THE NEGOTIATION OF JOINT PURPOSE IN PUBLIC PRIVATE PARTNERSHIPS

Hui J Thia [i] , Donald G. Ross[ii]

[1] Central Queensland University, Sydney Graduate International Campus (h.thia@syd.cqu.edu.au)
[2] Macquarie Graduate School of Management (Donald.ross@mgsm.edu.au)

Abstract

Public private partnerships (PPPs) in project finance involve public and private sectors working together usually in the development of large scale projects. Their involvement represents a form of collaboration within the partnership between two dissimilar organizations with different goals. Therefore a key issue in PPPs is how such partners resolve their differences and strive to achieve mutually beneficial or symbiotic goals. To achieve such symbiosis, these two organizations have to negotiate with a joint purpose. Negotiation of joint purpose has been discussed under collaboration and negotiation theory. This paper sets out to investigate how the negotiation of joint purpose can be extended into the literature of PPPs. It will then proceed to examine the key issues in the negotiation literature that are important in the negotiation of joint purpose in PPPs. The paper concludes with an identification of key research areas in collaboration that could be beneficial to the study and further research of PPPs.

1 INTRODUCTION

Public private partnerships (PPPs) in project finance bring together two dissimilar organizations with distinctly different goals as project sponsors in the development of large-scale infrastructure projects. The proliferation of PPPs around the world reflects the increasing size of the global project finance market which has become important in the field of finance and business. Professional project finance literature is replete with prescriptive advice on how PPP projects should be structured and the merits of using PPP in project finance. However, for the most part, the advice given is lacking in establishing a framework for negotiation to achieve mutually beneficial goals within the partnerships. This does not provide a basis for a more scientific approach to the management of project finance decision making. In particular, the importance of negotiation of joint purpose within PPPs has not been investigated to understand why some PPPs succeed and others fail.

One of the essential aspects to the success of collaboration is the way in which partners in a collaborative group strive to achieve goals that will not only satisfy the partnerships but also their respective organizations (Huxham and

Vangen, 1996). While each of the organizations begin with the best of intentions and goodwill, this does not guarantee success unless these goals are negotiated with a joint purpose at the outset (Huxham, 2001). This joint purpose means that the project sponsors should have a shared vision such that the goals they set will be attainable (Mattessich and Monsey, 1992). Joint purpose also means that these goals in which the relationship plays a key role must also be long term (Kanter, 1994). While negotiation and agreement of goals for partnership between public and private sectors is a complex and painful process (Huxham, 2001), negotiating joint purpose is essential to the setting of mutually beneficial or symbiotic goals. Attaining these goals will also lead to the best possible performance outcome for the partnership.

This paper intends first to investigate how negotiation of joint purpose can be extended into the literature of PPPs. Literature on the negotiation of joint purpose in different organizations working together as collaborative groups (Huxham, 2001) provides the basis for investigating what the public and private sectors need to focus on during negotiation. Secondly, this paper intends to examine the key issues in literature of negotiation in the context of negotiation of joint purpose. The ways in which these key issues are integrated into the literature of PPPs are also examined.

This paper will begin with a discussion on three of the independent variables that must be considered in the partnership between the public and private sectors. This discussion will also include how these three variables influence the negotiation of joint purpose within PPPs. The second section of the paper will then examine four key issues in the literature on negotiation that are important in the negotiation of joint purpose in PPPs. The paper concludes with an identification of key research areas in collaboration that could be beneficial to the study and further research of PPPs.

2 THE INDEPENDENT VARIABLES

Three of the key independent variables that are important in the establishment of the collaboration between the public and private sectors in PPPs are the (1) strategic factors in project finance, (2) public sector goals in PPP projects and (3) private sector goals in PPP projects. These independent variables are posited here to influence the negotiation of joint purpose in PPPs. (See figure 1)

2.1 STRATEGIC FACTORS IN PROJECT FINANCE

Three broad categories of strategic factors in project finance are identified here: project finance risks, project costs and project benefits. The following sections set out each of these strategic factors and how it influences the negotiation of joint purpose in PPP projects.

2.1.1 Project Finance Risks

Yescombe (2002, p 137) simplifies the understanding of project finance risks by classifying the different types of project finance risks into three main categories: commercial risks, macroeconomic risks and political risks. Understanding these risks allows better risk evaluation and subsequently, allocation and sharing. The principle of risk allocation in PPPs has been widely discussed and it is often argued that this should be based on who is best able to control or manage them (Bing et al., 2005a). However, as long as risk allocation attempts to explore how risks are shared as opposed to being transferred, especially by the public sector to the private sector, this would neither divide nor and impede successful collaboration between the two sectors. Increasingly it has been argued that risk sharing (Osborne, 2000) is a better approach in PPPs and aligns PPPs closer to collaborative principles.

The first category of project finance risk is commercial risks. There are several aspects of commercial risks, also commonly refer to as project risks which are inherent in the project and the market in which it operates. Based on Yescombe (2002), the main areas of commercial risk are commercial viability, completion risk, environmental risk, operating risk and revenue risk. Determining whether a project is commercially viable (Allen, 2002, Yescombe, 2002), there is a need for a broad understanding of the nature of the project and the socio-economic-political environment under which the project operates. Whether a project could complete on time would hinge on issues such as site acquisition and access, necessary permits and third party work arrangement. Environmental constraints the project may face during construction or operations could delay the project or disrupt operations. Even after the necessary permits to construct and operate have been obtained, there is still the environmental risk (Yescombe, 2002) relating to changes in the law pertaining to such issues due to new legislation or protest from interest groups. Operating risk (Yescombe, 2002) such as technology, general operation of the project and operating cost overruns affects the long term operation of the projects. The technology used during operation if based on an existing technology could become obsolescent or if new and untried technology could pose problems during operations. Then there is the risk associated with the general operation of the project relating to the maintenance andmanagement. The latter can determine the likelihood of operating cost overruns depending on whether it is within the original cost estimates or change of external events not earlier anticipated. Finally, revenue risk (Yescombe, 2002) relates to whether the project company can earn sufficient revenue to service its operating costs and debt and, to provide adequate return for investors. This revenue risk is linked directly to volume risk and price risk. Even if such risks may be covered by concession agreements, sales contracts and hedging contracts, some level of revenue risk is likely to remain.

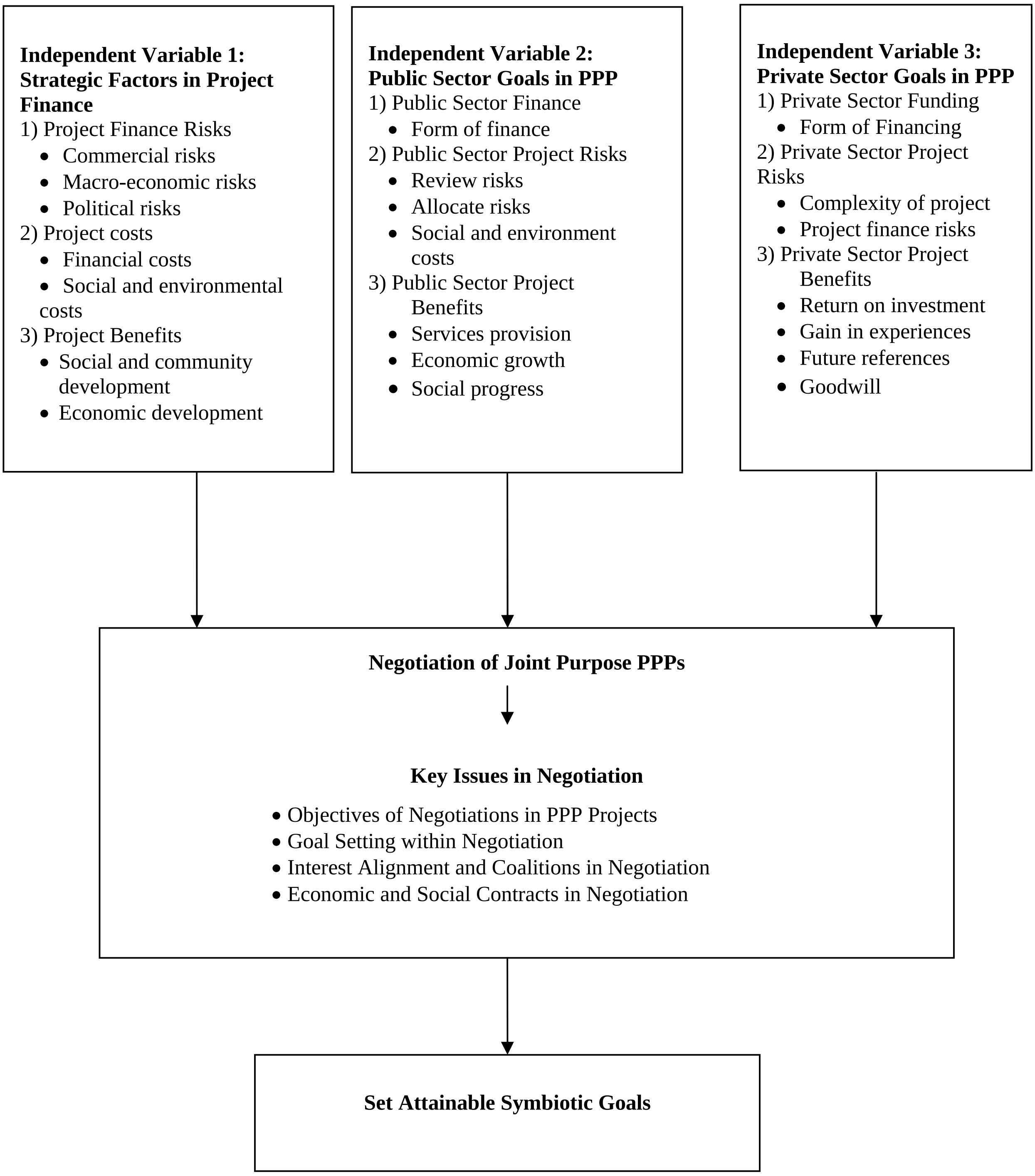

Figure 1: Negotiation of Joint Purpose in PPPs.

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The second category of project finance risk is macroeconomic risks. According to Yescombe (2002), macroeconomic risks, also known as financial risks, relate namely to inflation, interest rate and currency exchange rate movements. These risks do not relate to the project but to the economic environment in which it operates.

The third category of project finance risk is political risks. Political risks generally fall into two main aspects: investment risk and change of law risk (Yescombe, 2002). Investment risk includes risk associated with issues regarding currency convertibility, transfer and exchange, expropriation and also the risk of internal political stability such as civil unrest or terrorist attacks. Change of law risk, on the other hand includes any breach of contract and this usually has a much wider application particularly in developing countries than developed countries. This occurs when there is a need to encompass new social, environmental or political requirements to an industry or the society as a whole. In the case of a breach of contract, it is usually a result of changes to support and concession agreements with the government (Yescombe, 2002).

Project finance risks pose a challenging risk management task for project sponsors. Through his case studies, Esty (2002) illustrates a four-stage process for risk management involving identification, assessment, mitigation and allocation. Having identified and categorized project finance risks, the subsequent stages of the risk management are more critical to the success of PPPs because during these stages project finance risks have a significant influence on the negotiation of joint purpose. Consequently, negotiating with a joint purpose would ensure that these risks are accurately assessed, comprehensively mitigated and appropriately allocated or shared as against self-centred attempts by either party to transfer risks for the sole purpose of fulfilling its own goals. The negotiation of joint purpose would ensure a fairer risk assessment, a greater effort to explore ways to mitigate risk and finally a more objective process in allocating or sharing of the risks. The negotiation of joint purpose would also distribute the risks in a manner so as to ensure symbiotic goals are achieved within the partnership. This negotiation therefore allows the partnership to focus on a key aspect of collaborative advantage that would lead to mutually beneficial outcome.

2.1.2 Project Finance Costs

The second strategic factor in project finance is cost of the project. It is common for large-scale infrastructure projects to cost over $500million. High financial costs deter project sponsors and most of these projects come with high degree of project finance risks. Many project sponsors consider this as fundamental to their project finance decision and hence, a key agenda in negotiation. The financial cost of an infrastructure depends on the size of the project. This is not merely its physical magnitude, but also on the degree of difficulty and the technology to be used in implementing the project.

There are also non financial project finance costs involved; namely the social and environmental costs. Developing large-scale infrastructure projects have far reaching social and environmental impacts on the communities to which it will eventually provide services during and after the construction. The cost on the social and environmental externalities must be evaluated and negotiated to reflect the changing community expectations about the performance and responsibilities of the project sponsors.

Academic and managerial researches in large-scale infrastructure projects have generated great interest because the size of the projects provides the scope to unravel the various complex issues in project finance. Esty (2002) maintained that the importance in research of project finance for such projects goes beyond academic interest. The size of the project means that sponsors have the opportunity and the economic incentive to make careful, value-maximizing decisions due to significantly more money at stake while at the same time, such projects have to fit into the overall goals and strategic direction of the project sponsors.

This factor therefore influences the negotiation of joint purpose in PPPs because both sectors recognize that it is mutually important for them to lower costs under the prevailing risk environment. At the same time, this negotiation of joint purpose will bring about a better understanding why certain risks, and therefore its associated costs, must be accepted.

2.1.3 Project Finance Benefits

The third strategic factor in PPP projects is the project finance benefits. Firstly, project finance allows creative and innovative approaches to the development of large-scale infrastructure projects such as building facilities that service multiple purposes. It also allows the access of skills, experience and technology (Akintoye et al., 2003) that will enhance the economic progress of the community. Development and successful completion of these projects create jobs for the communities, provide a higher living standard, and elevate social and community standards

Since revenue from the projects are on going over several years, the community benefits from the fact that they do not pay a large amount when they use such facilities in the initial years. Also any economies of scale that the project experienced during construction would translate into a lower fee.

An equally important benefit is the economic development that such projects bring about. Since these projects involve a significant amount of debt and equity finance, such development helps to enhance the financial service sectors of the economy resulting in mobilization of skilled work force and even provide incentive for innovations through the use of new technologies.

The benefit of the development of large-scale infrastructure projects is best summed up by Richard Samans, Managing Director of the World Economic Forum's Global Institute for Partnership and Governance (Nelson, 2005) at the World Economic Forum in Geneva :

> Many public-private partnerships are new and untested and some of them are likely to fail. Yet, these partnerships offer an important new approach that has the potential to drive innovation, improve governance, raise living standards and provide opportunity to millions of people. They deserve continued support, engagement and evaluation from business leaders.

The benefits of PPPs in large scale infrastructure projects highlight the importance for negotiating joint purpose so as to resolve contentious issues and set attainable symbiotic goals.

2.2 Public Sector Goals in PPP Projects

The public sector goals in PPP projects can be defined under three main headings: efficiency in public sector finance, sharing of project risks and increasing benefits that the completed project will bring to the public. These goals play a key role in the negotiation of joint purpose in PPP projects.

2.2.1 Public Sector Finance

One of the goals when public sector partakes in PPP projects is to ensure efficient spending of public finance given the limitation in public fund. Whether these projects can be funded as much from revenue sources, or through borrowing from the private sector, or through partnerships with the private sector, the public finance policy is to ensure that these projects achieve value for money in the public interest (Bing et al., 2005b).

It is also argued that PPP approach provides the potential benefits of reducing the overall cost (Akintoye et al., 2003). The participation of private sector facilitates creative and innovative approaches to PPP projects (Akintoye et al., 2003). This allows cost reductions attributable to synergies and economies of scale and therefore would reduce the overall public sector financing in PPPs.

2.2.2 Public Sector Project Risks

When undertaking PPP projects, public sector is exposed to several risks. These include the risks that planned levels of service delivery are not met or delayed, financial loss, fraud, waste or inefficiency. Also there are the risks of opportunities to deliver services in new ways are missed, project cost overrun, undesirable impact to the environment, inflation exceeding the acceptable level, and stability in the exchange rate (Yescombe, 2002, Tinsley, 2000)

Since risk allocation (Bing et al., 2005b) is a primary measure of assignment between the project sponsors in the public and private sectors, the public sector uses PPP arrangements to reduce the level of such risks faced by allocating as much of these risks as it possibly could to a third party. As long as in allocating risks, the general principle that risks should be carried by the party which is best able to control, manage or mitigate those risks (Tinsley, 2000, Esty, 2002, Yescombe, 2002) is adhered to, then an efficient risk allocation framework established in the initial developmental stage would eliminate disputes and disagreements. But increasingly the public sector is faced with the need to accept some level of risk. Risk sharing thus becomes a more acceptable practice in PPPs.

2.2.3 Public Sector Project Benefits

The benefits of large-scale infrastructure projects to the public sector arise from the responsibility the communities placed on them. Musgrave, et al (1989) note that most of these projects are broadly classified as "social goods and services" which are deemed to be the responsibility of the public sector. One of the key goals for the government is to ensure that such projects should be "felt" by the entire community who wants access to them. If left to the private sector, it can result in the social, economic and environmental benefits not "felt" fairly and "enjoyed" by as many members of the communities.

In addition, Thomson and Goodwin (2005) point out that the PPP approach enabled the public sector to accelerate the development of infrastructure projects that would result in economic benefits, and usually with ancillary environmental or social benefits. The primacy for public sector involvement in PPPs is to align such development with its long term strategic economic goals (Phillips et al., 2004) such as business expansion and job creation. It also parlayed the creation of "synergy that helps attract other private sector development" (Phillips et al., 2004).

Another important benefit is the ability to enhance capacity to develop integrated solutions (Akintoye et al., 2003). Conventional approach to projects with broad scope are broken down into smaller components, managed separately and implemented sequentially due to budget limitations. This hinders the opportunity to effectively develop an integrated solution for the betterment of the community.

PPP in developing countries is seen as attractive in terms of its capacity to achieve the transfer of technological knowledge to local enterprises (Bing et al., 2005b). This is achieved by partnering with private sector especially from the more developed countries which has the desired technological expertise.

2.2.4 Public Sector Goals and Negotiation with Joint Purpose

The public sector is governed by the need to achieve their goals in the provision of facilities to the community. However, upholding these goals mean that there must be a greater display of understanding by the public sector to the needs of its partners in PPPs. Therefore, while ensuring as many of their goals are met, negotiating joint purpose would assist to align these goals with the symbiotic goals of PPPs.

2.3 Private Sector Goals in PPP Projects

The private sector goals in PPP projects are similar in form to those of public sector's but different in content. Financing the project is a key issue and therefore the private sector will seek ways within its capability to secure funding at as low cost a cost as possible. Secondly, while accepting a major share of the project risks from the public sector, the private sector will ensure that the public sector has not completely dissociate itself from the risk. The private sector will involve public sector when such risks become insurmountable by them alone. Thirdly, the private sector will strive to achieve other non financial benefits including long term relationships with the public sector and the public community.

2.3.1 Private Sector Funding

In the first instance, the ability of private sector to raise fund through various financial institutions commonly resulted in large source of equity and debt in the money market. Esty (2002) observes that by design, large-scale projects usually employ high leverage because debt is cheaper than equity due to the tax reason. In addition, lenders are willing to accept a lower return for the lower level of risk because the project risk is limited, spread or re-allocated among the various parties, thereby mitigating the overall project risk. How the financial structure is established, through a considered combination of debt and equity, will determine the success or failure of the projects (Nevitt and Fabozzi, 2000).

Secondly, project finance generally allows the project sponsor to keep the debt off the balance sheet. This is seen as beneficial to a company's position in the financial markets because this will not compromise the project sponsors other commercial business.

2.3.2 Private Sector Project Risks

It is often argued that one of the key advantages in PPP projects is that it allows the allocation of specific project risks to those parties best able to manage them (Brealey et al., 1996), and often this would result in the private sector having to bear most of the risks. Usually the public sector provides explicit information about risk allocation to the private sector who consider this as a positive factor in its participation in PPP (Bing et al., 2005b) because the private sector will have full knowledge of the extent of its risk exposure. In making a detailed assessment of the type and level of project finance risks that are being transferred, the private sector, while normally has little option but to accept the risks being allocated, would explore ways to better manage the project to reduce the overall level of risks (Estache and Strong, 2000). Increasingly notion of risk allocation relates to risk sharing rather than risk transfer. The private sector will involve the public sector should the risks borne by the private sector becomes insurmountable.

In addition, there is also the opportunity to reduce project risk by virtue of the working group mechanism because the partnering the public sector is a tangible expression by the public sector of its commitment to the project and its success. The likelihood of reducing the risk of failure and increasing the opportunity of higher performance outcomes depend on the concessions and support given by the public sector as part of the partnership (Estache and Strong, 2000). When the risks could result in failure, the public sector may accommodate requests for additional concessions and support in order the project would succeed, right through and after the construction phase.

2.3.3 Private Sector Project Benefits

There is no doubt that the primacy of the private sector involvement in PPP is for financial benefit. But the level and extent of this benefit will depend on the amount of risk being transfer and the ability to employ its resources most efficiently. In addition, while investors may need to compete for the right to develop the projects initially, but once awarded and successfully completed, they generally do not have to participate in a competitive market (Roseman, 1999, Bing et al., 2005b) for other related projects.

Non-financial benefits also encourage the private sector to form partnership with the public sector (Bennett et al., 2000). Firstly, given that most of these large-scale infrastructure projects require the involvement of specialist contractors, the private sector gets the opportunity to forge alliances with international contractors and investors (Estache and Strong, 2000). Such an alliance will enable the private sector to have access to modern technology associated with the development. If the project is successful, the private sector will be able to showcase the quality of the development and this would reflect well on their ability to manage project finance for large and complex projects. This will markedly improve their credit ratings in the financial markets and enable them to receive favourable approvals for future projects.

Secondly, Estache & Strong (2000) contend that private sector will use this leverage to develop an innovative and proactive dialogue with public sector on matters of common environmental concerns. PPP provides the opportunity for the private sector to align more closely with sustainable development, eco-efficiency and public participation. The goodwill that the private sector develops between itself and the public as a consequence will enhance their rapport with local government and community interest groups. Infrastructure projects generally benefit a large social community. The ability to manage the project with minimum social inconveniences and environmental disturbances will endear them to the public. Private sector likes to project the image of a responsible corporate citizen. The profit that the private sector makes from the project will therefore not be seen as greed to the public.

2.3.4 Private Sector Goals and Negotiation with Joint Purpose

Financial consideration is the major reason private sector participates in PPPs. Therefore, knowing that their participation is motivated by the public sector to allocate as much of the risks as possible and to retain as little of it as possible, the negotiation of joint purpose will have to include risk pricing to better reflect the sector that takes on the greater risk. Consequently, private sector goals influence the negotiation of joint purpose to truly reflect the extent of risk being distributed or allocated to each sector. This will then lead to the setting of attainable symbiotic goals that both sectors are agreeable to.

3 Key Issues in Negotiation

All the three independent variables collectively provide the reasons for the formation of PPPs to undertake large-scale infrastructure projects. These variables also influence the negotiation of joint purpose in PPPs to ensure collaborations function effectively. The essence for collaborations to work is the agreement about the purpose for which they are created (Huxham, 2001) and the approach to negotiation of joint purpose must include key elements in negotiation literature.

PPP negotiations must therefore be framed by negotiation of joint purpose. Finnerty (1996) recognises that PPPs “are governed by negotiated agreements that specify public and private responsibilities, impose public regulation of safety, require quality of service, and often restrict user fees (or profitability)”. When negotiating joint purpose, there is a need to focus on ‘concrete, attainable goals, shared vision, and identifying and appreciating a common sense of purpose’ (Huxham,

2001) to elicit trust between the public and private sectors. It is expected that there will be areas of tension in the partnership but when the partnership focus on joint purpose, it can mitigate these tensions and concentrate on the longer term goals.

Therefore, it is evident that the strategic context of negotiation between governmental entities and private firms is fundamental to partnership viability (Ghere, 2001). Four key issues in negotiation literature are posited to frame negotiation of joint purpose in PPPs: objectives of negotiation in PPP projects, goal setting in negotiation, interest alignment and coalitions in negotiation, and economic and social contracts in negotiation. An examination of each of this key issue provides insight as to why these are important considerations in the negotiation of joint purpose.

3.1 Objectives of Negotiation in PPP Projects

The key objectives in the process of negotiation in PPP projects are to resolve the conflicting goals and contentious issues, solve new problems that arise during the construction and operational phases of the project and help all parties to attain higher performance outcomes. These objectives can only be achieved if the process of negotiation is integrative rather than distributive (Zetik and Stuhlmacher, 2002). Because negotiation is characterized by interdependence between two or more parties who must work with one another to resolve conflicting goals (Thomas, 1992), the process of negotiation can either be distributive or integrative. In a distributive negotiation, resources are fixed and limited. The goals of one party and the attainment of those goals are in direct conflict with the goals of the other party. It has the effect of one party winning and the other losing (Zetik and Stuhlmacher, 2002). Integrative negotiation, on the other hand, can occur when there are opportunities for both parties to win and negotiators seek for options that will reconcile the needs of both parities and produce solutions of high performance benefits (Zetik and Stuhlmacher, 2002). Since distributive negotiators are primarily focused on their individual profits while integrative negotiators are expected to be concerned with successful outcome for both parties, the latter has the potential to focus on negotiation of joint purpose.

3.2 Goal Setting within Negotiation

Studies on public and private sector goals in PPP projects have yet to be adequately assimilated into the general literature discussing how adherence to these goals influence each sector. Also, there is a need to evaluate how these respective goals influence the process negotiation within the partnerships. Before doing so, it is important to reinforce that project sponsors from both public and private sectors participate in PPP projects because they are motivated by their own goals. The mechanism by which goals operate is the basis of goal setting theory. Locke and Latham (2002) state that:

> The focus of goal setting theory is on the core properties of an effective goal. These properties are specificity and difficulty level; goal effects at the individual, group and organization levels; the proper use of learning versus performance goals; mediators of goal effects; the moderators of goal effects; the role of goals as mediators of other incentives; and the effect of goal source.

Therefore a review of the goal setting theory will enhance the understanding of the core properties of public and private sectors goals in PPP projects and how both parties when negotiating with a joint purpose set attainable symbiotic goals. The application of a general framework into investigating the process of negotiation will provide a more complete insight into the project finance decision making for large-scale infrastructure projects. It will also demonstrate how these processes can help achieve greater performance for all parties concerned.

The public and private sectors must understand and respect each other's goals. Bennett, *et al* (1999) contend that strong foundations for PPPs are based on complementary goals and an enabling regulatory and political environment. Partnerships can only work to the extent that the goals of the project sponsors are mutually compatible, understood and accepted by all parties. In addition, Bennett, *et al* (1999) stress that partnerships need legislative, administrative, political and social environments that support this process, encouraging the development of those partnerships and thus assisting them to achieve their objectives.

Many critics (e.g. Ghere, 2001, Bennett et al., 1999) maintain on one hand that the public sector is resistant to the profit motive prevalent in the private sector, while on the other hand the private sector companies tend to dismiss the more administrative decision-making process used by the public sector that bogs down the process of negotiation. It is this fundamental distrust that has caused many project failures.

To achieve a successful working partnership, each sector must resolve not only what are too often perceived as conflicting goals but instead focus on broader complementary goals. Within the frame of project finance decision making, these dual processes of goal setting and negotiation play a key role in setting attainable symbiotic goals. This will attempt to bring into harmony the goals of the project sponsors and to address wider issues so as to enable both parties to achieve their aspirations and maximise their outcomes.

Although the concept of goal setting has been discussed within the context of negotiation, Zetik and Stuhlmacher (2002) note that the complexity of goal setting theory has yet to be thoroughly tested so as to fully integrate the unique characteristics of negotiation.

Comprehensive reviews of research on goal setting (Locke and Latham, 1990, Tubbs and Steven, 1991) provide compelling evidence of the effectiveness of goals to increase performance. Firstly, goal setting theory has empirically shown that negotiators with distinct goals consistently achieve higher outcome than negotiators with low or no goals (Latham and Locke, 1979). Zetik and Stuhlmacher's (2002) study gave further credence to this hypothesis that has received strong empirical support in goal setting theory. They observe that the relationship between goals and negotiation performance is moderated by symmetry of opponents' goals and level of interaction between opponents. When there are asymmetrical goals, competition can be dysfunctional in terms of performance (Campbell and Furrer, 1995). Nonetheless, where both parties have asymmetrical goals, the process of negotiation seeks to establish and align as many goals as possible. Higher goal symmetry will encourage more successful joint outcomes because negotiators are more motivated to search for mutually agreeable symbiotic goals that lead to higher performance.

Secondly, the more difficult the goal, the higher is the level of performance (Knight et al., 2001, Locke and Latham, 1990). In their study, they found that difficult goals consistently motivated teams to choose strategies with higher levels of risk, which in turn lead to better performance. However, Knight, *et al* (2001) acknowledge that higher strategic risk may not always lead to better performance because risk also implies a greater chance of failure. Implementation quality, the fit of the strategy with the environmental context and the uncontrollable external influences can also affect performances. Knight, *et al* (2001) conclude that negotiation success depends heavily on the strategies negotiators use to navigate the relationship of goals, incentives and efficacy to strategic risk, tactical implementation and performance.

Notwithstanding this, research has generally found that the level of goal difficulty has a significantly positive impact on goal performance (Zetik and Stuhlmacher, 2002). This is to be expected because effort and persistence are linearly related to goal difficulty (Polzer and Neale, 1995). Therefore, difficult goals and incentives increased commitments to achieve higher performance. Case study research has been undertaken to show that difficult goals often led to teams taking higher strategic risks and tactical implementation processes that best fit the environment. This invariably leads to successful higher performance. Failure is mainly due to the quality of implementation processes and uncontrollable external factors.

Thirdly, research in goal setting theory generally supports the view that specific, challenging goals, when considered independently, produce less variance in performance as compared to vague or "do-your-best" goals (Locke and Latham, 1990, Northcraft et al., 1994). In a variety of contexts, there is strong empirical evidence for this. Huber and Neale

(1987) evidence that in an integrative bargaining task, negotiators who were assigned difficult and specific goals performed better than negotiators who were assigned easier or non-specific goals. Also, Polzer and Neale (1995) identify the integrative effects of goal setting and negotiation when they state:

> The effects of goal setting on negotiator performance in bargaining task have been found to be consistent with results in outer contexts. In a negotiation, externally determined, specific, challenging goals set prior to negotiation have been shown to produce higher performance at both the individual and dyadic levels when compared to negotiators given easy or non-specific goals. This effect occurred primarily because negotiators with specific, challenging goals were more likely to search for and find integrative solutions, in which outcomes on issues of lesser value were exchanged for outcomes on issues of greater value.

However, Polzer and Neale (1995) expand on this theory showing that negotiators with specific, challenging goals alone who failed to appropriately incorporate new information, presented during negotiations, do not achieve higher performance, and may even achieve poorer outcomes than negotiators with "do-your-best" goals. The process of negotiation in PPP projects usually span over several years from pre-construction to construction and into post-construction periods. It is imperative that project sponsors from the public and private sectors constantly revise specific goals to an appropriately challenging level when presented with new information that will lead to greater efficiency or better resource acquisition. When doing this they are more likely to achieve the potential benefits of truly specific, challenging goals that are mutually beneficial.

3.3 Interest Alignment and Coalitions in Negotiation

The third key component in negotiation of PPP projects is interest alignment and coalitions during the process of negotiation among the project sponsors. In multiparty negotiations such as the case of PPPs, both the public and private sectors are faced with the need to cooperating enough to reach mutually acceptable agreements while simultaneously competing enough to satisfy individual interests. These interests may align with the other party's interests in several ways that can be either distributive or integrative, either discordant or compatible (Polzer et al., 1998). Multiparty negotiations are complex social interactions because of both the multiple sets of preferences that must be considered in formulating agreements and the interpersonal dynamics that become increasingly complicated as more people interact (Neale and Bazerman, 1985). An especially important source of complexity in multiparty negotiations is the inherent potential for coalition membership to influence the negotiated outcomes (Polzer et al., 1998). The public and private sectors, each with disparate goals, therefore would seek to align their interest and establish collaboration in order to achieve high performance outcome based on the symbiotic goals.

3.4 Economic and Social Contracts in Negotiation

The fourth component in negotiation of PPP projects is to review the process of negotiation involving the working out of the terms of economic contract as well as those of the social contract. Economic contract will explicitly record agreements in a partnership that avoid legal suits at a later stage. Social contract has to be openly discussed and negotiated so as to eliminate the different assumptions and expectations that are not communicated explicitly. Negotiating the spirit of the deal, or the so called social contract (Fortgang et al., 2002) focus on expectations and provide insights on how what is not legally mentioned or discussed but implicit in the deal are being incorporated into the economic contract.

Often, the social contract or the “spirit of the deal” is not explicitly mentioned or discussed but implicit in the deal. Each party makes different assumptions and has different expectations that are not communicated explicitly. Even where the economics of a contract are compelling, there may not essentially be a meeting of the minds among all parties. This results in the social contract getting the short shrift. Unforeseen clashes between economic and social contracts may push the negotiating parties apart. It is critical that during negotiation, the economic and social contracts are independently strong and reinforce each other (Fitzgerald, 1996, Fortgang et al., 2002). The importance of both the economic and social contracts between public and private sectors are imperative to the success of the partnership.

Fortgang, et al (2002) further expanded the concept of social contract by classifying it into underlying or ongoing social contracts. Firstly, the underlying social contract involves the fundamental expectations of the parties about the real nature, extent, and duration of the agreement. In the context of PPP, the respective sponsors must use the process of negotiation to forge a real partnership instead of a series of discrete transactions.

Ongoing social contract on the other hand, involves process expectations for the working relationship and trust, norms of communications, consultation and decision-making. It deals with how unforeseen events will be handled, the conditions and means for any renegotiation. PPP projects are often faced with changing external factors and as such, both the public and private sectors must revise the symbiotic goals in order that the project can be successfully completed. When the economic contract cannot readily be changed to accommodate revision of the goals, ongoing social contract serves as an important understanding of what eventually can be captured within the economic contract.

3.5 Implications of Issues in Negotiation when Negotiating Joint Purpose

To make collaboration works, it depends on the agreement about the purpose for which they are created (Huxham, 2001). There ought to be a common sense of purpose (Gray, 1985) and this purpose must be very clear (Mattessich and

Monsey, 1992). In this regard, the success of PPPs is no different from the success of any other forms of collaborations. While focusing on the key issues in negotiation, both sectors must constantly remind themselves the need to negotiating joint purpose with the objective of attaining symbiotic goals.

The first two key issues in negotiation, that of knowing the objectives of negotiation and setting goals within the negotiation process, reinforce that negotiation of joint purpose has a significant influence on the outcome of symbiotic goals. To minimize the risk of a debilitating "we-they" split, the public and private sectors should discuss how decisions can be made when inevitable differences emerge. Both sectors must keep in mind that negotiation of joint purpose would need to maintain an integrative process of negotiation and not distributive. Negotiation of joint purpose would also need both sectors to continually redefine goals so that the final goals would be mutually beneficially to all.

Secondly agreement of goals for collaboration in public and private sectors is a painful process and there are areas of tension inherent in its constitution (Huxham, 2001). When areas of difficulty are experienced during negotiation, the partnership will have more success if the negotiation of joint purpose seeks for interest alignment and coalitions within the two organizations. Any attempts by each of the sector to highlight its importance or power will defeat the objective to which the setting up of the partnership is intended for.

Finally, negotiating joint purpose cannot ignore aspects of social contract. It would be erroneous to take the social contract, *prima facie,* as unwritten and purely subjective as opposed to the an economic contract which is written and objective. Negotiation of joint purpose must properly dovetailed all aspects of the social contract, both underlying and ongoing, so that these are embodied in mutually reinforcing economic agreements (Fitzgerald, 1996, Fortgang et al., 2002) and help the partnership to set symbiotic goals. Negotiation of joint purpose influences several aspects of social contract such that conscious efforts to shape the social contract, discussing what and how the parties expect to communicate over a period of time can help stave off later problems. Straightforward practices such as creating shared operating principles that govern confidentiality, information exchange, the creation and use of intellectual property, and dispute resolution system can build needed trust and stability (Fortgang et al., 2002). This gives the partnership the proper launch.

4 Conclusion

The negotiation of joint purpose plays a critical role in the collaboration of PPP project sponsors. Little or no research has been undertaken to investigate this process in either project finance or PPP projects and how it helps project sponsors to set attainable symbiotic goals. Negotiation of joint purpose has been discussed in collaboration theory and this paper is a first step to integrate this aspect of collaboration theory into PPPs. The discussion highlights the importance of negotiation of joint purpose in PPPs, showing how strategic factors in project finance influence the negotiation of joint purpose. Secondly it also discusses how negotiation of joint purpose in turn influences key issues in negotiation in PPPs.

Given that collaboration theory encompasses issues beyond negotiation of joint purpose, studies on PPPs can expand into other aspects of collaboration theory, especially those of collaborative advantages. This paper serves as a call for more work to expand research on PPPs to include extant literature on collaborative advantages such as managing trust, power and membership structures. Research into these areas can further enhance incremental understanding into the successes or failures of PPPs.

Pursuing research in these areas will enable the development of new, richer descriptions of the factors impacting PPP project negotiations. Ideally, these descriptions will be developed both longitudinally within project negotiations and across PPP projects of differing scope and complexity to more fully uncover the key themes surrounding PPP project negotiations.

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