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Public–private joint ventures in the healthcare sector: enlarging the shadow of the future through social and economic incentives

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Abstract

Purpose – Public–private joint ventures (PPJVs) have a stronger partnership element than standard public–private partnerships (PPPs) but PPJVs are under-researched despite this important partnership element. This article derives knowledge of incentives and barriers to goal alignment in healthcare PPJVs.

Design/methodology/approach – An in-depth case study of the UK's Local Improvement Finance Trust (LIFT) model including three PPJVs and 34 individual projects was conducted.

Findings – The main economic incentives are future opportunities creating a strong shadow of the future. This is supplemented by social incentives such as the ability to have a social impact. Enlarging the shadow of the future can encourage both parties to think long-term, avoiding short-term opportunism.

Practical implications – PPJV is a promising model for partnership. However, complexity through fragmented public sector partners and the financial structure can create barriers for goal alignment.

Originality/value – This study challenges earlier research studies based on PPJV by providing evidence that the long-term nature of PPJV, especially the potential of new projects, enables the public sector to get more engagement from the private sector.

Keywords Public–private partnership (PPP), Joint venture, Incentives, Trust, PPP projects

Paper type Research paper

1. Introduction

Public–private partnerships (PPPs) are a "(. . .) cooperation between public and private actors with a durable character in which actors develop mutual products and/or services and in which risk, costs, and benefits are shared" (Klijn and Teisman, 2003, p. 137). In PPP, the public sector aims for social goals, whereas the private sector pursues profit and business expansion (Zou *et al.*, 2014). This goal conflict often hinders a successful outcome (Bloomfield, 2006) and it is a key challenge for PPPs.

Many PPPs have been criticised as being purely contractual with a focus on transferring risks instead of sharing it (Teisman and Klijn, 2002). More integrative forms of PPPs suggesting a stronger partnership element, such as the public–private joint venture (PPJV), remain as an under-researched subject (Andrews *et al.*, 2015; Shaoul *et al.*, 2013). This is surprising since the institutionalised nature of a joint venture company could yield valuable insights into the possibility of public–private synergies and goal alignment. Research has shown the importance of early involvement of both parties in developing goal alignment (Solheim-Kile and Wald, 2019), and PPJV takes this notion furthest, as both parties participate from the inception of each project. PPJVs are different from most PPPs as in that risks and rewards are shared between the public and private sectors (Koppenjan and Enserink, 2009). Furthermore, a PPJV entails establishing a new entity governed by both sectors (Andrews *et al.*, 2015). Noncontractual elements of PPP, such as trust, have often been argued as just as important as the contract (Klijn and Koppenjan, 2016; Smyth and Edkins, 2007; Weihe, 2008).

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As such, the PPJV should be a valuable arena for investigating incentives and determining whether public–private collaboration is complementary (Andrews *et al.*, 2015).

Although a PPJV could comprise only a single project, many PPJV arrangements expand this scope by incorporating an undetermined pipeline of future projects. Examples of this can be found in the UK with the Local Improvement Finance Trust (LIFT) model for healthcare facilities (Ibrahim *et al.*, 2009) and the Building Schools for the Future (BSF) model for educational facilities (Shaoul *et al.*, 2013). A PPJV could deliver a whole programme of operational facilities over a predetermined geographical area (Agyenim-Boateng *et al.*, 2017), meaning the scope is open-ended.

This article explores the incentives of open-ended PPJVs through investigation of the UK's LIFT model. The purpose of PPJVs in this context is to deliver high-quality healthcare facilities through long-term, jointly owned and governed joint ventures (NAO, 2005). Increased intensity of collaboration and relational benefits are expected in this context as PPJVs entail a deeper partnership (Ibrahim *et al.*, 2009). This enables expanding previous research studies on economic and relational aspects of PPPs (Solheim-Kile and Wald, 2019), with novel insights from the PPJV context. Furthermore, the aim is to gain insights into how the specific incentives of PPJV can be used in other forms of PPPs. To achieve this goal, the study proposes to answer the following research questions.

(1) What are the distinct economic and social incentives for goal alignment in an open-ended PPJV?

(2) What are the barriers to the successful implementation of these incentives?

2. The conceptual framework

PPPs can differ widely regarding their scope, organisation and context (Hodge and Greve, 2007; Ysa, 2007; Ball, 2011). For example, Hodge and Greve (2007) suggested a typology of PPPs across two dimensions: (1) tight/loose financial and (2) tight/loose organisational dimensions. The PPJV fits in the first category as it is tight in both the financial and organisational dimensions.

Another dichotomy when separating different forms of PPPs is that of transactional versus relational approaches (Klijn and Teisman, 2005; Weihe, 2008). Importantly, these forms are not mutually exclusive and a single relationship can inhibit both dimensions (Zheng *et al.*, 2008). Furthermore, it is useful to distinguish a potentially deeper partnership than the two mentioned above: the institutional partnership. The institutional partnership is distinguished by having a new, jointly owned entity (European Commission, 2004). This study proposes that these are different approaches to overcome a common problem of cooperation, that of different goals. In the next section, we will briefly discuss each partnership type and incentives that are characteristic for each form.

2.1 The transactional partnership

This form of partnership is purely contractual. The most common form of transactional partnerships is concession contracts and private finance initiatives (PFIs) (European Commission, 2004; Ball, 2011). Transactional forms of PPPs have been criticised for having little to do with real partnerships (Klijn and Teisman, 2005). A reliance on the power of contracts and incentives is at the heart of the transactional approach to PPPs (Grimsey and Lewis, 2004; Heino *et al.*, 2015), which is informed by agency theory-related arguments (Jicai Liu *et al.*, 2016; Solheim-Kile *et al.*, 2019). Critics of the transactional approach argue that this way of arranging partnerships and devising contracts is not conducive for cooperation and it can be viewed as mistrust management (Heino *et al.*, 2015). Drafting complex transactional

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contracts is time-consuming, costly to enforce and inflexible and the efficacy of contracts is debatable (Klijn and Koppenjan, 2016). Furthermore, a transactional partnership relies on a "logic of control", which can undermine trusting and reciprocal relationships. However, a transactional approach might be preferable in projects where repeat interaction is not expected or in simpler projects where the delivery is easy to specify and measure (Solheim-Kile and Wald, 2019).

2.2 The relational partnership

Research on PPPs has argued that a wider view of incentives, instead of purely economic incentives and contractual safeguards, is needed and that relational aspects might be more important than the contract (Bovaird, 2004; Caldwell *et al.*, 2017). A relational approach to goal alignment concedes the limitation of transactional mechanisms. Factors viewed as important from this perspective are trust (Forrer *et al.*, 2010; Weihe, 2008) and reciprocity (Axelrod, 1984; Ysa, 2007). Trust is perhaps the most essential factor in successful partnerships. Trust is not something one can contract but rather something that emerges within a social network (Granovetter, 2005). Trust can reduce goal conflict, which is potentially more efficient than removing uncertainty through rigid contracts (Cuevas-Rodríguez *et al.*, 2012; Heino *et al.*, 2015). Trust and reciprocity are highly connected as reciprocated action affects the trust-building process (Swärd, 2016). Higher levels of transparency are expected to increase reciprocal behaviour (Wiseman *et al.*, 2012). Other social mechanisms such as identification can have positive effects on goal alignment. A sense of shared identity might come from shared outcomes of cooperation (Henisz *et al.*, 2012). It is argued that these types of partnerships are discussed in the literature but rarely found in practice (Ysa, 2007).

2.3 The institutional partnership

A key characteristic of an institutional partnership is the creation of a shared entity (European Commission, 2004) in a PPJV. These partnerships are characterised by both sectors sharing control and strategic decisions, with both parties represented on the board (Andrews *et al.*, 2015). Although the public sector tends to hold a majority share in such entities, some PPJVs, such as LIFT in the UK, leave the majority for the private sector (Ibrahim *et al.*, 2009; Shaoul *et al.*, 2013). It is useful to distinguish between two categories of institutional partnerships. First, in the single-project PPJV, the scope of the partnership is well defined, with the sectors integrated into the same entity. Second, in open-ended institutional partnerships, such as LIFT, the number of facilities constructed within one contract is not determined *ex ante*. Rather, the LIFT Company is given exclusive rights to development within a geographically determined area and duration (Aldred, 2007). This means the scope of the venture is undetermined, potentially giving rise to a different set of incentives.

Critics of the purely relational approach to PPPs argue that social capital cannot exist in the public–private context because of constraints on the public sector regarding corruption. Relationships based on trust can be viewed as politically illegitimate (Ping Ho *et al.*, 2015). Bridging this criticism, some scholars argue for balancing the need for control and the need for trust for successful partnerships (Atkinson *et al.*, 2006). Institutional partnerships with more levers of formal control might be an answer to such criticism. Institutional partnerships adopt mechanisms from the relational approach, with an emphasis on trust building (Andrews *et al.*, 2015), but at the same time, the partnership is more integrated and formalised. Potentially, this arrangement can lower transaction costs, achieve private and public sectors integration through sharing risks and rewards and provide new market opportunities for the private sector (Bennet *et al.*, 2000). In conclusion, the three forms of partnerships are not

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mutually exclusive, and an institutional partnership can vary in the degree to which it is based on transactional or relational mechanisms (see Figure 1).

2.4 The shadow of the future

In Axelrod's (1984) work on the evolution of cooperation amongst egoists, the shadow of the future, i.e. the discounted value of future transactions, is viewed as an important aspect. The shadow of the future can be viewed from both economic and social perspectives. From an economic perspective, the shadow of the future concerns future profit opportunities, while a social shadow of the future is generated by inclusion in a network or a sense of shared identity (Henisz *et al.*, 2012). According to Axelrod (1984), a sufficiently large shadow of the future is needed for effective cooperation and social norms such as reciprocity to work. Future opportunities are viewed as the most important economic incentive (Caldwell *et al.*, 2017). In sum, the shadow of the future, both social and economic perspectives, can be a significant deterrent from opportunistic behaviour (Henisz *et al.*, 2012) and, on a purely rational basis, leads to developing cooperation between opportunistic egoists. However, this deterrent might not always be strong, given the one-off nature of many PPP projects (Henisz *et al.*, 2012). Nonetheless, open-ended institutional partnerships such as LIFT should cast a significantly larger shadow than the single project type of traditional PPPs.

2.5 Complexity

PPPs are highly complex models of procurement (Andrews *et al.*, 2015). These complexities can come from factors such as the long duration, partner selection, numerous contracts and a complex financial structure (Demirag *et al.*, 2012) or more implicit factors such as the partners' divergent values, goals and strategic direction (Russell *et al.*, 2011; Trafford and Proctor, 2006; Tzortzopoulos *et al.*, 2006). Klijn and Teisman (2003) argued that complexity can be categorised into two concepts that constitute key barriers to success in PPPs: institutional and strategic complexities. Different kinds of complexity can inhibit the effect of social and economic incentives for goal alignment in PPJVs.

3. The method and data

Due to the subjectivity of social mechanisms and the exploratory nature of our research questions, we chose a qualitative approach based on in-depth interviews and case studies (Anteby *et al.*, 2014). LIFT is a structure where the private and public sectors create a joint venture, the LIFT Company. The LIFT Company exclusively develops healthcare facilities within a specific geographical area including Lease Plus contracts with the tenants for each new facility (Aldred, 2007). Given the specific nature of LIFT, comprising several aggregated

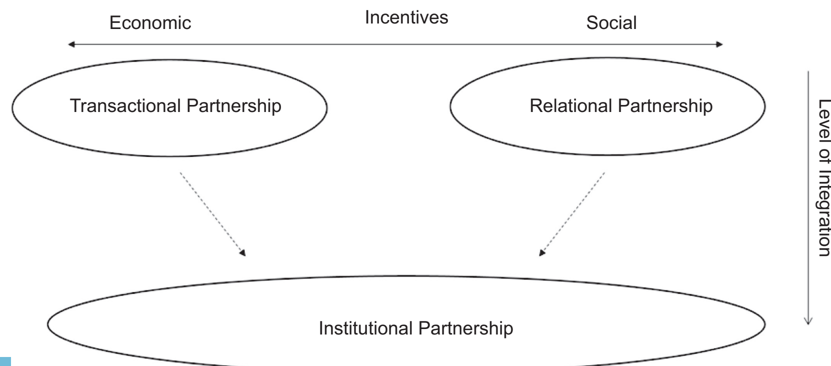

Figure 1.
Ideal types of partnerships

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cases under one joint venture, we used a single-case study design with multiple embedded cases. The case is a private sector company managing and participating in three LIFT companies. This can be considered as a single case but with two levels of embedded cases. The first level is with the three LIFT companies, and the second level is with individual projects. The company has 42 individual LIFT projects in its portfolio. However, some of these are comanaged with investors in other LIFT companies.

Consequently, the study is limited to the 34 projects without other private sector investors. The sample of the overall case and embedded cases was based on theoretical sampling rather than representative sampling (Eisenhardt, 1989; Eisenhardt and Graebner, 2007; Yin, 2014). The case was selected for its revelatory nature regarding a novel form of PPP, the LIFT PPJV. Although the data were collected at a single point in time, the nature of LIFT makes respondents able to discuss and evaluate all project phases, excluding termination, using recent events, as there are projects in all stages of development and operation. To achieve rich responses on different project phases, the private sector partner respondents were asked to discuss six purposefully selected projects situated at different stages in the life cycle at the end of the interview.

The data comprise interviews and documents (see Table 1) which allow for data triangulation and build a strong foundation for theory development (Eisenhardt, 1989; Yin, 2014). To counteract any charges of unbalance or bias, as well as the challenge of retrospective sense-making (Eisenhardt and Graebner, 2007), several interviews were conducted from both the public (four) and private sectors (eight). The interviews consisted of public and private sector management in the LIFT companies and two on-site public sector centre managers. Specifics about these positions are not disclosed for reasons of anonymity. Besides, one interview from the LIFT Council, a private sector representative body, was conducted to get a wider insight into the private sector perspective. The interviews were conducted using a semi-structured interview that lasted 45–90 min. The interviews were anonymous to hinder any information retainment. All interviews were recorded and subsequently transcribed *verbatim*. The documents (848 pages) consist of private and public sectors' informational PowerPoints, cost analyses, organisational charts, improvement plans, data sheets and most importantly, a complete Lease Plus Agreement (LPA) and Strategic Partnership Agreement (SPA). The LPA is the contract governing the individual project, and the SPA is the overall contract governing the LIFT Company. Much of this documentation is confidential. However, it serves as an important part in developing codes and categories and supplements the interview material.

Interviews	Number of respondents
Private sector	9
Public sector	4
Documents	**Number of pages**
Strategic partnership agreement	317
Lease plus agreement	285
Private sector presentation material	36
Public sector presentation material	70
LIFT Company board papers	88
Project overview	44
Cost analysis	8
(Interviewee codes: Private sector = PrS, Public sector = PuS)	

Table 1. Sample composition and documents

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The NVivo™ software package was used to code and categorise the data. The data were analysed by adopting an abductive approach. First, a start list of codes (Kelle, 2005; Miles and Huberman, 1994) from agency and social capital theories and core concepts from PPPs was developed. This was combined with inductive open coding (Corbin and Strauss, 1990; Glaser and Strauss, 1967) to avoid any "forcing" of data. The review of literature and analysis of findings were iterative processes, where new findings were understood by considering prior research studies. The interview guide incorporated new questions in response to unexpected answers in early interviews. During the development of codes and themes, academics and practitioners were consulted to guide and validate our results.

4. Findings

The private sector partner is bidding for a right to develop and maintain healthcare facilities in a geographical area over 20 years in a joint venture with the public sector (NAO, 2005). Each additional project will typically have a 25 years LPA, potentially extending the total duration of the partnership to 45 years. Currently, 49 LIFT companies have delivered 339 individual LIFT projects, with a total investment of about 2.5 bn GBP (CHP, 2018). Our study involves Fulcrum, a private sector partner in six LIFT companies and 42 individual projects, with a market share of about 20% of the total investment in LIFT. Fulcrum is owned by Meridiam, a long-term equity investor specialised in social and economic infrastructure. Importantly, Meridiam is not selling out its investments but making them different than many other shorter-term equity investors. Our case study focusses on three LIFT companies, where Fulcrum is the private sector partner constituting 34 individual facilities with a combined capital expenditure of 237 m GBP (see Figure 2 for an overview of the organization).

In LIFT, two main contracts govern the relationships. First, there is the SPA. This contract is between the private and public sectors in the LIFT Company and serves as an overarching agreement across all individual projects. It also covers the details on partnership services provided through the LIFT Company in the development and strategic planning of new projects. This contract has, despite being detailed in many areas, a substantial number of relational elements to it. This includes describing how the actors should relate to each other, solve conflicts and work as true partners. It ascribes an "open-book" approach with

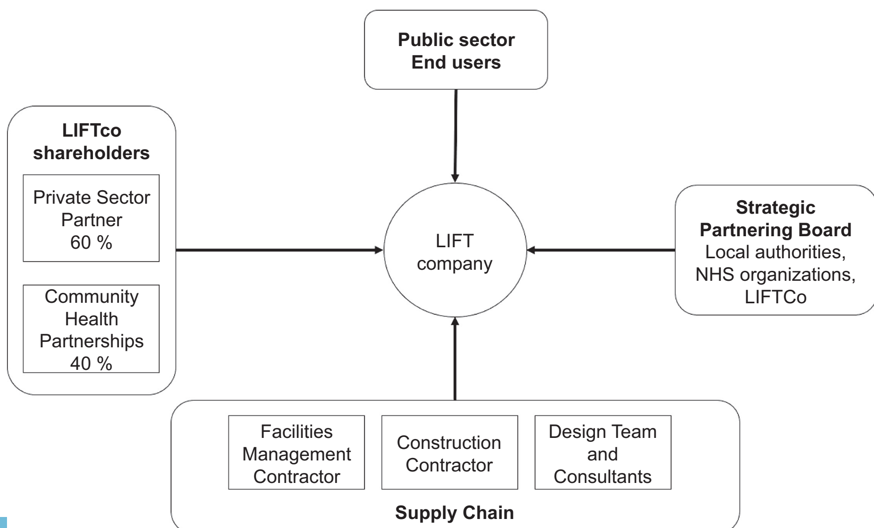

Figure 2.
Organisational chart for the LIFT Company

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transparency as a core value and a "no-blame" culture. The Strategic Partnership Board (SPB) is the arena for sharing ideas and goals for the partnership.

The other contract, the LPA, is used on individual buildings and is between the LIFT Company and the customer, typically a National Health Service (NHS) healthcare provider. In contrast, this contract is very classical, with a detailed description of what each actor should do in a range of circumstances. This contract is explicit in not being a partnership contract.

4.1 The type of partnership

To evaluate the degree to which the public and private sectors have been able to act as one institutionalised entity and how much of its mechanisms are transactional versus relational, it is useful to look at how LIFT is perceived to be like or different from PFI. First, the partnership element is more pronounced as compared to PFI projects. Turning to the contract is not a typical response in LIFT projects as compared to PFI, suggesting a much stronger partnership element in LIFT.

> *PuS1: I think that the problem with PFI is lack of kind of transparency of what's going on, so it's a purely contractual relationship ... whereas PPP seems to be much more relationship-driven, because you know that to do the next project, you got to do a good job of the existing stuff you've got.*

A key benefit of partnership is the development of trust and LIFT seems to be an environment that allows trust to grow, making it more relational than PFI. However, despite the relational elements discussed, several respondents reported little difference between LIFT and PFI. This was particularly true for respondents working in lower positions. The LPA on each facility is more transactional, like a PFI. However, one facility was not leased to Community Health Partnerships (CHP), but a city council not part of the LIFT Company, effectively being a PFI. This project was evaluated as the most problematic, providing some evidence in support of an institutional approach.

4.2 Economic mechanisms- the shadow of the future

In LIFT, the shadow of the future is considerably larger than in traditional PPPs/PFIs. First, there is a long-term, open-ended contract, the SPA, accompanied by the LPA for each project. The contract solidifies the relationship, explicitly stating each party's roles and responsibilities as well as their expected service and profit opportunities. This is captured by one of the private sector respondents.

> *PrS3: But I do not think that everything centres around the relationships, which is why I think we need to have a robust contract in place, because you could have a great relationship with someone from, say, CHP, but they might leave tomorrow, and someone comes in that, you know, for whatever reason you do not have that same relationship with.*

Second is the pipeline of future projects. It serves as the public sector's most important economic driver and creates an incentive to deliver according to the public sector needs. It is explicitly stated in the SPA that demonstrating value for money is fundamental to new projects. This is a key factor that differentiates PPJVs from other forms of PPPs.

> *PuS1: They [private sector investors] want to invest in another scheme, and they only get to invest in another scheme if they do what they said they were going to do for this one. ... (...) it has its upsides, because as long as you are bringing forward projects, then that keeps them focused and at the table.*

The effect of this incentive was clear in several circumstances. An example was that it incentivised the private sector to work with the public sector to increase the buildings' utilisation. In isolation, and from a purely opportunistic perspective, underutilisation would be good for the private sector as the cost of operation would be lower. However, the importance of making LIFT a success aligned the incentives of the public and private sectors regarding utilisation. A project pipeline was also used further down in the supply chain. The

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private sector partner in the LIFT Company expressed a challenge with the short-term nature of the construction companies. However, the use of a project pipeline incentivised them not to act opportunistically.

Third, co-ownership works to institutionalise the partnership and is viewed as a core element of goal alignment in the LIFT model. The profit that ends in the LIFT Company is divided between the private and public sectors. Besides, both parties are represented on the boards.

> *PrS5: With the public sector owning 40% of the business, you know, they've got a real interest in making that business successful. You've got public sector directors and private sector directors, but they're all working together in the best interest of the LIFT company, so that in itself will drive the partnership.*

In sum, a long-term contract, a joint entity with co-ownership and an open-ended pipeline of future projects create a shared goal to produce value for money with a considerable shadow of the future.

4.3 Social mechanisms

The social dimension has been discussed as important by all respondents and several of these elements have been explicitly stated in the LIFT Company's documents and presentations. Trust is a key driver for goal alignment because trust must be in place to "get things done". However, developing trust is affected by several factors, most importantly, transparency. Transparency is applied explicitly through co-ownership and shared board membership. According to a public sector respondent PuS3:

The beauty of a PPP is that as a public-sector director, I can see it. In a PFI, you will not be able to see that. It's a commercial entity, not owned by the public sector. So that's held probably in an offshore organisation, whereas at least with the LIFT company itself, the vehicle, joint venture, we can see all the costs.

Furthermore, transparency entails not only knowing the cash flow; it means more transparency of goals.

> *PrS4: So, you know, everybody has a say in the business plan. Everybody has a voice at the board. Everybody has that full transparency. That seat on the board gives the SPV records. When it works well, you do create a partnership.*

A different type of social mechanism identified in this study is a sense of the social impact that can be invoked through developing social infrastructure. Participants can identify with this noble goal. This goal seemed to be important for the investor in all their business. It might be something that will be different from investor to investor and something the public sector should be cognisant about.

> *PrS5: Meridiam says that they are long-term partners, and they are in it to also improve communities by helping the public sector in any way they can. So, it's not just about the investment return. It's actually helping the public sector as well. Often investors will come to them because they are investing in ethical projects and projects where there are good environmental and sustainable and social issues as well. For the private sector, it's often about creating new jobs or improving the environment as well. There are some objectives which probably are the same for the public and the private sector.*

In summary, transparency of information and goals, combined with a sense of social impact, contributed to goal alignment and relationship building and thus creates a kind of social shadow of the future. These effects also seemed to be compounded by the economic shadow of the future, which made the relationships important to maintain.

4.4 Complexity

Several complexities make it difficult to achieve goal alignment and value for money. The major problem with some of the complexities is that the arrangement becomes inflexible and

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inefficient. The LIFT structure involves several stakeholders on both sides. This creates both contractual/organisational and goal complexities. The fragmented nature of the public sector itself was a major contributor to this complexity, with a lack of a coherent internal incentive structure. One example of this was the challenge of getting the facilities fully utilised as health providers were incentivised to rent cheaper non-LIFT facilities despite the public sector paying for both spaces. The complex nature of NHS was a challenge for both parties. As expressed by a public sector respondent, PuS1:

There are a whole lot of different trusts and NHS England, and that kind of stuff, none of those, you know, are one public sector. They are all their own organisations, so they will try to stitch the other public sector organisation and try and transfer the risk to them and try to transfer cost burden to them.

Further adding to this complexity is the changing nature of the NHS. Public sector engagement and strong leadership were frequently mentioned as important. However, this can be a challenge if the public sector structure keeps changing. Most notable in this study was the consequence of a major NHS reorganisation in 2013 almost bringing LIFT to a complete halt. This can diminish the shadow of the future as the future is very uncertain.

PrS9: Probably the NHS has always been reorganised all the time, so your stakeholders are changing a lot. I think you could build a good relationship with CHP, but we do not know in five years' time if CHP exists. Maybe the stakeholder will be another. So, you have to always be thinking, who are the other players? I think that's the biggest challenge. They are constantly changing the landscape of the relationship.

Another element is the complex financial structure. Specifically, the public sector is determined to keep projects off the balance sheet, leading to some unintended consequences. Several funding companies are created for groups of projects, adding substantially to the overall complexity of the private partner. Consequently, innovation and post-contractual changes are difficult to realise.

PuS1: The difficulty you got is that effectively the contract, the way in which the project finance works, it locks down all of the risks. Everybody knows what the life-cycle risk is. So, the moment you want to start making changes, you are opening those risk positions. You've got to unpack them, work out what the implications of the new changes are, and then repack them again. And then getting everybody to sign off again. And obviously there is a process to go through to get the investors and the funders happy (. . .).

This is compounded by the large gearing, with most of the capital being senior debt. The issue of balance sheet treatment and high gearing is strongly related to inflexibility. To get cheap finance, a lot of senior debt is used, and the providers of this are typically highly risk averse. The way project finance works limits the scope of possible investments in new facilities.

PuS3: The LIFTPPP, I do not mind saying this on tape, is a bit of a one-trick-pony. A scheme has to fit nicely into that investment model, but for every one-trick-pony-type style, there are probably ten other alternatives that do not fit our investment model, but we are capable of doing. And we are entitled to do, but we choose not to, because it does not fit our investment. So, by excluding ourselves from some of the not-so-good stuff, or the inconvenient stuff, we create a bad relationship with the customer.

An additional disadvantage of making the project off balance sheet is the need to follow strict guidelines described in accounting standards. This further decreases flexibility.

In conclusion, although the long-term nature of LIFT creates social and economic shadows of the future that contribute to goal alignment, the complex nature of the partnership inhibits the realisation of this incentive's full potential. The complex and changing nature of the public sector, combined with private finance, especially with the high gearing, seems to be the two main challenges to goal alignment.

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4.5 Goal alignment outcomes

The respondents posit that the buildings are of high quality, deliver premium buildings in deprived areas and are generally maintained to a good standard. However, the service level provided by the facilities management (FM) contractors is typically discussed as underperforming. A part of this challenge seems to be small margins in the FM business. Because of the financial structure and the need to lock risks down, FM contractors were contracted for the whole duration of the LPA contract. This was viewed as sub-optimal, and the LIFT companies studied here are taking this risk back to have a more flexible FM approach.

5. Discussion and conclusion

Previous research has established the challenge of different goals of the private and public sectors (Barlow and Köberle-Gaiser, 2008; Hart, 2003). The PPP/PFI model aspires to achieve goal alignment using high-powered incentives. However, in PPP projects, the private sector partner often has a short-term focus which hinders the full realisation of optimisation (Carpintero and Petersen, 2015). Furthermore, PPPs have been riddled with problems of post-contractual lock-in (Lonsdale, 2005), especially in dealing with contract renegotiations. In open-ended PPJVs, these problems can be addressed through enlarging the shadow of the future. This incentive is supported by Axelrod's (1984) finding that when studying cooperation, the duration of the relationship might be the most important factor in creating cooperative behaviour.

Although previous research on PPJVs argues that the aspirations of true synergies are hard to realise (Russell *et al.*, 2011), we find evidence in the opposite direction. It became evident that the long-term nature, especially the potential of new projects, enabled the public sector to get more engagement from the private sector, helping them develop and manage assets.

The importance of noneconomic factors in building partnerships and reducing transaction costs is supported by the literature (e.g. Klijn and Koppenjan, 2016; Robinson and Scott, 2009; Smyth and Edkins, 2007; Solheim-Kile and Wald, 2019) and is evident in this case study. In addition to the economic elements constituting the economic shadow of the future, several social elements were important in developing goal alignment and trust.

First, a shared identity was created. Unsurprisingly, co-ownership and a shared economic outcome contributed to this shared identity (Henisz *et al.*, 2012). Perhaps more interesting is the importance of having a positive social impact. This is an element that is especially salient in a healthcare context. Creating a norm for caring can be an efficient mechanism. This element will likely vary between investors. Other research has found that while the public sector was interested in having a social impact, the private sector was short-term profit-oriented (Russell *et al.*, 2011). The investor in this case specifically had a long-term business strategy more in line with the public sector. Clearly, selecting the right private partner is crucial. Wang and Liu (2015) argued for selecting investors with a high degree of fairness preference. This study suggests that trying to select private partners with a social impact preference can be of value. Determining if the investor has a short-term or long-term strategy might be of equal importance, considering the long duration of institutionalised partnerships. This aspect has been a challenge in contractor-led PPPs, where the business strategy of a construction company does not align with the long-term nature of PPPs (Solheim-Kile *et al.*, 2019).

Second, increasing transparency through "open-book" approaches contributed to trust-building. Information asymmetry is a key challenge and having transparency as a key value can alleviate such challenges (Wiseman *et al.*, 2012). Unsurprisingly, transparency in PPJVs seems to be higher than in traditional PPP projects, on financial matters and goals.

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In sum, the economic and social mechanisms in PPJVs are synergetic in this study, supporting Zheng *et al.* 's (2008) notion that contractual and relational governance can be complementary forms, depending on how the participants view the contract and whether the relational elements are supported in the contract (Zou *et al.*, 2014).

However, the complexity of the arrangement creates significant challenges to goal alignment. Achieving shared goals is a major task in a fragmented institutional environment (Klijn and Teisman, 2003). In our study, two main complexities created barriers for goal alignment. First, a fragmented public sector with a complex internal incentive structure made it difficult to act as a unified partner. This has been acknowledged by the literature noting that the constant change of stakeholders makes building requirements difficult to define (Tzortzopoulos *et al.*, 2006). Furthermore, although the private sector is typically a target when discussing problems of personnel turnover in PPP projects (Caldwell *et al.*, 2017), in our study, the challenge of developing a good relationship when individuals' change was, to a large degree, a consequence of repeated reorganisation. The problem of NHS staff turnover has been pointed out as an issue in hospital PFIs as well (Zheng *et al.*, 2008). Second, the public sector insists on keeping the projects off balance to limit public sector debt (Holmes *et al.*, 2006). This makes the private side more complex, inflexible, less transparent and risk-averse (Agyenim-Boateng *et al.*, 2017; Aldred, 2008) as large amounts of private senior debt are used. This is a common challenge in PFI projects (e.g. Robinson and Scott, 2009). Although the difference between PFIs and PPJVs are numerous (Russell *et al.*, 2011), each project has quite a lot in common with traditional contractual PFIs and much of this is based on the need for private finance and off-balance sheet accounting (Holmes *et al.*, 2006). This questions whether the partnerships are based on private and public sectors' synergies or instead the need for private capital (Bovaird, 2004). Figure 3 shows how private finance and a fragmented public sector increases complexity. This complexity lowers the efficiency and flexibility of the PPJV arrangement. Furthermore, it weakens the goal alignment effects of economic and social incentives.

Research on PPJVs is mixed, with some studies showing promise (Ibrahim *et al.*, 2009; National Audit Office, 2005) and some mixed results (Holmes *et al.*, 2006). Evaluating value in a complex environment like healthcare is a challenge, given stakeholders with different goals (Ibrahim *et al.*, 2009). This study finds promise in the open-ended partnership model underpinning PPJV, with progress being made from project to project (Ibrahim *et al.*, 2015). Enlarging the shadow of the future encourages both parties to think long-term, avoiding short-term opportunism. This incentive could also be incorporated in other forms of PPPs by

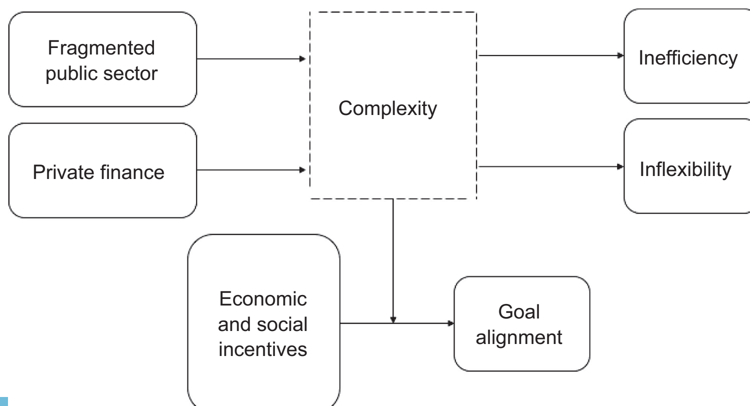

Figure 3. The relationship between incentives, complexities and goal alignment

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creating bundles of projects or other forms of future options. A portfolio approach to PPPs could enable smaller types of projects to fit the model and decrease transaction costs by not needing extensive procurement procedures for each project.

5.1 Managerial implications

Although value for money in LIFT might still be up for debate, several challenges in LIFT are not linked to the conceptual model underlying an open-ended institutional partnership. Rather, much of the complexity and inflexibility are driven by highly geared private finance and off-balance sheet focus. Although private finance is central to most types of PPP projects, countries that do not insist on projects being off-balance sheet could find more optimal solutions. An example of such countries is Norway, where national public debt is not an issue (Solheim-Kile *et al.*, 2019). Blended finance solutions, where the public sector supplies more of the debt, could be a step towards a more flexible arrangement combined with a lower cost of capital. Finally, the challenge of developing strong relationships was inhibited by the fragmented and complex institutional environment, especially on the public sector side. This will be different in another context but something the public sector should try to streamline before engaging with the private sector.

In sum, the PPJV is a promising model of partnership, and public sectors in other countries should consider adapting the model to their context. However, more research is needed to assess value for money potential in institutional partnerships.

5.2 Limitations and future research

Considering the long duration of these PPJVs, it is not yet possible to investigate how they change when reaching the end. It would be valuable to research the potential change in the relationship towards the end of the contract. Will the company shift from being integrated and incentivised by both economic and social mechanisms, to be a purely transactional relationship?

This paper has focussed on a single case to investigate how the incentives present in LIFT impact goal alignment between the active participants. Future research should look at the reasoning and drivers behind LIFT from a policy perspective, i.e. a macro level of analysis.

Another limitation is the nature of the single case study. Although it allows in-depth investigation with the opportunity for theory building, empirical generalisation is challenging. Consequently, future research on PPJVs carried out in different countries and industrial (e.g. national motorways) contexts would be of high value. The context of the UK is valuable for research as it is a mature PPP market with considerable experience. We call for future studies considering other countries to contrast or validate the findings of this study. Finally, to allow for a generalizability of the research results, we call for future research using quantitative research designs and large, representative samples.

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