



## From Government to Governance: The Challenge of Managing Cross-Sectoral Partnerships

- Moderator: **Mark H. Moore**, *Hauser Professor of Nonprofit Organizations, Faculty Chair, Hauser Center for Nonprofit Organizations, Harvard Kennedy School*
- Panelists: **William H. Donaldson**, *Chairman, Donaldson Enterprises; Former Chairman, Securities and Exchange Commission*  
**Stephen Goldsmith**, *Dan Paul Professor of Government, Harvard Kennedy School*  
**Philip Lader**, *Nonexecutive Chairman, WPP Group PLC*

### Overview

Government services are increasingly being outsourced to private enterprise, and the United States is on the verge of creating the most complicated public/private-sector alliance ever in response to the financial sector crisis. At such a juncture, the experiences of those who have spearheaded public/private partnerships can be instructive.

Both government and business bring different problem-solving skills and approaches to the table, shaped by the different objectives and necessary constraints with which they are accustomed to operating. Both can benefit from the perspectives and talents of the other in pursuit of a common cause, but there are many caveats to heed along the way.

### Context

The panelists and Professor Moore shared insights, acquired from working in both government and business, on best practices and caveats for creating successful public/private partnerships.

### Key Takeaways

- **Public and private sectors bring different constraints, talents, and approaches to the table.**

As the most complicated partnership between public- and private-sector entities is being constructed in response to the financial crisis, it is instructive to look at the prospects and pitfalls of public/private collaborations. The panelists have experience working in both the public and private sectors and in spearheading public/private ventures (albeit vastly smaller ones than the bailout).

Learnings Mr. Goldsmith shared include:

- *The government is delivering fewer services, with the private sector delivering more public services.* Since President Clinton's second term, the number of government employees has fallen as the number of contractors and vendors has risen. This trend will accelerate with the retirement of 40% of all public employees within the next six years. Expect more outsourcing to business of infrastructure, social services, and other traditional government activities.
- *Projects should be framed to maximize public value.* It is productive to view a project in terms of the end value it will bring the public. The question for government

officials to ask is, "What is the value we are trying to create?" Such framing yields an answer of "public health," not "public hospital"—opening the door to innovative types of public/private partnerships.

- *Privatization of government services tends to be considered bad by the left and good by the right.* But that is a false dichotomy. Both private- and public-sector approaches have positives and negatives. The issue is how they can work together to deliver the best of both worlds to create optimal public value.
- *There is constant tension between accountability and flexibility.* Government has a responsibility to be accountable, and a high-accountability ethos is baked into its process; business needs to be creative and flexible to be able to envision and execute better solutions. The government's challenge in a public/private partnership is to manage the outcomes but not the process. The business partner's challenge is to ensure it preserves the ability to exercise discretion. It is critical that both sides agree on the outcome.
- *The clearer the rules and lines of authority, the more likely that a public/private partnership will deliver the intended public value.* Conversely, the value is less certain when the government has fuzzy rules, without specifying performance and quality standards.

Some general learnings shared by Mr. Lader:

- *Business often forgets the growth potential that government can unlock.* Business people tend to forget that federal constructs—e.g., the Small Business Administration and government-sponsored enterprises like Fannie Mae and Freddie Mac—have enabled private-sector entities to expand beyond what their own capacity would have allowed.
- *Using regulation to achieve desired outcomes is very complex.* Federal regulations once had a definition of chocolate chip cookies that ran 38 pages long. Deemed ridiculous, it was eliminated, which led to bakers making cookies with hardly any chips. The onus is on government to set regulations such that the pursuit of self-interest by vendors produces the desired outcomes for society. Determining the proper balance while managing a variety of influences is a complex challenge.

---

*"Government is the art of ordering life so that self-interest prompts what justice demands."*

— Philip Lader, quoting William Temple

---



— *The public sector operates under burdens its private-sector partners do not, which can be sources of friction. These include:*

- Perpetual scrutiny affects how candid government can be.
- Authorization processes affect how flexible government can be. The federal government's "board of directors" is Congress. This means that securing congressional authorization for desired actions can be a long, fruitless process.
- The mandate for accountability means that private-sector partners must be closely monitored.

▪ **Trust is a huge issue when public and private interests join forces for the public good.**

When Mr. Donaldson became chairman of the Securities and Exchange Commission (SEC), he was surprised by its reactive way of operating. To proactively identify future risks, he created a way to exchange ideas with major investment banks' senior officers. The experiment presented advantages and risks for both sides. The SEC feared learning about "something horrible that had already gone on" for which the executives would argue they should have impunity, having revealed it voluntarily to the SEC. The executives feared that candor could come back to haunt them. Yet both sides ultimately desired the same end: to ensure that investors were protected. Mutual trust was critical to any productive exchange.

---

*"As you can imagine, the whole process was extremely difficult to manage, because it required a great deal of good faith on both sides."*

— William H. Donaldson

---

Mr. Donaldson's learnings hold direct relevance for the financial regulatory reforms now being forged:

- *It is difficult for a public agency to be both regulator and partner at the same time.* Rigorous enforcement of regulations must be present at the same time as the trust necessary for collaboration.
- *Carefully coordinated restructuring of regulatory institutions will be necessary.* On both a domestic and a global basis, policymakers must carefully restructure regulatory institutions given the complex competing interests of public and private players involved.
- *There are two overarching risks in the regulations that are likely on the way:* 1) Punitive regulations will inhibit the freedom of the marketplace; and 2) The Federal Reserve and SEC will lose their distinctive focuses; the Fed's job being to preserve marketplace functioning and the SEC's to protect investor interests.

---

*"Many of the regulations coming down the pike are going to be to make sure the marketplace functions correctly. . . . I think we run the risk as we reorganize institutions that we lose the investor protection part of the equation."*

— William H. Donaldson

---

▪ **Many of the skills for leading public/private alliances are the same as those to lead businesses, with some important differences.**

Government bureaucracies are tough to run; they call for leaders who can ignite engagement, make people excited about their jobs, and create internal structures that allow people to bring entrepreneurial approaches to the execution of their responsibilities. To forge successful public/private partnerships, critical competencies for success include:

— *The ability to spot the value in a deal and assess the relative value potential among possible options.*

---

*"It's spotting value-creating opportunities that are out there to be exploited. . . . [It's about] people with restless, value-creating imaginations."*

— Mark H. Moore

---

- *The ability to execute deals—the "art of the practicable."* The most difficult hurdle in Mr. Lader's eyes is finding the most practical ways to execute a solution.
- *The ability to see the desired outcome at the outset of a project.* Focusing all involved on the same end vision affects a project's outcome.

---

*"It's failure to imagine the answer—or even options to arrive at the answer—at the front end that minimizes the value produced. . . . Somebody has to think really conceptually and broadly about how pieces fit together."*

— Stephen Goldsmith

---

- *The ability to create trust and build consensus.* The need to build consensus is more important in the public sector than in the private sector in order to get support for ideas.
- *Constant inquisitiveness—assuming one does not have the answers yet.* There should be willingness to decide, but also willingness to ask ongoing questions.
- *The ability to act like a person of thought but think like a person of action.* It is important to have ideas based on analysis, but not to let intellect or analysis paralyze you.
- *Humility.* Acting with the spirit of humility is always an asset in the public arena.

▪ **Both good management and performance management are often lacking in government.**

In government circles, people like to talk about politics and policy, but those in government often pay little attention to the subject of management.

A critical component of good management is performance management. This entails developing clear metrics to measure performance. Often in government and in public/private partnerships, there aren't metrics in place to measure performance. Either there aren't any metrics at all or the metrics in place measure the wrong thing. For example, a metric might focus on quantity (such as number of potholes filled), but may fail to take quality into



account. It is the establishment of clear performance metrics that aligns all parties involved in a public/private partnership.

---

## Other Important Points

- **Failings of banks.** The financial crisis is caused in large part by the failure of banks to distinguish and label high-risk loans. Because banks were securitizing loans and selling them to others, they didn't seem to care too much about the risk associated with a loan—that risk was transferred to the party that bought the loan. The buyers of those loans didn't ask questions of those who initiated the loans. In the end, the buyers of the loans cannot absorb all of the risks so society is taking on the risk.
- **The value of crisis.** While it is hard to see much positive in the current crisis, in general, crises serve to collapse existing governmental structures and change how resources are allocated and used. It can mean that resources that were previously locked up can be redeployed.
- **Benefits of capitalism.** One questioner was concerned, as new regulations are being created, who will make the case to politicians and the public about the benefits of capitalism. Arguing for and defending capitalism is not easy at the moment, but the historical benefits of capitalism are immense and the case for capitalism and prosperity must be made. Just one form of capitalism that is particularly compelling is the advent of microfinance, which uses capitalism to help the poorest citizens of the world.



## Speaker Biographies

### Mark H. Moore (Moderator)

*Hauser Professor of Nonprofit Organizations, Faculty Chair, Hauser Center for Nonprofit Organizations, Harvard Kennedy School*

Mark Moore is the Hauser Professor of Nonprofit Organizations and faculty chair of the Hauser Center for Nonprofit Organizations at Harvard Kennedy School. He was the founding chairman of the Kennedy School's Committee on Executive Programs and served in that role for over a decade. From 1979 to 2004, he was the Guggenheim Professor of Criminal Justice Policy and Management and faculty chairman of the Program in Criminal Justice Policy and Management at the Kennedy School.

Moore's research interests are public management and leadership, civil society and community mobilization, and criminal justice policy and management. His publications include *Creating Public Value: Strategic Management in Government*; *Dangerous Offenders: The Elusive Target of Justice*; *From Children to Citizens: The Mandate for Juvenile Justice*; *Beyond 911: A New Era for Policing*; and *Creating Public Value Through State Arts Agencies*. His work focuses on the ways leaders of public organizations can engage communities in supporting and legitimizing their work and the role value commitments play in enabling leadership in public-sector enterprises.

Moore holds a BA from Yale University (summa cum laude and honors with exceptional distinction in political science and economics) and an MPP and Ph.D. from Harvard Kennedy School.

### William H. Donaldson, MBA 1958

*Chairman, Donaldson Enterprises; Former Chairman, Securities and Exchange Commission*

William Donaldson has spent more than 40 years at the highest levels of business, government, and academia. Until June 30, 2005, he served as the 27th chairman of the Securities and Exchange Commission. As SEC chairman, Donaldson was the chief regulator of America's securities markets and chief enforcer of the nation's securities laws. His tenure marked the greatest period of activity of the agency since its founding in 1934. He is now chairman of Donaldson Enterprises, a private investment firm.

Before heading the SEC, Donaldson was chairman, president, and CEO of Aetna Inc., one of the nation's largest providers of health insurance and related benefits, and before that he served as chairman and CEO of the New York Stock Exchange. Earlier in his career, he was the cofounder, chairman, and CEO of the investment-banking firm of Donaldson, Lufkin & Jenrette (DLJ) and helped found its wholly owned subsidiary, the Alliance Capital Management Corporation. The Associated Press named him Businessman of the Year when DLJ became the first NYSE firm to sell its shares to the public.

He left DLJ to accept a presidential appointment as U.S. undersecretary of state under Secretary Henry Kissinger and later served as counsel to then Vice President Nelson Rockefeller. After that, he was the founding dean and the William S. Beinecke Professor of Management at the Yale University School of Management.

He has been a director of 14 publicly held corporations and a number of privately held businesses. He has served as chairman of the Carnegie Endowment for International Peace and on the boards of numerous philanthropic, arts, and educational institutions, among them the Ford Foundation, the Lincoln Center for the Performing Arts, and Yale University. He has received a number of honorary degrees and awards.

Earlier in his career, Donaldson served as a first lieutenant in the U.S. Marine Corps in the Far Eastern Theater (Japan and Korea), as a rifle platoon commander, and later as aide-de-camp to the commanding general of the 1<sup>st</sup> Provisional Marine Air Ground Task Force.

Donaldson graduated from Yale University (BA in American studies) and HBS (an MBA with distinction) and is a chartered financial analyst. He is married and has three children.

### Stephen Goldsmith

*Dan Paul Professor of Government, Harvard Kennedy School*

Stephen Goldsmith is Dan Paul Professor of Government at Harvard Kennedy School, where he also serves as director of Innovations in American Government. Goldsmith is a nationally recognized expert on government management, reform, and innovation. He is the author of several books, most recently *Governing by Network: The New Face of the Public Sector*, and his columns have frequently been published in such papers as the *Wall Street Journal* and the *New York Times*.

From 1992–1999 Goldsmith served as mayor of Indianapolis, Indiana. He earned a national reputation for innovations in government as he reduced the city's bureaucracy, taxes, and counterproductive regulations, all while identifying more than \$400 million in savings, which he then reinvested in a transformation of downtown Indianapolis and its urban neighborhoods.

Goldsmith was chief domestic policy advisor to President George W. Bush in the 2000 campaign and then served as Special Advisor to President Bush on faith-based and not-for-profit initiatives. He currently serves as chairman of the Corporation for National and Community Service.

Goldsmith holds a JD from the University of Michigan and an AB from Wabash College.

**Philip Lader***Nonexecutive Chairman, WPP Group PLC*

Philip Lader, former U.S. ambassador to the Court of St. James's, is nonexecutive chairman of WPP Group PLC, the worldwide advertising/media services firm that includes JWT, Ogilvy & Mather, Young & Rubicam Brands, Grey Global, Hill & Knowlton, and Burson-Marsteller, with 110,000 people and 2,000 offices in 106 countries.

A senior advisor to Morgan Stanley (serving on the investment committees of its global real estate and infrastructure funds and the boards of several of its private-equity portfolio companies, including Songbird Estates PLC, Canary Wharf), Lader is also a director of Lloyd's of London, Marathon Oil, Rusal, and AES corporations; a partner in his home state's oldest and largest law firm, Nelson Mullins (with 400 lawyers throughout the Carolinas, Atlanta, and Washington, DC); and a trustee of the Rand Corporation, the Smithsonian Museum of American History, the Atlantic Council, and the Salzburg Global Seminar.

Confirmed three times without dissent by the U.S. Senate, Lader served in President Clinton's cabinet as administrator of the U.S. Small Business Administration and was White House deputy chief of staff, assistant to the president, and deputy director of the U.S. Office of Management & Budget.

Before entering government service, Lader was EVP of Anglo-French financier Sir James Goldsmith's U.S. holding company (including America's largest private land holdings) and president of Sea Pines Company (developer and operator of award-winning recreation communities), as well as president of universities in Australia and South Carolina. He founded and continues to host Renaissance Weekends, the nonpartisan retreats for innovative leaders in diverse fields.

He is an honorary fellow of Pembroke College, Oxford University, and London Business School, an honorary bencher of the Middle Temple (British Inns of Court), and a member of the Council on Foreign Relations. He was formerly president of Business Executives for National Security and served on the boards of the American Red Cross, the British Museum, and St. Paul's Cathedral.

Lader's education includes Duke University (Phi Beta Kappa), the University of Michigan (MA in history), graduate law studies at Oxford University, and Harvard Law School (JD, with coursework at HBS), on whose Visiting Committee he serves. He has been awarded honorary doctorates by 14 universities.