out to a well-known and diversely located grocery provider will be able to provide operational expertise in this area. The potential partners should be chosen depending on the suitability of organization's goals and projects in mind.

It should be noted that there are potential risks associated with PPPs such as having a partner with a line of business that contradicts to the cause the PPP is attempting to change or benefit. Mcdonald supporting an initiative on child obesity or Coca-Cola supporting a healthy lifestyle is a few good examples. This may cause public outrage and may potentially overshadow the benefits of the partnership. Some potential ways of dealing with situations like these are to ensuring if private partner's intentions are genuine. This could be assessed by having the private partner demonstrate why they are the best partners for the PPP. Educating the public is often a great way to overcome an outrage as people will become more receptive of changes once they understand the reasoning behind it. There also needs of clear communication from both the public and private partners towards the public on the goals of the partnership and how the public will benefit from the joint partnership. In addition, having a visual indicator to show the public the benefits that the partnership is creating positive changes such as through a visual billboard, tracker displayed on a

website, or having short messages shown on television or the radio from those that have benefited first hand from the PPP. On the other hand, there will always be resistance from skeptics who will doubt the intentions and success of the PPP, and it is up to the partners to prove them wrong through their actions that show their commitments to the shared vision.

After identifying the gaps within the organization, the next step is to consider the *fit* with potential partners. While considering the fit, practitioner should *map out* PPP relationship between the respective organizations. There are *four* major components that the practitioner should consider: 1) Strategy; 2) Human Resources; 3) Finances; and 4) Legal. These four components are briefly discussed below, and they include, but are not limited to, sample questions:



| Components | Questions |
|---|---|
| Strategy | • Are the values, interests, and objectives aligned with each other?<br>• Are we creating value for the end-consumers and shareholders? |
| Human Resources | • Can we manage resources to ensure best use of talent, and leveraging the services within both organizations? |
| Finance | • Are there any potential improvements in the key financial metrics such as ROI and/or creating shareholder value?<br>• Are there aligned financial metrics? |

| | |
|---|---|
| Legal | • Is the partner willing to create rules and standards in regards to legally accountable protocols, or does the organizations have an existing framework or standards that  they could work from, for instance:<br>   o  Intellectual property and confidentiality rules,<br>   o  Protocols for communicating with constituents and other interested parties,<br>   o  Rules for branding (using own, or new),<br>   o  Rules for the public profile of the partnership,<br>   o  Rules for individual partners to leave or join,<br>   o  Exit ('moving on') strategy for partnership as a whole (in particular to ensure sustainability of outcomes, and<br>   o  Grievance mechanism to resolve differences)? |

The next part is to *screen for potential partners* such as through applying using the sample application and issuing calls as demonstrated by the example below.

**Connect**. After narrowing the field of prospective partners through comprehensive assessment of the "fit" in respect to the resource gap approach and the four components discussed above, it is time to *contact the partners*. It is crucial to have a committed and competent individual and/or team within the organization to make the initial introduction as this will increase the likelihood of receiving a return call. Once this is done, having an early face-to-face meeting will allow early establishment of a successful relationship by preparing to present your organization in a way that will build confidence with the partner. Do not merely assume that you will be able to receive corporate support just because you have an attractive cause. Also, do not assume the needs of other party. A common mistake made by many organizations is assuming the needs of the other party, and finding out that their potential partner's needs were very different than they thought. It is better to go into a meeting and not have a fully developed concept of the partnership but have some idea what types of assistance you will want out of the partnership. The ultimate goal is to "dream up ideas together."

Now engage in a shared process of exploration by getting to know one another, see what the alliance will look like, how it will run, and what results it will produce. At this point, both organizations need to *exchange* and be truthful about their goals and vision for the partnership. Each prospective partner should observe the partners in their own environment to completely understand the partner's qualities. Assess partnership's *compatibility* by having in-depth conversations and open communication. Culture conflicts may arise, but with clear objectives toward achieving similar goals and understanding their cultural differences, a fruitful partnership can still be achieved. Do not be afraid to talk about different viewpoints

as it will bridge the differences in the relationship by arriving at possible compromises and find ways to accomplish the same task in a different way. Chemistry is important but not required in good partnerships, unlike trust, respect, and common values. Lastly, take the time to know your partner such as through small projects and make further commitments later after completing a successful initial exchange.

**Evaluate**. The next part is having a *written agreement* based on agreed upon goals. These goals should be objectives that are important to both public and private partners. They should be created with a view toward how success will be measured. The agreement should be specific and clear enough for both a third party to understand what was being agreed to.

Agreement should address:

- o Goals: rationale for the partnership
- o Objectives: milestones can be identified
- o Responsibilities: Expectations for both parties
- o Decision-making: The structure of the governing body
- o Structure: Lines of communication and accountability
- o Financials: Contributions of both parties
- o Legal forms: The structure of the arrangement
- o Measures: How success of failure will be determined
- o Exchange: Specific items defining the planned exchange

Collaboratively and meticulously develop a shared written agreement and vision. Start with a single project led by teams rather than individuals with short-term results. This will allow early success, such as increase in buy-in among different departments and bring in more creativity and structure to the relationship. This will yield useful lessons for future projects and makes relationship less dependent on a single person over the long-term. A great example of a partnership that did this process was Taste of Nation because the initial plan was to have a small event with local chefs through Calphalon to draw awareness for hunger issues. The event was a great success which expanded into larger events to include American express as a private partner.

Before launching the partnership, an effort to *build support among key stakeholders* (staff, board members, and others) should be thoroughly planned and executed. A conscious effort to *communicate* the goals, activities of the partnership, and information about the partner should be done as soon as the deal is signed such as through employee newsletter, memoranda, email, and intranet communications.

## Partnership Scorecard Process

After connecting with the prospective partner, the practitioner needs to check in and evaluate to create the *Partnership Scorecard,* which will allow identifying, measuring and evaluating their partnership. There are two major processes in order to achieve enhanced delivery: 1) Identify the outcome categories; and 2) Develop your Partnership Scorecard.

Identify Outcome Category → Develop Scorecard → **Strong Partnership**
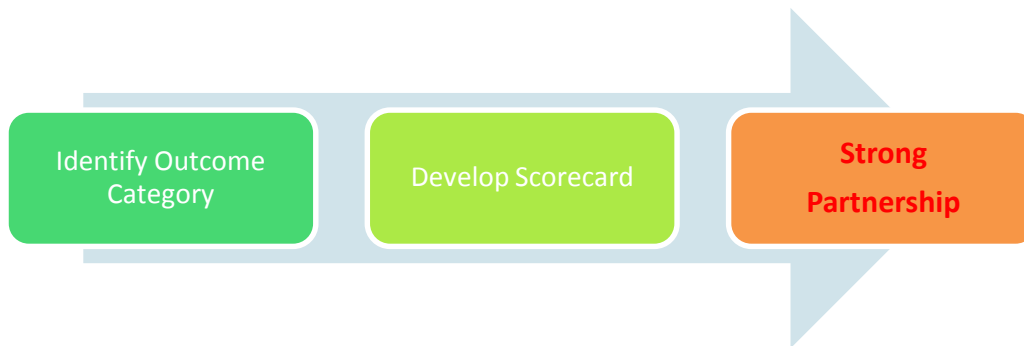
*Identify Your Outcome Categories.* After mapping out the relationship with the partner, both partners should identify the desired outcomes collaboratively. Understanding the outcomes can provide practitioners the direction on *what* to measure, *how* to effectively enhance the partnership, and allow both partners to share shared goals and visions. In addition, identifying the outcome categories will allow creating a suitable Partnership Scorecard (more info in *Part 2*). The table below is sample of outcome categories.

| Strategy | |
|---|---|
| Examples of Outcomes | • Ensured trust at all levels<br>• Commonality of incentives and interests<br>• Comprehensive strategy: increased speed and collaboration<br>• Aligned objectives and goals<br>• Feasible, achievable, and sustainable common roles |
| **Human Resource** | |
| Examples of Outcomes | • Leadership and champions identified<br>• Clear roles, responsibilities, accountabilities, and commitment to completion<br>• Committed to internal and external communications throughout |

| | |
|---|---|
| | • Appropriate allocation of expertise, capacity and resources that fosters innovation and excellence in products, services, and processes |
| **Finance and Operations** | |
| Examples of Outcomes | • Clear funding arrangements<br>• Shared assets (resources, influences, etc.)<br>• Positive reputation and identity<br>• Increased ROI<br>• Higher margins<br>• Improved investment management<br>• Create shareholder value |
| **Legal** | |
| Examples of Outcomes | • Legally accountable throughout (mentioned above)<br>• Appropriate authority and mandate to negotiate<br>• Mitigate risk (for media attention, public scrutiny, shareholder investment) |

***Develop Scorecard.*** The Partnership Scorecard allows practitioners to measure and assess the public-private partnership. The table below is a sample template of the Partnership Scorecard, which has identified certain ingredients in each of the four major components discussed in the "Identify" section. The Partnership Scorecard should be designed and created collaboratively with the partner; partners should agree upon measures of success and establish a baseline data before the pilot project is executed. Note that the sample scorecard provided below allows accessing certain components, but are not limited to; if needed, you may adjust the components at your discretion.

| PARTNER PROFILE | |
|---|---|
| Partner Name | |
| Description of Partnership Opportunity (including partner's mission) | |
| Shared Objectives and Vision | |

| Individual Partner Objective | |
|---|---|
| My Partnership Perspective | |

| Components | Score (1-10) | *Variance | Comments and Milestones |
|---|---|---|---|
| **STRATEGY** | | | |
| Aligned objectives and vision | | | |
| Commonality of interests and benefits | | | |
| Complementary identity and reputation | | | |
| Level of trust | | | |
| Feasibility of achieving common goals | | | |
| **HUMAN RESOURCE** | | | |
| Clarity of roles, responsibilities, accountabilities, and commitment to completion | | | |
| Appropriate shared expertise, capacity, and resource | | | |
| Commitment to and capacity for external communications throughout | | | |
| Fosters innovation and excellence in products, services, and processes | | | |
| **FINANCE AND OPERATIONS** | | | |
| Clear funding arrangements | | | |
| Shared shareholder value | | | |
| Opportunity for sharing assets (e.g. resources, influence) | | | |

| | | | |
|---|---|---|---|
| Complementary reputation and identity | | | |
| Shared capacity for project and issues management | | | |
| Evaluation of partnership is planned and resourced | | | |
| **LEGAL** | | | |
| Legal accountability throughout | | | |
| Appropriate authority and mandate to negotiate | | | |
| Risk mitigation and exit strategy (for media attention, public scrutiny, shareholder investment) | | | |

*\* Variance from last assessment performed*

After the practitioners have created their customized Partnership Scorecard, and the initial project is launched and/or completed, an evaluation of the pilot project should be conducted. After their individual assessment, the partners should come together and *share their own evaluation* and the data collected with each other. The assessment should be used to *improve future partnerships* including making any appropriate and agreed changes in the Partnership Scorecard.

**Grow**. Extend the relationship beyond an initial exchange by *resolving differences* and *planning additional activities*. Although not every partnership will get to this stage, but the ones that do will become stronger over time.

*Long-term planning* should take place at this stage. Since it is expensive and time-consuming to create new alliances, it is worth trying to grow existing partnerships. Strong partners not only learn from one another but develop a new language, culture, and system that make the alliance work. As partners understand each other more, they will find more ways to add value to the partnership.

# Sample Application: Information and Questions to Ask

After the *self-assess* process is completed, the organization needs to *identify* potential partners.  During this step, it is important to carefully consider the resources that your organization can provide as well as ones that you are seeking, so as to avoid redundancy or gaps in resources.  Thorough analysis will reveal compatible partners that can collaborate with your organization to create synergies.  In your analysis, try to expand your horizons by considering some degree of diversity in potential partners and staying open to a different variety of partnership approaches.  One way to reach out to a broader pool of potentials is to consider an invitation for a Request for Proposal.

The following sample application provides a template to screen for prospective entities.

# * Public Private Partnership Application*

## General Information

| | |
|---|---|
| Name of Organization | |
| Mailing Address | |
| City | Province [ ▼ ] |
| Postal code | |
| Telephone Number | |
| Organization Website | |

| | |
|---|---|
| Name of contact person | |
| Title | |
| Phone Number | Email Address |

## Organization Information

Is your Organization
☐ Private sector?
☐ Government owned?
☐ Government agency/department?

Is your Organization
☐ Profit-motivated?
☐ Not-for-profit?

Industry/Products and Services

Canadian ownership (in percentage) if applicable

Date of incorporation

Total number of employees in Canada    Total annual sales for previous year    Net profit (loss) for previous year

Is your Organization ☐ a parent company?
☐ a subsidiary of?

| | | | |
|---|---|---|---|
| Total Organization Budget | [    ] | Total # of Board Members | [    ] |
| Total # of Staff | [    ] | Total # of Volunteers | [    ] |
| Total # of Employees involved in the partnership? | [    ] | Total # of Volunteers involved in the partnership? | [    ] |

**Organization's Mission Statements**
(350 characters or less)

[                                    ]

**Brief Description of Organization**
(500 characters or less)

[                                    ]

**Population Served**
(200 characters or less, include age groups, race & ethnicity, income levels, etc.)

[                                    ]

## Project Information

| | |
|---|---|
| Project Name | [                              ] ❓ |
| Total Partnership Cost | [          ] |

| | | | |
|---|---|---|---|
| Type of Request | [          ▼] | | |
| Partnership Period From | [      ] 📅 | Partnership Period To | [      ] 📅 |

**Multi-Year?**
⚪ Yes
⚪ No

**Project Summary**

**Project Goals**

**Geographic Area Served**

**Priority funding areas**

---

**Private Partner's Contributions**
- ○ Industry Expertise
- ○ Access to Networks
- ○ Operational
- ○ Brand Salience
- ○ Financially

**Please specify the contributions**

**Request for Public Partner's Contributions**
- ○ Industry Expertise
- ○ Access to Networks
- ○ Operational
- ○ Brand Salience
- ○ Financially

Please specify the contributions requested

Total contribution

Amount (1) [          ]    Date (1) [          ] 📅

Amount (2) [          ]    Date (2) [          ] 📅

Proposed Expenditures

**Activity Schedule**

Milestone & Description of activities

Anticipated start date [          ] 📅    Anticipated Completion Date [          ] 📅

Milestone & Description of activities

Anticipated start date [          ] 📅    Anticipated Completion Date [          ] 📅

| Milestone & Description of activities | |
|---|---|
| Anticipated start date | | Anticipated Completion Date | |
| Signature of Contact Applicant | | Date | |

# Conclusion

It is difficult to arrive with one conclusive method to achieve successful partnerships as all partnerships are unique in themselves which make defining a definitive cause and effect relationship extremely complex. Our ultimate goal, however, is to make a distinction between selection and maintenance of successful partnerships. We believe that the assistance of this Practitioner's Guide has the potential to develop, evaluate, and sustain successful PPPs to target diverse goals. We hope that this guide is used as a framework for those interested in developing PPPs, including governmental agencies to non-profit organizations, to effectively create and maintain public-private partnerships.

# Further Resources

**PPP Case Database:** This Case Database illustrates numerous successful partnerships that practitioners can learn from.
https://docs.google.com/spreadsheet/ccc?key=0As-gOBEeo4k3dE0xV1RXbEZJUVVqcjhLaHFWcU5UaFE#gid=0

**In-Depth PPP Case Notes**: The case note elaborates more in depth on the guide.
https://docs.google.com/document/d/1D_UErsAEbUN27ewsA9iovV9yUfVU99owrEbzgOT2ZhU/edit