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# Securing Stable Public-Private Joint Ventures Through Bargaining Power, Governance and Partner Matching

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**Abstract**
Although public service delivery often relies on joint ventures (JVs) between public and private sector parties, there has been little research concerning conditions facilitating achievement of each party's objectives and the stability of ties between them. This research paper posits that parties' relative bargaining power, form of governance of joint ventures and partner matching together determine the stability of those ties and theorises these conditions through case studies. It also considers how parties seek to capture value, their compatibility and the implications for stability of ties. The results suggest that achievement of a JV's objectives is necessary but not sufficient to stabilize public–private ties because both mission matching and party matching are also key requirements for continuation of JVs. The results also suggest that integrative governance can create strong incentives for achieving shared objectives provided the private party has (and exerts) sufficient context-based bargaining power, being indispensable, seldom substitutable and not fully integrated with the public party which must therefore bargain to achieve its objectives. To stabilize a JV, not only must a mutual hostage position prevail but also the parties must be able to capture their expected value, the likelihood of which depends in part on the form of governance. The case studies also demonstrate that, for integrative JVs, stabilization is more likely when the capture of benefits by private parties does not result in losses for the public parties and that this occurs when the expected benefits are non-monetary.
*Keywords***:** joint ventures, bargaining power, value capture, governance.
*Jel Classification:* H44, L24, L32, P43

**Resumen**
No obstante, el aprovisionamiento de servicios públicos descansa en co-inversiones (joint ventures JVs)) entre las partes pública y privada, se ha observado poca investigación acerca de las condiciones que facilitan el que se complete el alcance de los objetivos de cada parte y la estabilidad entre ellos. Este trabajo de investigación postula que la relativa capacidad de negociadora de cada parte, la forma de gobernanza de la co-inversión y las compensaciones de la asociación, juntas, determinan la estabilidad de las obligaciones y constricciones de cada parte y teoriza sobre esas condiciones a través de casos de estudio. También considera cómo cada parte parece capturar valor, sus compatibilidades y las implicaciones para la estabilidad de los acuerdos y obligaciones. El resultado sugiere que no basta el que el alcance de los objetivos de la co-inversión sea una condición necesaria para la estabilización de las obligaciones públicas-privadas porque ambos, tanto la idea objetivo de la compensación como la parte que se compensa son también requerimientos clave para la continuación de la co-inversión. El resultado también sugiere, que una gobernanza integrativa puede crear incentivos fuertes para alcanzar objetivos compartidos proveyendo que la parte privada (y ejerciéndola) cuente con una base suficiente de capacidad negociadora, siendo indispensable, algunas veces sustituible y no completamente integrada con la parte publica la cual debe por lo tanto negociarse el alcance de sus objetivos. Para estabilizar las co-inversiones, no solo debe prevalecer una posición recíproca donde cada quién es rehén del otro, pero también que las partes deben ser capaces de capturar su valor esperado, probabilidad que depende en parte de la forma de gobernanza. Los casos estudio analizados también demuestran que para co-inversiones integrativas, la estabilización es más preferida cuando la captura de los beneficios de las partes privadas no resulta en pérdidas para las partes públicas y que esto ocurre cuando los beneficios esperados no son monetarios.
*Palabras clave:* Co-inversiones, poder de negociación, captura de valor, gobernanza
*Clasificación Jel:* H44, L24, L32, P43

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## Introduction

Joint ventures (JVs) between the public and private sectors require the establishment, for a specific period, of a new entity for which parties provide assets and finance. In exercising joint control and sharing costs and revenues, those parties share governance of related risks through a wide variety of forms of collaboration ranging between purely public and purely private service delivery modes (Bovaird, 2006; Grimshaw, Vincent, & Willmott, 2002; Osborne, 2000). JVs facilitate the pursuit of shared objectives while accommodating the interests of both the public and private parties (Besley & Ghatak, 2003). However, opportunistic behaviour and misalignment of public and private incentives threaten the stability of a JV. On the one hand, the public party may exploit its regulatory power to override its arrangements with private parties (Guasch et al., 2007). On the other hand, private parties may extract unwarranted profits (i.e. economic rent) from long-term contracts if the public party cannot switch to cheaper or more suitable alternatives until the contract expires (Lonsdale, 2005).

Although public and private incentives must be compatible in order to create stable JVs, the topic remains surprisingly underexplored and lacks a comprehensive integration of two diverse research perspectives: the partners' bargaining power and the JV's form of governance. First, there is evidence of the role played by each party's bargaining power in affecting their respective incentives to perform (Liu, Vredenburg, & Steel, 2014; Yan & Gray, 2001). Second, there is evidence that the bundle of parties' incentives is a function of the form of governance (Kivleniece & Quelin, 2012). Additionally, because public–private JVs often involve not-for-profit parties whose motives are not limited to increasing their revenues, a more complete understanding of such arrangements makes it necessary also to consider the role of non-monetary incentives such as improving parties public profile and reputation (Besley & Ghatak, 2001). This paper seeks to integrate these three perspectives. It is the first attempt to shed light on the stability of public–private JVs by considering *both* the bargaining power of parties and the form of governance in order to determine the conditions that enable achievement of objectives and creation of stable public–private ties. It also considers party matching in terms of the compatibility of their objectives.

## Theoretical Framework

his paper adopts a 'bargaining power' approach that extends a theoretical framework devised for private–private ties (Yan & Gray, 2001) to the context of public–private ties. It analyses the sources of public and private parties' bargaining power as well as how they use management control to achieve their objectives. The term *management control* refers to the influence exerted by one entity on another to attain an organization's objectives (Ouchi, 1977). Here 'management control' means the influence of the public party on the private party to achieve agreed-upon objectives. Although various forms of power can be utilised to effect management control (Geringer & Hébert, 1989; Otley, 1994), which we categorise as structural, contextual and interdependence factors, it will be demonstrated below that a bargaining power perspective is appropriate in the context examined here.

The literature distinguishes between bargaining and negotiations (Flanders, 1968). Constant/zero-sum negotiations are usually called bargaining and variable-sum negotiations are usually called negotiations. There is little agreement about this rather semantic distinction and so we do not make use of it in the following analysis. Suffice it to say that Lewicky, Saunders, & Barry (2015, p. 258) consider various types as well as sources of power in negotiations that are both contextual and relational and which may be equally or more relevant than soley ownership. For example, specific source of power for public organisations lies is that they are often monopolists (in service provision) and monopsonists (in terms of buying power). They may also have near unlimited resources, that certainly not being so in our three Italian case studies.

*Ownership structure* is the primary source of bargaining power because, generally, the party providing the most equity in the JV has the majority share and so greatest control (Liu et al., 2014) and so can effectively determine investment decisions (Grossman & Hart, 1986; Hart & Moore, 1990). If the public party has the majority share then, in principle, it can maintain management control over service provision (Matsumura, 1998) by way of property rights and regulatory tools (Bel & Fageda, 2010). Nevertheless, the JV must align each party's interests, providing incentives to reduce costs while improving the quality of services (Kogut, 1988). This is especially so where each party invests in physical, financial, and human resources, albeit that the party committing more resources can be expected to have greater bargaining power (Yan & Gray, 2001) and thereby greater management control. In turn, the greater the decision-making power, the greater the bargaining power (Liu et al., 2014).

In theory, if one party cares relatively less about the project yet invests relatively more in it, then *joint* authority (under which both parties have power of veto for all decisions) yields better outcomes because it increases the performance incentives of the less committed party (Besley & Ghatak, 2001; Francesconi & Muthoo, 2011). When the two parties invest equally in the JV, *shared* authority provides better incentives to perform because each party controls a separate subset of decisions but neither has power of veto.

Regarding -contextual factors-, whether joint or shared authority, a highly competitive environment can be expected to create the greatest incentives to perform irrespective of the nature (i.e. public or private) of the service provider (Le Grand, 2007). However, contracts for public service delivery often face little if any competition because of their high bidding costs and because regulated (quasi-)markets typically require bidders approved by the regulator. Besides these barriers to entry, there may also be barriers to exit, underperforming service providers not being allowed to leave the market because the consequential reduction in service is contrary to objectives relating to accessibility and equity, for example in education and healthcare. Thus "there are often conflicts between an implicit or explicit 'universal service obligation' and the need to 'punish' poor providers" (Office of Fair Trading 2010: 58). These contextual factors severely hinder the establishment of performance incentives.

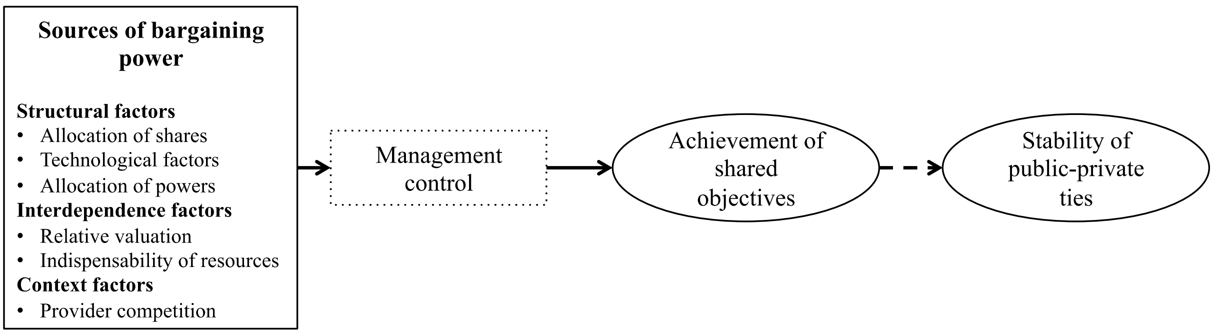
*Interdependence factors* also affect incentives to perform - meaning how each of the two parties perceives the importance of the JV (i.e. relative valuation) to themselves (Besley & Ghatak, 2001). It is widely held that the party with the higher valuation should control the JV regardless of ownership structure and contextual factors. For instance, even if it invests less in the venture than does the private party, the public party should retain ownership control if its reputation is heavily dependent upon improving a hospital's quality.

Another such interdependence factor affecting incentives to perform is the indispensability of resources (Halonen-Akatwijuka, 2012). The party with an indispensable resource would seem to have more bargaining power. For example, the private party would be indispensable if it has a unique set of skills. This is consistent with the 'resource complementarity' view (Rangan, Samii, & Van Wassenhove, 2006), whereby JVs enable access to otherwise unavailable resources. That said, the public party would be indispensable if it alone is authorized (e.g. by legislation) to purchase specific services.

When the high-valuation party provides indispensable resources, joint ownership is suboptimal because in that case the low-valuation party has less incentive to perform. In contrast, if the low-valuation party is indispensable then joint ownership can appropriately incentivize both the low- and high-valuation partners. The incentives to perform are also dependent on the risks perceived by each party (Buurman,Delfgaauw, Dur, & Van den Bossche, 2012; Pfeifer, 2011; Wildavsky & Dake, 1990). Public and private sector parties have different risk perceptions, weigh risks differently and also seek different outcomes (e.g. monetary incentives for private parties, client satisfaction for public parties)

In summary, the theory established in the literature posits that the relative bargaining powers of parties to a JV is determined by a combination of structural, contextual and interdependence factors. Following Yin (2003), we use the established theory as a benchmark for our research, the aim of which is to determine the interrelations between bargaining power and management control and how the two parties thereby achieve shared objectives conducive to the stability of their JV, defined as the extent to which they agree to continue their collaboration.

**Figure 1. Benchmark theoretical framework (before case study research)**



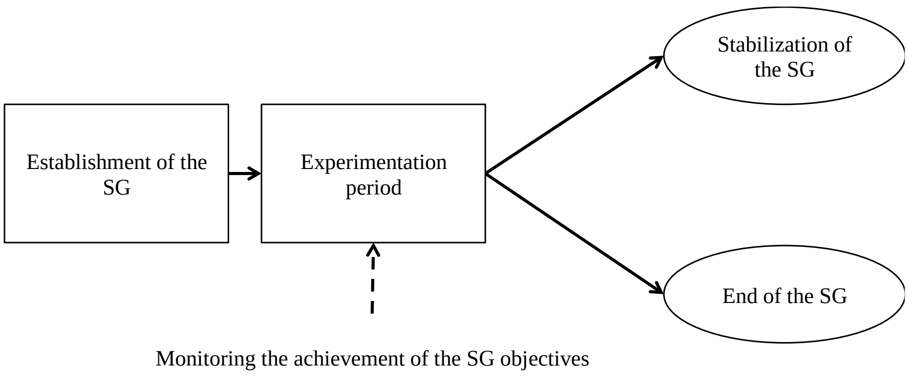

## Empirical Research Method

A qualitative research method utilising case studies is adopted because it allows for the application of existing frameworks to new contexts and for the prospect of extending them (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Yin, 2003). The case studies are of Italian public–private JVs in the healthcare sector, these being referred to as *sperimentazioni gestionali*, or SGs for short. An SG is established when a public-owned hospital sells a minority ownership share to a private company, thereby creating a public–private JV. The rationale for undertaking such joint ventures is that public partners can maintain control of service delivery while enhancing the efficiency of procurement through the private sector's involvement (Albalate, Bel, & Calzada, 2012; Bel & Fageda, 2010; Bognetti & Robotti, 2007; Cruz & Marquez, 2012; Marra, 2007; Warner & Hefetz, 2008).

SGs are especially suitable for our research purpose because, prior to their creation, their objectives are defined jointly by the public and private parties (i.e. shared) and are officially formalized in publicly available documents. Exogenous verification of the achievement of SGs' objectives and their stability are contained within official documents to which we had access.

Once established, SGs undertake an experimentation period (lasting about three years) during which the JV is monitored by the regional health authority to determine whether its objectives are being achieved and the results of this monitoring are reported in official documents. At the conclusion of that experimentation period the JV is ‘stabilized’ (i.e. continues) if objectives are judged to be achieved but expires if they are not (see Figure 2). In the first case, the public and private parties agree to continue their collaboration and so the JV is operative and, for our purposes, is stable. In the latter case, the private party returns its equity share to the public party.

**Figure 2. SG life cycle**




The three Italian SG case studies are based on four considerations. First, allowing access to both primary and secondary data and so ‘information richness’ was a key criterion. Second, the SGs had to be subject to the same legislative environment and be located in the same geographical and economic area. This enabled meaningful comparisons while limiting extraneous variation due to context specificities (Eisenhardt, 1989). Third, assessing the extent to which objectives were achieved would be possible only if the experimentation period had already expired and thus results of the monitoring were already known. Finally, we wanted to select cases with different outcomes, two of the three joint ventures being stabilized and one expired. That variation allowed us to control for the factors affecting different outcomes.

## Data Collection

Secondary data for each SG were gathered from archives and newspaper articles, together with regional laws and deliberations and internal documents. The last include notary acts, contracts, financial documents and corporate brochures, all of which formalized both the achievement of each JV’s objectives and its stability.

Primary data were collected from ten in-depth semi-structured interviews (in Italian) with the public and private parties appointed to the SGs’ boards of directors. The interview protocol comprises four main parts. The first part was designed to gather information about the informants; it focused on their experience and on the role, each played in their respective SGs. The three remaining parts were designed to address the concepts that emerged from our theoretical model. Although these concepts were narrowly defined, our questions were sufficiently broad that informants could add any details they considered relevant. Each interview lasted about an hour, all being conducted between September 2013 and September 2014. Interviews were recorded unless the interviewee objected. Each interviewee verified the authors' interview notes to ensure their accuracy.

Additional primary data were gathered from follow-up e-mails with those interviewed and from notes taken while attending conferences related to the selected cases. The case studies and interviewees have been anonymized for reasons of confidentiality in Table 1.

**Table 1. Data collection**

| | **Original data source** | **Intended data audience** |
|---|---|---|
| Interviews | Key informants | Analysis for this study |
| Follow-up (e-mails) | Key informants | Analysis for this study |
| Other primary data | Notes taken during in-place interviews | Analysis for this study |
| Other primary data | Notes taken during a conference related to the selected cases | Conference attendees |
| Regional laws and deliberations and other official public documents | Consultation of the regional laws and deliberations (digital archive); official regional and municipal websites (period of consultation: September 2013 – April 2014) | General public communication |
| Internal documents | Provided by informants and including notary acts, contracts, financial documents, and corporate brochures | Internal communication |
| Newspaper and magazine reports | Online local newspaper (period of consultation: September 2013 – April 2014) | General public communication |
| Other material | Information retrieved from company websites (period of consultation: September 2013 – April 2014); published case descriptions and analysis (e.g., UTFP reports and OASI reports*) | General public communication |

*UTFP = Unità Tecnica della Finanza di Progetto; OASI reports are published by Bocconi University

## Codebook and Data Coding

Data were coded using a 'directed content analysis' procedure that applies conceptual categories to a new context (Hsieh & Shannon, 2005). Following Yin (2003), categories are derived from the theoretical model and then further coded into concepts. The concepts are both theories based and data based (see Table 2). Data-based concepts result from continual comparison of the case studies; theory-based concepts are derived from our theoretical framework. The *codebook* specifies a code related to each concept and its associated meaning, defined in order to ensure the validity of coding (Rose & Webb, 1998).

**Table 2. Data coding**

| **Category** | **Coded concepts** | **Theory based** | **Data based** |
|---|---|---|---|
| Context factors | Provider competition | X | |
| Structural factors | Allocation of shares | X | |
| | Technological aspects | X | |
| | Allocation of power | X | |
| Interdependence | Relative valuation | X | |
| | Indispensability of resources | X | |
| | Integration among partners | | X |
| Matching | Partner matching | | X |

***Reliability.*** An author (Coder 0) performed the coding on the whole body of data, after which all inconsistencies (as noted by the other two authors) were reconciled. An intercoding reliability test was performed by three independent coders (Coders 1, 2, and 3) not otherwise involved in this research to curb inflation of intercoder agreement that can arise when coders agree owing to their previous discussion of the coding process (Hruschka, Schwartz, Cobb St. John, Picone-Decaro, Jenkins, & Carey, 2004). The independent coders received the codebook, instructions, and a brief summary of the study context. Once the authors were satisfied that the coders clearly understood the codebook and the task at hand, the coders independently coded a subset of the raw data; that data consisted of 34 codes previously coded by Coder 0. Intercoder agreement on the data subset was high—despite Coder 1 extracting more codes than other coders (see Table 3). All inconsistencies were discussed and then reconciled.

**Table 3. Intercoder agreement results**

| | Coder 0 | Coder 1 | Coder 2 | Coder 3 |
|---|---|---|---|---|
| Number of codes extracted by each coder | 34 | 45 | 29 | 33 |
| Codes coded in agreement with Coder 0 relative to the number of codes extracted by Coder 0 | | 88% | 82% | 91% |
| Codes coded in agreement with Coder 0 relative to the number of codes extracted by each coder | | 67% | 97% | 94% |

*Consistency.* A two-stage triangulation procedure was undertaken to check secondary and primary data consistency, any differences being reconciled by gathering additional archival data and/or by checking with the original informants. With only a few exceptions, the levels of final cross-source agreement indicated that our data are reasonably consistent (Table 4).

**Table 4. Data triangulation**

| | *Provider competition* | *Allocation of shares* | *Allocation of power* | *Technological aspects* | *Indispensability of resources* | *Relative valuation* | *Integration among partners* | *Partner matching* |
|---|---|---|---|---|---|---|---|---|
| SG1 | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data |
| *Cross-source agreement* | Moderate | High | High | Moderate | High | High | High | High |
| SG2 | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data |
| *Cross-source agreement* | Moderate | High | High | High | High | High | Moderate | High |
| SG3 | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data | Interviews Archival data |
| *Cross-source agreement* | High | High | High | High | High | High | High | High |

*Case study analysis: Method.* This research adopted a *constant comparison* approach that guarantees each datum is systematically compared with all other data. It is not a 'grounded theory' design (Glaser and Strauss 1967), instead analysing data through both deductive and inductive reasoning (Fram, 2013): the former relating to our proposed theoretical model, the latter generating new concepts analysed and (if appropriate) added to the model. Examples of concepts added via induction include 'integration of partners' and 'partner matching'.

### *Case Study Profiles*

The official documents reported that all three JVs achieved their objectives but only two were stabilized.

**Table 5. Characteristics of the selected cases**

| | SG1 | SG2 | SG3 |
|---|---|---|---|
| Healthcare service | Specialized | General | Specialized |
| Public:private shares of equity | 75:25 | 51:49 | 53:47 |
| Type of private partners | For-profit | For-profit (phase 1); Not-for-profit (phase 2) | Not-for-profit |
| Achievement of SG objectives | Yes | Yes | Yes |
| Stabilized? | No (public takeover) | Yes | Yes |

SG1 involved a public party and a private for-profit party to deliver specialized healthcare services. Their shared objectives were to meet the growing demand for services, to modernize the infrastructure, to increase profits stemming from the activity, and to increase the health centre's scientific prestige. Even though monitoring of the experimentation period established that the SG's objectives had been achieved, the private party declined to continue and so the JV expired, the hospital thereafter becoming fully publicly owned and managed as the public party took over the equity.

SG2 is a general hospital for which the experimentation period proceeded in two phases. The first phase involved a public party and a private for-profit party whose joint aim was to combine their separate hospital facilities to effect optimal allocation of supply of healthcare services. Toward that end, a regional plan prescribed a reduction in the number of beds available in the area, which in turn required reconfiguration of their facilities and additional private funds. During the experimentation period, the for-profit private party quit the JV, not-for-profit private parties replacing it. The aim of this second phase of the SG was to raise funds from the private sector and to increase the hospital's efficiency. At the end of the experimentation period, the joint venture was stabilized.

SG3 was also a JV between public and private not-for-profit parties for the delivery of specialized healthcare services. The shared objectives were to increase the proximity of healthcare services to the community, develop efficient high-quality services and to gather resources for renovation of the hospital building. It was stabilized at the end of the experimentation period.

### *Sources of Bargaining Power*

*Structural factors.* The public parties had the majority share in all three SGs, as required by regional regulation. Interviewees reported that this ownership structure best fit the context because public ownership of healthcare services was widely perceived to be politically preferable. An informant at SG1 emphasized the importance of political accountability for determining ownership structure, and SG3 reported that its ownership structure was largely the result of a political process. The private sector parties were aware of these regulatory constraints.

Through its majority share, the public party had the power to nominate the majority of the board of directors (including the health director) to guarantee the public nature of healthcare services. Its role consisted mainly of supervising the SG and directing its healthcare activities. Although the public party had the majority share, in all three cases we found shared authority rather than joint authority, there being no formal veto power even though each was responsible for a specified subset of decisions.

With regard to technological aspects the public party mainly contributed physical assets (building, machinery, equipment, and land in all SGs because the hospital facilities were previously wholly owned by the public sector. The private parties mainly provided financial resources. Only in SG2's first phase did the private party contribute physical assets (albeit marginally). In each case study, employees shifted from what was once a publicly owned hospital to the new JV, the public party contributing more human resources than the private party.

*Contextual factors***.** The extent of provider competition differed across the three cases and depended on the type of service delivered. Both SG1 and SG3 delivered specialized health services characterized by a low level of competition due to high entry barriers and low profit margins. An SG1 informant stated that lack of competition did not necessarily result in greater profit margins: in fact, "serving a great many patients from different geographical areas eventually resulted in financial distress." In contrast, SG2 was a general hospital that faced more competition. Nevertheless, one informant noted "a lack of strategic planning at regional level" and the presence of multiple providers within the same area created excess supply.

In all three cases, the limited number of providers for the service had little effect on profit margins. The reason is that revenues depend on regulated tariff systems rather than on competition. Thus, an SG's revenue model depends strongly on the public sector's tariff system, over which private parties do not have much control.

*Interdependence factors***.** With regard to relative valuation of the JV, SG1 was of strategic importance to the public party. Official documents and key informants agreed that the hospital was a "strategic hub" for the delivery of specialized services. Meanwhile, the private for-profit party viewed the hospital as an investment opportunity but one it decided not to continue despite the SG having achieved its goals. The public party bought the private party's shares because of the importance of the hospital for community welfare.

In its first phase, SG2 was important to both parties but for different reasons. Given the call to reduce the supply of healthcare services, the public and private parties combined resources so that their provider activities could continue. Although both parties agreed the need to merge resources, the SG was of strategic importance to the public party but not the private (for-profit) party. Following the latter's decision to quit the JV during the experimentation period, the public party found new private (not-for-profit) parties. The parties still differed in their valuation of the project: the private parties viewed it not as a strategically important venture but rather as a "prospective investment in the community welfare". The same attitudes prevailed for SG3, with the public party declaring the JV to be of strategic importance while its not-for-profit private parties viewed it as an opportunity to participate in the community healthcare system.

In all three cases, there was limited availability of private parties. Both SG1 and SG2 (first phase) selected the same private for-profit party, which quit both JVs. In the absence of other alternatives, SG1 was "bailed in" by the public sector after termination of the JV. SG2 negotiated another contract with new not-for-profit parties. All cases reported that the private party was selected from an extremely small set of viable alternatives within the same geographical area. Consistently across all three cases, informants reported that the financial resources of private parties were essential for achieving JV objectives. In particular, all SGs reported that the private-sector investments allowed for a "renewal" of the hospital that would not have been possible if only public resources were available. Yet even though private parties provided financial resources, they were not formally committed to providing new sets of skills (e.g. higher-quality human capital). For example, all three JVs reported that the private party was only marginally involved in managerial procedures—and especially so for private parties of the not-for-profit type (as in the second phase of SG2 and in SG3). An informant at SG3 reported that private parties did not have the competencies required to manage a hospital because that was not their core business.

Providing financial resources only did not require the integration of public and private skills and expertise and so it was easier (and less costly) for the less committed party to quit the SG. Indeed, in all three case studies, parties were free to quit the JV if their expectations were not satisfied. That was the case for both SG1 and SG2 (first phase), where the private for-profit party left the joint venture because of insufficient profits. This dynamic is consistent with Cruz and Marquez's (2012) claim that a private party can always opt out and sell its shares back to the public sector, since the public party is required to buy such shares even if its finances are constrained. Thus, the advantages of a private party's financial resources are vitiated when the public sector's resources are depleted to buy back shares.

For these reasons, the conclusions drawn below from the three case studies are not applicable to Public-Private Partnerships (PPPs) where JVs seek only private (or third sector) financial input. In contrast, PPPs involve licensing or concession and utilise the technological skills and management expertise of private partners to stimulate innovation and alleviate bureaucracy inherent in public service organization. In the case study JVs, the public party only seeks financial investment from the private party and so the latter is easily dispensable where there are many such candidates in financial markets. In contrast, the technological and management skills of private partners in PPPs make them much less dispensable. Hence, the Italian hospital cases bear virtually no resemblance to public-private partnerships (PPPs) in other developed countries and so the results of the three cases analysed here do not apply to PPPs. Moreover, they provide insufficient data, all three being Italian cases of a very specific form of JVs.

## Bargaining Power, Management Control and Achieving Objetives

The bargaining power approach categorizes sources of power as context-based and resource-based, the former reflecting the exclusivity of the relationship whereas the latter reflects possession of a critical resource, both reducing the dependant party's bargaining power (Yan & Gray, 2001). The case studies' results suggest that each public party perceived its SG as more important than did their associated private parties, the former having the greater resource-based bargaining power because they typically had the majority share, contributed more in terms of both physical and human resources and set each SG's tariff system. However, the private SG parties had greater context-based bargaining power because they were both indispensable in terms of financial resources and hardly substitutable since there were so few potential parties.

Irrespective of the balance of bargaining power, having it does not mean that it is actually exercised (Liu et al. 2014) and very limited integration of the parties within each SG facilitated its abandonment by private parties if they considered their earnings insufficient. Moreover, there being no simple causal link between bargaining power and management control meant we had to examine how each party exercised control to achieve shared objectives.

The public party exercised its management control (and monitoring) in accordance with statutory requirements, a key informant at SG3 saying "the managerial levers are purely legislative." Hence, private parties found it difficult to challenge managerial decisions. The for-profit party in SG1 and in the first phase of SG2 was interested in managing them but could not fully control the level of profitability and that limitation was a major obstacle to stabilizing each SG.

Not-for-profit parties were much less concerned about their lack of direct involvement in managerial procedures and were, in fact, uninterested in management of the JV, their involvement being motivated by "showing their commitment in the community" (as reported by informants at SG2 and at SG3). None of the not-for-profit private parties had experience in the healthcare sector but all were deeply rooted in the community. For example, an SG2 informant reported that affiliates of the not-for-profit parties were almost a third of the entire community and so "a large portion of the community are hospital shareholders."

In the JV literature it is often claimed that in 'mixed' companies the private party is not only in charge of managing the services but also responsible for providing experience and knowhow (Marra, 2007). However, the private parties in our SGs were mainly financial investors and those of the non-for-profit type actually had no interest in managing the company because doing so was not part of their core business.

*Private parties' management control.* Even though the private parties were not actually involved in managerial procedures they acted as a control mechanism on public-oriented managerial procedures. The private parties pressured public-oriented management in ways that increased incentives of the public parties to perform. This result is consistent with the literature that states a party gains power if it has resources that are critical for achieving the JV's objectives (Pfeffer & Salancik, 1978).

Because the private parties were indispensable, far from substitutable, and willing to quit SG's if their expectations were not satisfied, the public parties were more inclined to put effort into improving each SG's cost-efficiency. "We have increased our efficiency [...] compared to other hospitals in the area." (SG2 informant). "The involvement of the private partner also helped to speed up the heavily bureaucratic procedures characterizing public entities, and this was conducive to the achievement of our objectives." (SG3 informant).

Clearly, in SG1 and SG2 (first phase) the private for-profit party pressured the public party to generate the expected level of profits. Although the not-for-profit parties in SG2 and SG3 were less concerned about profitability they, of course, did not want to lose their investments and so "require tight control on the financials of the hospital. They don't want to make profits but if the hospital makes losses, they go!"

The parties agreed each SG's objectives prior to their commencement and official documents reported that all three achieved their objectives by the end of the experimentation period but only two (SG2 and SG3) were renewed (i.e. stabilized). Hence, our case studies show that the context-based bargaining power of the private parties yielded appropriate incentives for the public party to perform well. Nevertheless, the private for-profit party left SG1. Thus, achievement of a JV's objectives is necessary but not sufficient to stabilize public–private ties.

## Partner Matching and Stabilization of Public-Private Ties

*Mission matching* is recognised as a key requirement for stabilization of JVs, this being the process by which "principals and agents come together to create an organization" (Besley & Ghatak, 2003: 241). However, our results suggest that *party matching* is also a key requirement for long-term ties.

The private for-profit party in SG1 and SG2 (first phase) had financial expectations that could not be met in the long run. An SG1 informant confirmed that the for-profit party had expected higher margins and that the venture's poor profitability was largely responsible for that party's decision to quit the JV. Subsequent regional documents acknowledged that the private party could achieve its expected profits from the JV *only* through revenue guarantees made at the public party's expense. That did not occur in either SG1 or SG2 (first phase).

Enhanced reputation was viewed as a key benefit by SG2 (second phase) and SG3 informants. The SG3 informant reported that the not-for-profit party benefited in terms of visibility and brand identification, these non-monetary benefits driving its participation in the JV. Provided they did not generate *losses*, these two JVs' limited profitability was not important.

## Discussion

Diverse forms of bargaining power were evident in achieving the JV's objectives in our case studies. The public parties had more resource-based bargaining power and exercised it through public-oriented managerial practices. The private parties had greater context-based bargaining power that served as a control mechanism over public-oriented managerial practices and this incentivized the public parties to perform well to achieve the JV's objectives. This research found no differences in the incentives of public parties working with for-profit versus not-for-profit private parties but that stabilization requires private parties capture the value they expect from the JV, whether monetary or non-monetary, irrespective of achieving the JV's objectives. To stabilize the JV in such cases, the public party may have to guarantee zero losses or minimum profits for non-profit and for-profit parties respectively.

Such guarantees have implications for the governance of JVs, of which there are two forms: autonomous and integrative (Kivleniece and Quelin 2012). The private party plays a predominant role as regards property rights and authority in *autonomous* JVs, the public party's role being limited to monitoring and supervision. The public party plays a predominant role in *integrative* JVs, property rights being shared between the two parties.

SGs involve integrative governance, the public party playing the leading role in operational tasks and commitment of physical and human resources, so having more property rights and more authority, usually including regulation of the private party's revenues. Hence, integrative governance is associated with weak incentives because public-sector interests tend to prevail over shared public–private objectives (Kivleniece & Quelin 2012).

This paper's results challenge these weak incentives thesis, the case studies suggesting that integrative governance can create strong incentives for achieving shared objectives *provided* the private party has (and exerts) sufficient context-based bargaining power. The private parties in the case studies have that power, being indispensable, seldom substitutable, and not fully integrated with the public party, which must therefore bargain to achieve the JV's objectives.

This mechanism applies even when private parties are only marginally (or not) involved in managerial procedures. Therefore, achieving the JV's objectives is facilitated by the public party making better use of its own capacities and not by exploiting the private party's capacities—provided, again, that private party has (and exerts) enough context-based bargaining power.

In light of these results, extant theories should simultaneously consider (a) the JV's governance form and (b) the parties' relative bargaining power. These considerations lead to the following proposition.

> *Proposition 1* (P1)**.** *In an integrative* JV, *pursuit of the public party's interest prevails over pursuit of shared objectives whenever the public party has (and exerts) greater resource-based and context-based bargaining power than the private party.*

This dynamic place the private party in a 'hostage' position, so it must accommodate the public party's claims. For instance, if service delivery is subject to a tariff system regulated by the public party, then any change in that system can affect profit margins of the private party (Guasch et al., 2007). Therefore, a variant of Proposition 1 is necessary.

> *Proposition 1′* (P1′). *In integrative* JVs*, the pursuit of shared objectives dominates pursuit of the public party's interest when the public party has—and exerts—greater resource-based bargaining power while the private party has—and exerts—greater context-based bargaining power.*

Hence, the private party's context-based bargaining power binds both parties in a mutual hostage position, which can result in strong incentives for the achievement of shared objectives. The SGs exemplify this situation.

Autonomous JVs usually exhibit greater involvement by the private than the public party, which implies that the latter has less resource-based bargaining power. This dynamic can be formalized as follows:

> *Proposition 2* (P2). *In an autonomous* JV, *pursuit of the private party's interest prevails over pursuit of shared objectives whenever the private party has (and exerts) greater resource-based and context-based bargaining power than the public party.*

So, if the private party has greater resource-based bargaining power *and* greater context-based bargaining power the public party is in a hostage position and thus is more subject to the private party's demands. For example, long-term contracts can commit the public party to specific private parties and thereby limit the former's ability to adopt more convenient alternatives (Lonsdale, 2005). The JV's goals are less likely to receive short shrift when the bargaining power of the parties is more balanced, as indicated in the following proposition.

> *Proposition 2′* (P2′). *In autonomous* JVs*, the pursuit of shared objectives dominates pursuit of the private party's interest when the private party has—and exerts—greater resource-based bargaining power while the public party has—and exerts—greater context-based bargaining power.*

Here the context-based bargaining power of the public party binds both parties in a mutual hostage position that is conducive to the pursuit of shared objectives.

**Table 6. Public versus private parties' bargaining power**

| | | Resource-based | |
|---|---|---|---|
| | | *High* | *Low* |
| Context-based bargaining power | *High* | **Private party hostage (P1)**<br>• Integrative governance form<br>• Pursue public party's interest | **Mutual hostage (P2′)**<br>• Autonomous governance form<br>• Pursue JV's shared objectives |
| | *Low* | **Mutual hostage (P1′)**<br>• Integrative governance form<br>• Pursue JV's shared objectives | **Public partner hostage (P2)**<br>• Autonomous governance form<br>• Pursue private party's interest |

Table 6 summarizes the foregoing propositions on bargaining power and governance form. In integrative JVs, the public party's heavy involvement will likely moderate the private party's share of captured value and our case studies indicate that this holds when the private party expects to capture *monetary* benefits from the JV. However, private parties are limited in their ability to extract monetary benefits because any additional revenues entail additional costs borne by the public party. For instance, allowing the private parties in SG1 and SG2 (first phase) to secure their expected monetary benefits would have required the public parties commit to revenue guarantees at their expense. This dynamic renders stabilization of the partnership less likely.

> *Proposition 3. Stabilization of public-private ties is more likely when the benefits accruing to one party do not entail a loss for the other party.*

The case studies demonstrate that, for integrative JVs, stabilization is more likely when the capture of benefits by private parties does not result in losses for the public parties. It is more probable that this scenario will prevail when the expected benefits are non-monetary in nature. The private parties in SG2 (second phase) and SG3 were expecting to gain visibility and to improve their brand identification and achieving those aims did not require the public parties incur an additional cost.

> *Proposition 3'. Under integrative governance form, stabilization is more likely when the benefits sought by private parties are not of a monetary nature.*

Thus, the existing literature is augmented here by showing that non-monetary benefits can facilitate the stabilization of JVs in which—as is usually the case—the private party does not have full control over the revenue model. The implication is that integrative governance is more suitable than autonomous governance for JVs between public and *not*-for-profit private parties.

## Conclusions and Further Research

The findings presented in this paper shed light on the stability of public–private ties through a simultaneous consideration of relative bargaining power and form of governance. It has shown that bargaining power shapes management control for the achievement of JV objectives. More specifically, the pursuit of shared objectives dominates the pursuit of either party's own interest when they are in a mutual hostage position owing to their respective bargaining power. This scenario is likely when one party has greater resource-based bargaining power while the other party is indispensable and neither practically substitutable nor fully integrated.

Achieving the JV's objectives does not reliably predict the stability of public–private ties. Stability also requires that the parties' expectations align with their ability to capture such value. The case studies provide evidence that, under integrative governance, private parties can satisfy non-monetary goals more easily than monetary goals.

The selection of appropriate parties and an appropriate form of governance depends on the purpose of the JV itself. If JVs seek to achieve shared objectives, then the optimal setup is the mutual hostage scenario. It is reasonable to suppose that when parties are in a mutual hostage position, objectives will more equitably represent each party's interests than when one party is in a dominant bargaining power position. To stabilize a JV, not only must a mutual hostage position prevail but also the parties must be able to capture their expected value, the likelihood of which depends in part on the form of governance.

This paper also defined stability in terms of the parties agreeing to *continue* collaborating. By this definition, stability is not equivalent to a perpetual equilibrium. Hence, any change in a party's expectations or in its ability to capture value will naturally affect stability of JVs. Thus, further research is necessary to establish how conditions for stability change in a dynamic setting.

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