Stakeholder Considerations in Public-Private Partnerships

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Abstract:

**Purpose:** The purpose of this paper is to explore how an understanding of the alignment of goals of customers, employees and investors can aid in the partner selection process.

**Approach:** The design uses secondary data focused on customers, employees and investors' goals and their alignment with sustainable development goals (SDGs). Consumer behaviour data on issues related to SDGs, research on employee's work motivation, and the goals of investors, both institutional and individual, are investigated.

**Findings:** To develop effective public-private partnerships (PPP), the goals and behaviours of both parties must be recognised, considered and addressed. The goals and priorities of these entities are not always well aligned with SDG goals. In selecting partners, non-government organisations (NGOs) will benefit from recognising the differing goals of stakeholders and common ground for actions.

**Originality/value:** The paper addresses some issues seldom addressed in SDG public-private partnership writing.

**Practical and Social Implications:** While PPPs have the potential be successful, to achieve significant gains in advancing the SDG agenda, there must be “buy-in” from relevant stakeholders associated with the partnerships.

**Keywords:** Sustainable Development Goals, Public-private partnerships, Consumer priorities, Employee goals, Investor desires
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To achieve the very ambitious and necessary 17 sustainable development goals (SDG) formulated by the UN, the use of public-private partnerships has been encouraged. This is an acknowledgment not only of the importance of collaboration among a multitude of stakeholders, but also of the complexity and far reach of these goals. Among the 17 goals, many of which are very specific, it is the last one that broadly aims to create an umbrella under which various forms of collaboration can occur:

SDG 17: Strengthen the means of implementation and revitalise the global partnership for sustainable development (UN, 2015).

Scholarly, technical, and trade literature on public-private partnerships (PPP) is vast and dates back decades. Many models of PPPs have emerged, depending on the object of the partnerships. These types of alliances can be used to generate value (Austin, 2000), build infrastructure (Rocca, 2017), or reduce the effects of natural disasters (Auzzir et al., 2014). With regards to the SDGs, there is precedent for developing PPPs in connection with firms' corporate social responsibility (Twigg, 2001). Dahan et al. (2010) suggest that complementary social and economic value can be created. For example, corporations may wish to obtain social legitimacy in markets where foreign multinationals are often viewed with suspicion and scepticism.

Despite these important advances in our understanding of the role of PPPs, we know far less about how these collaborations are to be selected and executed for maximum impact (Austin, 2000). This space presents us with an important opportunity to ask, how can NGOs improve the execution of PPPs by optimizing the selection process of partners? We answer this question by proposing a model that assists NGOs working on fulfilling the SDG agenda in improving the likelihood of success by selecting partners that are more likely to align with the SDGs.

Public-Private Partnerships – The Domain

At a time when no organisation can succeed on its own, when businesses are expected to act in more socially responsible ways, and when NGOs are expected to behave more like businesses, partnerships across divides have gained in importance and attention from business and non-profit leaders. These divides are defined in terms of dominant logics that drive the values, missions, and strategies of very distinct organisations. Companies in most industries have benefited from partnerships with NGOs, who bring expertise in social or environmental causes. Whether it is well publicised efforts by the TOMS\(^1\) company and their

one for one work in South America, or Gap’s P.A.C.E.² programme, these initiatives benefit greatly from their NGO partners who carry out the social work. Currently, few Fortune 500 companies lack an NGO partnership that advances some socio-environmental cause.

One of the areas where public-private partnerships are found to be beneficial is in infrastructure work. While a Syracuse University study found significant benefits of PPPs for infrastructure projects, a McKinsey & Company article (Rocca, 2017) described the reluctance of US elected officials to engage with private investors, citing eight areas of concern. The areas of concern were:

- unclear responsibilities;
- poor alignment with strategy;
- inefficient optimisation of project features;
- lack of discipline in execution;
- lack of an ownership mind-set in the delivery team;
- poor project controls;
- low initial cost mind-set;
- poor resource optimisation.

It will be noted that while all eight areas of concern in infrastructure PPPs involve strategy and/or execution, none relate to the influence of consumers, employees or investors, the major stakeholders of private organisations.

The McKinsey study recognises that PPPs are not appropriate for every project; in many cases the challenges can be solved, as has been found in a growing number of successful public-private ventures from around the world. For example the McKinsey report found that published studies from Europe suggest that life cycle costs can be reduced by up to 20% compared to traditional approaches. Other studies from Australia and Canada also indicate successful track records for PPPs. The successful PPPs mentioned are not directly related to the SDGs.

When multinational enterprises (MNEs) desire to enter developing countries, many turn to NGOs to help them overcome a variety of challenges, from culture and economics to regulations and distribution channels. Dahan et al. (2010) cite many ways in which NGOs can help MNEs complete business models. They identify four strategic imperatives for the success of these PPPs:

- innovative combinations of firm and NGO resources and skills;
- the importance of trust building;
- the fit between the two organisations’ goals;
- supporting and understanding of the local business infrastructure and environment.

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² Personal Advancement and Career Enhancement, a programme aimed at girls in various countries around the world – https://www.bewhatspossible.com/pace.
Rocca (2017) cites a major PPP success in the USA with the George Dukmejian Courthouse building in Long Beach, California. This infrastructure project was the largest availability payment-based social infrastructure project in US history. The building, which opened in 2014, was completed on time and within budget. Other success stories in the US are the I-595 reversible managed lanes in Broward County Florida and the I-495 lanes in Virginia.

The joint effort of Cemex, Mexico’s largest integrated building solutions company, and Patrimonio Hoy, a self-financing non-profit programme, developed a new offering for Mexico’s self-construction housing market. This PPP reduced self-construction time by 60% and costs by 35%. By 2008, more than 200,000 Mexican families had benefited from their efforts (Dahan et al., 2010).

These stories show that PPPs can be successful, especially for accomplishing projects related to the SDGs. However, NGOs need to recognise the role and impact of stakeholders in approaching and selecting private partners to accomplish SDGs.

**Stakeholder Potential to Influence Firm Commitment to SDGs**

Stakeholder theorists view the firm as a field that integrates networks of resources, market forces, and socio-political actors. The theory is a necessary perspective on organizational motives and pressures and allows the addition of ethical considerations to understanding business decision making processes. In their seminal works outlining the fundamentals of stakeholder theory, Ian Mitroff (1983) and Edward Freeman (1984) separately defined internal and external stakeholders according to the type of impact they may have on a firm. According to these frameworks, organizations should pay attention, internally, to employees, managers, and owners, and externally, to customers, shareholders, creditors, government, civil society, and suppliers.

In recent developments, scholars have debated the importance of this view to organizations, by looking at processes of stakeholders identification, and processes of defining stakeholder salience (Laplume, Sonpar, & Litz, 2008; Miles, 2012; Mitchell, Agle, & Wood, 1997). This is a necessary distinction, since firms rarely respond to pressures from all groups simultaneously. Therefore, firms develop an awareness of stakeholder needs, desires, and ability to act on behalf of or against their interests.

Stakeholder salience is the conceptual foundation of the following discussion on stakeholder groups deemed most important to the selection process of public-private partnerships. First, when it comes to selecting private industry partners for implementing SDG initiatives, not all stakeholder are as interested, involved or able to act. These three conditions are essential in
understanding organizational motives to develop SDG-compatible visions, not just responses to pressures, such as regulatory developments. Second, public sector organizations will find that information about some stakeholders is more readily available than about others. This is a practical matter that should not be overlooked by decision makers looking to expedite the due diligence around partner selection, while maintaining the analytical integrity of the process. Based on these factors, we propose that the most salient stakeholders with interest, involvement, and ability to influence organizations’ SDG visions are customers, investors, and employees.

Customers

The importance of customers cannot be underestimated. Unless customers respond positively to firms’ offerings, there will be no revenue – the lifeblood of business firms. The benefits of the goods and service must be communicated to the right customers and at the right price. How customers think and feel about the firm itself, and the social causes it may support, will influence their purchase behaviour. The customers whose views are consistent with the causes supported by the firm will likely be pleased to do business with the firm, and may even use social media to advocate for the firm’s support. On the other hand, if consumers do not support – or are even strongly opposed to a cause – they may go to the extreme of boycotting the firm. This has happened in the US to firms that supported controversial causes (for recent examples, see the #grabyourwallet campaigns).

Firms that have substantial numbers of socially conscious consumers, those who care about the issues associated with environmental, social and economic goals, would likely be more open to engaging in PPPs that focused on these issues. A Nielsen survey (2012) found that approximately two-thirds of consumers around the world said they would prefer to buy products from firms that give back to society. From a list of 18 causes, environmental sustainability was the most frequently cited as a cause companies should support. Other causes, many of which are related to the UN’s SDGs, were also seen as worthy of company support, but by fewer respondents (Steinberg, 2012).

Not all consumers are concerned about social or environmental issues. A Harris survey conducted in 2012 found that only about 34% of US adults said they are concerned about the planet we are leaving behind for future generations. This was a decrease of almost 10% from when the question was asked 2009. The survey also found declines in some “green” behaviours, such as purchasing all natural products or purchasing organic products. There was even a decline in the percentage of respondents who said they make an effort to use less water. In contrast, a Harris poll conducted in 2016 found most Americans care at least
somewhat about the environment: only 7% said they did not care at all. While encouraging, the poll found a disconnect between what respondents said and what they did. Just 35% of the respondents supported environmental efforts by donating, advocating, participating in an event or volunteering (Salomon, 2016).

Just as consumers may have different levels of support for various causes, the “green consumers” also differ in their level of commitment. Banikarim’s (2010) research identified five different green segments, from the most deeply committed Alpha Ecos to the most cost conscious, Economically Ecos. The largest segment, Eco-Chics buy a few green products – but may buy conspicuous green products. Two of the segments, Alpha Ecos and Eco-Centrics, are willing to pay more for eco-friendly products. Identifying their customers' priorities is a key issue for many firms in their willingness to support and partner with NGOs in the advancement of SDG goals. A challenge for NGOs is to identify organisations whose customers' priorities include the causes they desire to pursue.

Investors

Firms engaging in sustainable, responsible and impact investing (SRI) take into account environmental, social, and corporate governance (ESG) issues as they seek to create positive sustainable development outcomes together with above average financial returns. At the end of 2015, more than one out of every five dollars invested through professionally managed funds in the US was invested using SRI fundamentals, amounting to nearly US$9 trillion (US SIF, 2016).

The rising interest of investors in sustainability can be looked at from two primary perspectives: risk mitigation and return on investment. While not mutually exclusive, these two represent distinct logics and perspectives on business opportunities or threats. While the former logic focuses on risk profiling based on the potential for environmental and reputation hazards, the latter seeks to build a green investment portfolio with the expectation of superior financial performance. A growing body of scholarly research suggests a predictable link between ESG criteria and financial performance, as firms embed a long-term view in their strategies for growth. In a review of over 2,000 empirical studies dating back to the 1970s, Friede et al. (2015) show strong support for the relationship between ESG strategies and positive financial performance.

Asset management firms, such as UBS, now sell sustainable investment products that advertise “doing well by doing good,” and showcase the UN’s SDGs as the foundational principles for investments in addition to financial fundamentals. In addition, they also claim that PPPs are the working mechanism for implementing these goals, while at the same time
achieving strong shareholder returns. A recent clipping from UBS’ informational materials reads:

“The United Nations has 17 sustainable development goals that aim to end poverty, protect the planet, and bring prosperity to all by 2030. These can only be achieved using private capital as well as public investments. So, at the 2017 World Economic Forum, we pledged to direct $5bn of our clients’ investments over the next five years to sustainable or impact investments. In fact, all of our businesses are engaged in initiatives to help meet the UN’s goals, and our clients’ investment needs. This year, for the third year running, we were confirmed as the industry group leader for diversified financials in the Dow Jones Sustainability Index.”

“We’ve partnered with visionaries who’ve developed innovative ways to meet the UN’s SDGs, while also generating financial returns for their investors.” (UBS, 2017)

The anecdotal evidence presented above suggests that investments connected with SDGs are moving into the mainstream and provide avenues for growth. Sandberg et al. (2009) note that the mainstreaming of SRI is more heterogeneous than conventional investments, due to cultural and ideological variation among regions, stakeholder values, and financial markets. This would indicate a lower institutionalisation of the SRI markets, and would suggest that these types of investment instruments linked with SDGs can benefit from consistent innovation.

At the same time, Busch et al. (2016) caution that SR investors may have a modest role in facilitating increased sustainable business practices in firms. While they acknowledge that financial market participants have been integrating ESG benchmarks in their financial positions, organisational stakeholders have been slow to shift towards more sustainable practices. The key to improving this relationship is linking investments to a long-term orientation, while at the same time pushing for more transparency in ESG data.

To conclude this section, it should be noted that investors have an important role in influencing the agenda of firms as they move towards more sustainable business practices. As shown, the market for sustainable investments connected with SDGs has grown to a sizeable proportion of the economy. Nevertheless, in certain cases, awareness of ESG criteria does not tightly connect to more sustainable organisations. In other words, where investors hold a significant amount of power over investment targets, there are certain limitations inhibiting their influence on strategy.

Employees

Why employees work?:

According to several sources (Heathfield, 2017; Ruyan, 2010; Schwartz, 2015) the most basic reason people work is for money. Whether it be compensation, salary, bonuses, benefits or remuneration, money pays the bills. However, given the choice of where to work, people will
consider non-monetary factors. These are the factors that influence their satisfaction level with their jobs.

In the 1920s, Lewin (1935) found that employees want to have a say; they will support what they help create. As explained by Sashkin (1984), participation may take several different forms:

“First, employees may participate in setting goals. Second, they may participate in making decisions, choosing from among alternative courses of action. Third, employees may participate in solving problems-a process that includes the definition of issues and the generation of alternative courses of action as well as choice among the alternatives. Finally, participation may involve making changes in the organization (that is, “organization development” (OD) activities)” (Sashkin, 1984).

Douglas McGregor’s (1957) idea was that some employees are self-motivated, while others are not. Theory X assumed employees were not self-motivated, while Theory Y assumed they were self-motivating. He postulated that different types of employees would respond best under different approaches to leadership. The notion that employees want to be respected, and desire to contribute, is consistent with Lewin’s (1935) concept of employee participation.

More recently, Schwartz (2015) reports the top five non-monetary reasons people go to work each day:

1. to lose one’s self in one’s work (engaging);
2. challenges them, forces them to grow;
3. feel they are in charge (autonomy and discretion);
4. social engagement and interaction;
5. finally, what they do is meaningful - their work makes a difference in the world.

The earlier research leads to the conclusion that an organisation’s employees are likely to be supportive of the formation of PPPs, if they participate in some aspect of the partnership. This may include goals, as well as more operational decisions.

*Generational effects:*

Within the US there are shifts in work values among the generations. Twenge *et al.* (2010) found the largest change in work values to be an increase in the value placed on leisure. The incoming workforce (GenMe) places a higher value on leisure than either Gen X or Boomers. GenMe was also found to place more value on extrinsic rewards - wanting more money and status. Their research also found that there were no significant generational differences in altruistic values. US GenMe is no more likely than older generations to value work that helps others or is worthwhile to society. Younger generations were not found to place a higher value on meaningful work than previous generations.
Twenge et al. (2010) further state that:

“Generational differences in work values can also affect the perceived fit of employees with the organization. Organizational climates [and goals] often reflect the values and goals of founding members or organizational leaders. If entering employees hold values that are different from those of the leaders of the company, GenMe employees may experience person-organization misfit, which could yield more negative attitudes toward work, decreased performance, and greater likelihood of turnover.” (Twenge et al., 2010)

Challenges to organisations:

The role of employees in carrying out their organisation’s sustainability goals is undeniable. In a recent study, Le Blanc et al. (2017) propose that sustainable innovation can be achieved through job redesign, where employees have the ability to craft their jobs to embed sustainable development roles. The authors show how top-down job redesign interventions can often be ineffective. They offer a model that recognised bottom-up redesign strategies that help achieve the broader organisational goals, while at the same time gaining and maintaining the employees’ motivation towards fulfilling these objectives.

Employee perceptions and engagement is emphasised in various studies that explore functional contexts within the organisation, be they information systems (Yang et al., 2017), marketing and branding (Biedenbach and Manzhynski, 2016), or entrepreneurship (Markman et al., 2016). In each of these studies, the role of the employees in implementing ESG strategies is emphasised. The authors also caution that employee buy-in and incentives play an important role towards the development of SDG goals. Where PPPs can be interpreted as adding to the employees’ job role, prior engagement can moderate that perception.

Discussion

The aim of this paper is to strengthen the means of implementation and revitalisation of global partnerships for sustainable development (SDG 17). We focus on the selection process used by NGOs looking to partner with business firms as a mode of improving the likelihood of success of PPPs. The core argument offered is that NGOs can improve the likelihood of success of these partnerships if they understand the customers, investors and employees of the target firm, and the dynamics between these stakeholders and the firm. This argument is illustrated in Figure 1, which describes the dynamic relationships between selected stakeholders, the firm, and the NGO.
The restrained stakeholder model focuses on the proximity of stakeholders with an ability to influence tactical and strategic decisions on a short- and long-term basis. The model has potential for success because it offers NGO leaders a way of learning about the overlap in values without the common pitfalls that such negotiations entail. Researching these stakeholders can be a more cost- and time-effective way of learning about the range of shared values between the NGO and the firm. Shared values have been shown to be the primary predictor of alliance success, whether in for-profit or non-profit contexts (Austin, 2000).

Our overview of the three stakeholder groups indicates that there are both opportunities and challenges in terms of the level of influence any of these stakeholders can have on the company acting alone. For instance, some customers may have interest in social or environmental causes and even engage in advocacy; however, many other customers may continue to patronise the company despite unsustainable behaviour. Similarly, investors may have internalised sustainable development values; however, taking an investment position in a firm does not guarantee their ability to change the strategy of the firm. Finally, employees have been shown to be motivated by more than financial compensation, and many see their role expanding to include activities that improve the sustainability of the organisation. However, many variables can either enhance or reduce the chances that employees can influence their company and engage effectively in these initiatives.

NGOs seeking partnerships with business firms would be well advised to look for a shared sustainability agenda among these three stakeholder groups. Whether tacit or explicit, having more than one stakeholder align along certain sustainability goals is likely to increase the influence on the firm in those areas. For example, customers and employees (who are often
also customers) aligning in their interest for transparency and governance are more likely to push the firm to develop strategic initiatives that improve their performance in those regards than if isolated stakeholder groups acted independently. Also, if investors coincided with customers in their push towards stronger pollution prevention practices, the firm would be obligated to take notice and respond. Observing stakeholders interest would allow NGOs to predict the interactive effects of these dynamics as well as firm reactions.

Another dynamic observable at the stakeholder level is the extent to which any of the three core stakeholders are closer and/or louder to the firm. Whether through company statements or corporate responses to various issues, NGOs can sense if customers, investors, or employees receive more importance or have a stronger voice. We argue that the importance of an issue increases the closer the stakeholder group is to the company, at any given moment in time. This would lead the firm to push these issues to the top of its agenda, above other issues. This variable would moderate the relationship expressed previously regarding the potential for multiple stakeholders to explicitly or implicitly coincide on any issue and influence a firm’s strategic agenda. Conversely, issues are likely to decrease in overall importance if the firm has the ability to mute one or more stakeholder groups.

**Conclusion**

This paper contributes to the literature on PPPs for sustainable development by offering a model of partner selection that reduces the typical risks of alliance formation; it does this by improving the likelihood that partnerships will share relevant values towards achieving desired goals. We explain the opportunities and challenges offered by a keen examination of a restrained stakeholder view of the firm. We also explain the relational challenges of partner selection together with the interactive effects of these variables.

Practitioners seeking improved partnerships with business firms should revel in the knowledge that a selection process based on a solid understanding of key stakeholders of these firms can offer the necessary information to target partners that are more likely to succeed in implementing strategies geared towards these goals.
References:


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Biographies:

Beverlee B. Anderson received her PhD from Ohio State University. She currently serves as Professor Emerita at California State University San Marcos. She has held a variety of teaching and administrative positions at the University of Kansas, University of Cincinnati, Wright State University, and University of Wisconsin - Parkside. Her research focuses on cross-cultural and international topics, and has been published in numerous academic journals; she has been an invited speaker in professional venues. She is past president of the Marketing Educators Association, and served as a member of the Board of Directors for San Diego Financial Executives International, the Marketing Management Association, and the Academy of Marketing Science, among others.

Catalin Ratiu received his PhD from Concordia University in Montreal, Canada. He currently serves as Associate Professor of Strategic Management at California State University San Marcos. His research examines corporate strategies in the social, natural, and global environments, with specific focus on the intersection of sustainability and international strategies. Catalin is an award winning scholar, having published over 20 papers in scholarly outlets, including the Academy of Management Review, Critical Perspectives on International Business, and World Journal of Science, Technology and Sustainable Development.