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Private-Public Partnerships

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PRIVATE-PUBLIC PARTNERSHIPS¹

The increasing complexity of socioeconomic problems facing our cities exceeds the capabilities of any single sector to solve them. Each of the sectors is facing heightened expectations from society. Businesses are increasingly being seen as sharing the responsibility for resolving broader community problems as part of their privilege of operating a business. Government, faced with eroding confidence, is under pressure to perform public functions more effectively, efficiently, and transparently. And the nonprofit social sector organizations are facing increasing demands to produce demonstrable results and make more efficient use of the philanthropic capital invested in them. Going it alone is on the list of endangered strategies.

Robert Gillespie, head of KeyCorp and Chairman of the business leadership coalition² Cleveland Tomorrow, reinforced this judgment, “We think that public-private partnership is the answer. I don’t know of any of my peers who think any of this [revitalization of Cleveland] could have been done by the business community alone. If you don’t have that kind of partnership, you shouldn’t bother trying, because it simply can’t be done.”ⁱ Functions that might have been seen before as clearly the government’s domain, for example, public education or public safety, are being recognized as also requiring inputs from both the business and nonprofit sectors. Honeywell CEO Michael Bonsignore observed, “Unless you have the business community deep in the middle of it, [community development] will never be realized to the degree that it could be. I am extremely confident in PPPs [private-public partnerships] because they tend to be very complementary. And without them you lose momentum that you would otherwise have.” Leaders from the Pittsburgh area’s Allegheny Conference on Community Development (ACCD) stated, “You can have a really powerful business sector, but you can only go so far without political support. You need to have a two-way street.” Cross-sector partnering between business, government, and nonprofits will be the collaboration paradigm of the 21st century.ⁱⁱ

MOTIVATORS FOR BUSINESS ENGAGEMENT

There are multiple motivations that bring business leaders to engage in service to their communities, including the basic social contract, business benefits, professional and personal development, community culture, and crises.

¹ The author expresses his appreciation to Harvard Business School research associates Arthur McCaffrey, Prakash Puram, Linda Carrigan, Stephanie Woerner, and Roy Lubit for their outstanding research assistance.

² In most major cities business leaders have created organizations that allow them to work as a collective group on problems facing their community; I refer to these as business leadership coalitions (BLCs).

Shareholders & stakeholders make good traveling companions.

Business leaders have come to see the community as a primary stakeholder and community building as in the interest of their shareholdersⁱⁱⁱ, as evidenced by the following CEOs' statements:

- Larry Perlman, CEO of Ceridan Corp.: “A corporation in this world today carries with it a responsibility broader than just running the business every day. That business in any of these communities will not endure in a society that’s not functional, so in a sense it’s the most effective form of long-range strategic planning you can engage in.”
- David Koch, former CEO of GRACO: “Companies have to take an interest in the community. You can’t be in a fortress and not be involved. You can’t survive, you can’t prosper in an area where there’s chaos, crime, poverty, and where the education system is lousy.”
- Patricia Hoven, President of Honeywell Foundation: “The communities have to work or businesses can’t function.”
- Del de Windt, former CEO of Eaton Corporation: “I preached in my company that business leaders had an obligation to get involved in their community. A healthy, happy community will be far more beneficial to our business than one where there’s all sorts of unhappiness and conflict.”
- James Shannon, former CEO of the General Mills Foundation: “The ‘eleventh commandment’ at the company was ‘Thou shalt serve.’ The community has been good to us, and we want to be good to the community.”

Healthy communities as a competitive advantage.

The community-building activities of business leaders produce competitive benefits to their companies. In the intensified global competition for talent, the quality of the community can be a deciding factor. Morton Mandel, former CEO of Premier Industrial Corporation, explained that his business community’s activism was “fueled by our growing concern about the image Cleveland had nationally and internationally, and the impact of that image on how people might feel about joining our companies or relocating to Cleveland.” Marilyn Carlson Nelson, CEO of the \$20 billion Carlson Companies, observed, “The quality of life here in the Twin Cities and in Minnesota is the differentiator for us. It is what attracts the best and the brightest and keeps them here – even in the month of February! In this environment we have all needed to create an extra edge for our community and ourselves. We cannot continue to be a national leader in problem resolution, in creative thinking, in product development if we do not keep an eye on our quality of life.” Sick cities seldom produce a vibrant business sector.

Service makes better leaders.

Business leaders gain personal satisfaction from community engagement and enhance their leadership skills. General Mills CEO Steve Sanger pointed to three benefits: “One, you find that you can really contribute; two, you meet other people in the community that you enjoy interacting with, learning about, and getting to know; three,

I've found that the time spent on problems away from the direct business problems is helpful in giving you a broader perspective that helps you become a better leader within your organization. I tell people here all the time, we support your volunteering not just because we know you'll help the community, but because we believe that volunteering helps you be a better leader."

Cultural norms can cultivate service.

Some cities appear to have a long history of civic activism by business leaders that has embedded community service into the local business culture. Minneapolis exemplifies this:

- James Campbell, President of Norwest Bank Minnesota, characterized it this way: "There's something magical here, a feeling of responsibility, of giving back to the community and making everyone's life better. It is an ingrained expectation. Also there is an Olympic kind of spirit since we are the private sector. Every year we raise the bar since we want our city to win the race in every aspect. Even the non-Minnesotan executive who comes to this city to lead a global corporation feels the incredible involvement of business leaders here have. There is an inescapable expectation that every CEO must be involved in making this a better city, a better community, the best in the nation."
- Judy Corson, co-founder of Custom Research, Inc. (a Malcolm Baldrige award recipient), observed, "A lot more gets done here fast because the learning gets passed down from generation to generation without any mutation. Business leaders are ready to help each other."

Although business engagement in the community is not simply a matter of cultural determinism, strong service norms can be a powerful force shaping leaders' behavior.

Crises can trigger collaboration.

In several cities it was crises that catalyzed the business community into collective action. Boston and New York's fiscal crises and Cleveland's actual bankruptcy mobilized business leaders to become community activists. The anti-business positions of Boston's and Cleveland's mayors at that same time also coalesced the business leadership into political activism as they successfully supported opposition candidates disposed to collaborate rather than to confront business. Detroit Renaissance, that city's business leadership coalition, was formed in the aftermath of the inner-city riots in the late 1960s.

THE PPP PARADIGM: MAKING COLLABORATION WORK

The convergence of business rationale, political imperatives, and social forces are accelerating the development of private-public partnerships. Certain principles appear central to achieving effective cross-sector collaboration. Four dimensions are particularly

critical: ensuring participation, building relationships, creating value, and achieving accountability.

Ensuring participation.

Scrutinizing the issue of who is to participate in the collaborative undertakings and how reveals important shifts in the nature of PPPs. It was common in decades past for business leaders, often operating as business leadership coalitions, to exercise power secretly with their government counterparts. CEOs striking deals with mayors and governors in smoke-filled rooms behind the guarded doors of private clubs has been disintegrating as the normative decision-making model. As Thomas O'Brien, former Executive Director of Pittsburgh's ACCD stated, "It's not like the old days when banker Mellon and Mayor Lawrence would get together and just do it. You need to draw a much larger consensus to get things done." ACCD Chairman and Allegheny Teledyne CEO Richard Simmons recounted that in the 1990s a number of the CEOs decided that "this 'club' was too exclusive, not diverse enough. It had no African-Americans, no women, no lawyers, no accountants, no foundations, or community representation." The result was an expansion of membership to 35 with a goal of 60, resulting in "a whole cross-section of the community being represented, so that the Conference is now more populist and diverse." O'Brien added, "The real challenge is to broaden the participation to those sectors that are creating and driving a lot of the growth, and at the same time not to dilute the power or the effectiveness of the Conference."

Atlanta's business leadership coalition, Central Atlanta Progress (CAP), also focused on expanding its sphere of influence by, as CAP Chairman, Duane Ackerman, Chairman and CEO of BellSouth, put it, "building a bigger tent." Long time CAP Vice President Paul Kelman explained, "If you want to attract diversity to the organization, then you may have to compromise on some of your organizing precepts. And if you do not have some degree of diversity, you will be roundly criticized and perhaps deservedly." The consolidation of businesses has also meant that some members are the top executives of their companies in the area, but not the CEO. Kelman also noted, "Having three university presidents on our board really violates the notion that one has to be a business person to be on board or even to be a member. But the reality is that universities and foundations are big businesses." Charlie Battle, the current CAP President, remarked, "We have a much broader membership now. We are not just downtown organizations and we have everybody from huge corporations to nonprofits that are members. You have to put together those kinds of partnerships to make things happen."

The process of partnering can be as important as the substance. For example, in 1987 the business leadership group Detroit Renaissance proposed a needed strategic plan to tackle comprehensively the city's social and economic problems. Mayor Young took umbrage at the business leaders' unilateral presentation of the plan, as it made his administration appear to be lagging in leadership. Consequently he never supported the effort. (For an illustration of the importance of ensuring community participation, see The Atlanta Project – in box at end of article.)

Genuine participation in collective decision-making demonstrates respect, and respect fosters trust. But Richard Stafford, ACCD's executive director, pointed to a trade-off: "The more inclusion you get, the more power to influence you have; but the more inclusion you get, the less ability you have to come to a conclusion." Reaching consensus will often test the patience of business leaders used to quick decision-making processes. One should recognize that entering into a PPP is analogous to doing business in a foreign country. The culture, the language, the form of interaction are different, and the most successful international business people are those who study, understand, and are respectful of the different cultural norms and expectations. Furthermore, they become knowledgeable of the other's language in order to communicate effectively. This effort should not be seen simply as burdensome. The resultant broadening in one's interaction, leadership, communication, negotiating skills, and substantive knowledge will make you a better manager back in the business.

Building bridges.

The new partnership bridges between business and government and nonprofits do not just happen. They are built. As business statesman David Rockefeller put it, "I think that one has to make an effort to get to know the leaders in government, and make them feel that you're not there as supplicants, but that you're there as citizens who are trying to work with them in jointly doing something to improve the city and the state." But Rockefeller also pointed out that "nonprofit and government leaders need to have a positive attitude towards business, be cooperative not denigrating, and recognize the role of business is very important."

Relationships between business and government are often particularly fragile and can easily turn sour. A bridge-building mindset and political skills are particularly critical for the executive directors of the business leadership coalitions. The recently recruited executive directors of Detroit Renaissance and the Minnesota Business Partnership were formerly leaders in their states' legislatures and seen as highly skilled in relationship-building. Similarly, the executive director of Central Atlanta Progress from the early 1970s to the late 1980s was cited by a CAP member as, "Steeped in the political wherewithal to get things done."

At the heart of strong relationships are respect and trust. A former executive director of Cleveland Tomorrow, remarked, "My chairman had said consistently, 'You must work with,' so I consciously changed my style. I worked with government officials and learned that there was plenty to respect in those people." A CAP member explained the difficulty, "The biggest challenge is establishing an effective working relationship among all of the parties, principally business and government and the community activists. The community activists basically don't trust the business people, and the business people, in a sense, don't trust them. They don't trust our motives, and we're not sure we trust their methods." Honeywell's Bonsignore asserted, "I think there is an enormous chasm of misunderstanding about business and its place in the community. And I think it's up to the business leaders to make sure that that misunderstanding gets corrected wherever possible." ACCD's O'Brien, based on his frequent interactions with the mayor of

Pittsburgh, counseled, “Even if you had a disagreement with the political philosophy, you would still have said, ‘we all live here and we all want to make this a better place,’ and throw those things aside and work at it. The reason that we’ve been successful is that we’ve got our hand into all the discussions with a basis of trust—trust between the private and public sector, that’s the whole key to this.

Trust must be earned by actions. When populist-oriented Ray Flynn was elected mayor of Boston in the mid-1980s many of Boston’s corporate leaders were fearful because some of Flynn’s people, as then Vault president John Larkin said, “would just as soon have declared war on business in the city.”^{iv} But the business leadership held a public inauguration of its new \$5 million scholarship fund for Boston public school students with Flynn in attendance, and he declared that with enthusiasm that this “builds bridges of opportunity between downtown and neighborhoods.” The business leadership and mayor Flynn went on to have a productive and positive relationship. In Cleveland, in 1989 African-American, Democrat Michael White won a surprise victory for mayor without the business community’s support. Nonetheless, one of his early actions was to back a tax levy for the downtown sports complex backed by the city’s top business leaders. This politically risky stance demonstrated his seriousness about cross-sector collaboration. ACCD’s Chairman Richard Simmons states, “To have a public-private partnership, both components have to work—and work proactively.”

Creating Value.

The power of collaboration comes from leveraging the partners’ core competencies and combining them in the most mutually reinforcing ways. Business needs to contribute what it does best. Michael Bonsignore, CEO of Honeywell, said, “By getting the business community to step in alongside of government and nonprofits, not to take responsibility away from them, but to bring management methods, communication, prioritization, structure, and discipline to allow them to function more effectively, it ends up a huge win-win.” Businesses have considerable competency in problem analysis and planning. The business leadership coalitions in Pittsburgh and Cleveland added value by carrying out or sponsoring higher quality analysis of priority problems, often in partnership with local research centers. Both of these business leadership groups were also active in planning regional development strategies formulated with broad community participation.

An example of a PPP undertaking illustrates the value creation through collaboration. Honeywell led a coalition to cut the homicide rate in Minneapolis from 40 in the summer of 1996 to 7 the following summer. The *New York Times* even labeled the city “Murderopolis” because its per capita homicide rate exceeded New York’s. The governor had even sent the State’s reserve guard into Minneapolis and asked Honeywell’s CEO Bonsignore to help with a consultant. Bonsignore stated the engagement rationale simply: “Having the dubious distinction of the city with the highest murder rate per capita in the nation is not acceptable to me or any other CEO in the Twin Cities.”

Instead of just paying for a consultant, Honeywell's CEO used his convening power to mobilize a coalition of other businesses, judges, law enforcement officials, community leaders, and nonprofit groups. The objective was simple: have a safer summer in 1997 than 1996 and they focused on immediate problems of guns, gangs, and drugs, with a community prevention approach and then also began tackling the structural problems of jobs, housing, and neighborhood revitalization. The coalition brought groups together that did not know each other, such as different law enforcement units and organizations. The corporations helped achieve greater coordination of efforts through providing management methodology regarding interdepartmental communication, prioritization, and performance measurement to a highly decentralized and fragmented set of public sector institutions.

The coalition's effort (labeled HEALS for Hope, Education, Law & Safety) brought the homicide rate down to 7 and attracted the U.S. Attorney General and Secretary of Labor to the Twin Cities to understand how complex problems can be tackled through cross-sector collaboration. Honeywell Foundation's CEO Patricia Hoven explained, "It's not about money or Honeywell getting credit. It is about leveraging the unbelievable perceived leadership ability to bring multiple groups together and to be a bridge between the public and private sectors. Even if we wanted to extricate ourselves, the Governor, the Police Chief, or the Mayor would not allow that to happen. We are seen as an objective party, as are other business leaders in the coalition. Moreover, the second objective of creating jobs and revitalizing neighborhoods will never happen without private sector CEOs being involved."

As the foregoing examples indicate, PPPs can enable society to create superior solutions to many complex problems than could ever be achieved by the individual sectors separately. The value that is created accrues to each of the collaborators individually and to society collectively. It makes business and social sense to collaborate.

Achieving accountability.

In the more effective collaborations, partners will increasingly have high mutual performance expectations and hold each other accountable for results. If results are not forthcoming, value is not being created. It is very difficult to retain the interest and investment of CEOs' time and resources if perceptible value is not being returned on the investment. For example, the recent demise of Boston's traditional business leadership coalition, known as the "Vault," is traceable to such imprecise accountability and diminishing returns. The Vault's perceived elitist and secretive style meant that it was not answerable to a larger constituency. Other business leadership groups emerged with broader membership and visibility, greater influence, and more relevant agendas, thereby rendering the Vault obsolete. In other cities problems have arisen when limited staff capacity in City Hall has impeded the mayor's ability to follow through on commitments made to the business community. Capability imbalances put partnering performance and promises at risk.

Of all the business leadership coalitions, ACCD has perhaps moved most aggressively in creating an accountability mechanism. In 1993 ACCD commissioned a “White Paper” on economic revitalization by Robert Mehrabian, President of Carnegie Mellon University. This paper triggered a subsequent Regional Economic Revitalization Initiative (RERI), which in turn formed in 1994 the Working Together Consortium. This WTC’s role is to provide accountability, reporting, and renewal of the RERI action agenda. It is a community committee with a representative cross-section of stakeholders from business, education, labor, public and community agencies, and philanthropies. ACCD works closely with WTC and some leaders sit on both boards. In addition to reporting on the community’s progress on carrying out its development agenda, WTC also fosters the creation of other PPPs to implement the agenda.

Keeping the torch lit.

A basic challenge that communities face is how ensure the engagement of the next generation of collaborators. This difficult task has been further complicated by the globalization of businesses, which not only has CEOs on the road more but also multiplies the number of communities companies are interacting with. The headquarters’ community does not have the same preferential call on corporate resources that it had in the past. Mergers and consolidations lead to larger and different companies, which often disrupts long-standing relationships between business leaders and their counterparts in the other sectors. There is increasing scarcity of CEO time. Thus, just as there are growing pressures and expectations for higher business engagement with the community, there are also conflicting constraints on such involvement.

CEO Marilyn Carlson Nelson remarked, “There are trends in business that are undermining our sense of place, and threaten to undo the good so many have done. We have always believed that our future has depended on an even-handed approach to shareholders, customers, employees, suppliers, and the community. Enlightened Shareholder value-like enlightened self interest-will move corporations back to a more responsible, responsive role in the lives of our people and our communities. Our corporations, however global, must not be stateless-homeless. If that happens, our corporate cultures will be soulless and we will fail.”

Some of the cities have created civic leadership development organizations that select upcoming leaders from the business, government, and social sectors and then engage them in a period of learning and interaction, for example, Leadership Cleveland, Leadership Atlanta, and New York’s David Rockefeller Fellows Program. The purposes are to increase their understanding of significant problems facing the communities, to create a network of relationships across the sectors, and to deepen their commitment to community stewardship. Margot Copeland, executive director of Leadership Cleveland, asserts, “The story of Cleveland’s turnaround is how we cultivate the ground for leaders from different points of view to sit down and talk together, listen to each other, share information, and then agree on a common purpose.” Some corporations lend executives to the BLC or to government or nonprofit organizations to provide expertise but also to enrich their professional development.

The growing recognition among corporations of the value to the company of community service programs and cross-sector partnering suggests a fertile environment for developing civic leadership. And even at the MBA level, interest among students in community engagement and social enterprise has never been higher. The opportunity for current business leaders is to send the signals within their companies and to this incoming leadership generation that community engagement is an essential part of the business professional's skill set and integral to the ethic of true business leadership. We may be witnessing the emergence of a new social contract between business and the rest of society through private-public partnerships. These partnerships are rooted in collaboration for the common good, which also produces specific benefits for the collaborators.

THE ATLANTA PROJECT

The importance of participation dynamics is also well illustrated by another business leadership initiative, The Atlanta Project (TAP), which was started in 1991 with the active support of former President Jimmy Carter and the Carter Center. This effort aimed to create partnerships between leading corporations, universities, and specific neighborhoods in metropolitan Atlanta. President Carter's active promotion of TAP generated enthusiastic corporate support, much publicity, and high expectations. By 1996, however, progress had failed to match hopes and only 10 of the 30 initial corporate sponsors continued with their community initiatives. Doug Greenwell, Executive Director of TAP during the 1996-1999 phase explained that the good intentions and projects of the corporate initiators exceeded the absorptive capacity of the neighborhoods: "We believe that for there to be any significant social change in the neighborhood, that the people that live there have to decide what that is going to be, and they have to be the ones who participate in making those changes."

Consequently, phase II of TAP shifted its strategy dramatically toward "building community capacity." In effect, money, corporate skills, good intentions, and positive "can-do attitude" will not work if extended unilaterally without the active engagement of the community to ensure buy in and implementability. The corporations that did continue on in TAP II, such as UPS, Ford, Delta, IBM, Sprint, Georgia Power, Turner Broadcasting, and Sun Trust Bank, developed deeper partnerships focused on problems identified as high priority by the neighborhoods. As Greenwell put it, "TAP made everybody smarter." A CAP member provided his perspective: "Nothing works without a wonderful joined-at-the-hip public/private partnership. All the money available to man is useless if you don't have the elected official support to make it work. You have got to be able to deal with these issues together."

ⁱ For more details, see James E. Austin, "Business Leadership Lessons from the Cleveland Turnaround," *California Management Review*, Vol. 41, No.1, 1998.

ⁱⁱ For an analysis of partnering between businesses and nonprofits see, James E. Austin, *The Collaboration Challenge: How Nonprofits and Businesses Succeed through Strategic Alliances*, Jossey-Bass Publishers, 2000.

ⁱⁱⁱ For positive evidence on financial benefits of social responsibility see Sharon Waddock and Samuel Graves (insert citation)

^{iv} *Boston Business Journal*, 10/20/86