Public–private partnership meets corporate social responsibility—the case of H-JUMP school

Sounman Hong and Taek Kyu Kim

This paper examines tripartite public–private partnerships (PPPs), a new form of partnership between the government, business, and nonprofit sectors. Partly funded by for-profit firms' corporate social responsibility (CSR) budgets, this approach reduces a government's costs for providing a public service. Based on a case study of the H-JUMP school, a recently-formed tripartite PPP in South Korea, the authors explore the motives of each partner organization, the key factors in making the partnership sustainable, and the partnership's social value implications.

Keywords: Collaborative governance; corporate social responsibility; education; non-profit sector; public–private partnerships.

Over the past two decades, 'collaborative governance' has become increasingly popular (Ansell and Gash, 2008; Austin, 2010; Donahue and Zeckhauser, 2011; Kelman and Hong, 2016). Under this new mode of governance, public agencies collaborate with a wide range of stakeholders through networks cutting across the government, commercial, and voluntary sectors and operating at different levels of policy-making. As a result, governments now need to be able to work effectively with non-governmental partners (Donahue and Zeckhauser, 2011).

This paper focuses on one mode of collaborative governance: a three-party partnership (a tripartite PPP) involving a government agency, a for-profit firm, and a non-for-profit organization (NPO). Our case study PPP is different from 'usual' forms of PPPs between governments and businesses, where the private sector delivers services as well as providing infrastructure (Acerete *et al.*, 2016; Hong, 2016). In tripartite PPPs, the government's financial burden is substantially lower compared to traditional forms of PPPs. In addition, a tripartite PPP differs from more 'usual' collaborations between NPOs and businesses in that governments play an active role in making the collaboration financially sustainable by funding part of the budget as well as monitoring opportunism and performance of the collaboration (Austin and Seitanidi, 2012).

This mode of PPP may sound like a 'nothing to lose' option for governments facing fiscal constraints, with clear advantages over both public service provision and traditional PPPs. However, initiating and maintaining collaborations with non-governmental actors generally entails transaction costs, related to bargaining and monitoring opportunism (Globerman and Vining, 1996; Donahue and Zeckhauser, 2011). Moreover, as with any other institutional arrangement, incentives must be structured so that each partner benefits so that the partnership sustainable. Designing a sustainable partnership requires a deep understanding of each partner's motives. However, prior research has done relatively little to answer several key questions:

- Why are businesses, generally considered to be profit maximizers, interested in achieving social missions?
- What do they want in return for partially funding public programmes?
- Why would the three parties involved prefer a tripartite partnership to a more traditional form of collaboration (including simple contracting-out)?

This paper presents a case study of a successful tripartite PPP—the H-JUMP school—a partnership between the Hyundai Motor Group, JUMP ('Join Us to Maximize our Potential': an NPO), and the Seoul Scholarship Foundation (a public sector organization). The H-JUMP school provides

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high-quality education to children from disadvantaged families in South Korea. The aim of our study was not to evaluate the effectiveness or efficiency of the partnership in achieving its mission compared to public provision or more traditional forms of partnerships; we believe that the mere fact that a government can achieve its mission using private money makes such an approach immensely attractive in an age of financial austerity (Austin, 2010). Rather, our study explored the benefits and costs of this new mode of governance from each partner's perspective; we then use these insights to offer some practical suggestions for designing sustainable partnerships.

The case of H-JUMP school

The school was initiated by JUMP, which was established in 2011 by a group of young professionals to provide youth from minority or disadvantaged families with opportunities for a high-quality education. In 2013, JUMP made a major change in operational approach by joining a tripartite PPP with Hyundai, and the Seoul Scholarship Foundation, a public agency funded by the Seoul Metropolitan Government. The partnership meant that JUMP could focus on operating the programme, as the funding is guaranteed for a five-year period (with a reapplication process after five years)—the initial model required significant time and effort spent on fundraising.

In the tripartite partnership, each of the three parties has a specific role: JUMP oversees project operations. Hyundai funds approximately 75% of the programme budget, as well as advising on its overall direction as part of its corporate social responsibility (CSR) activities. It also helps maintain a competent pool of professional mentors by encouraging its employees to become involved. Meanwhile, Seoul Scholarship Foundation funds the remainder of the budget and connects with universities in Seoul to help recruit qualified teachers. It also monitors the operational processes.

Incentive structure of tripartite PPPs

Public sector

The government agency helps the partnership by providing it with accreditation that the programme aims to achieve social rather than private goals (Rivenbark and Menter, 2006; MacIndoe, 2013). This is important in South Korea because the public is often skeptical of CSR activities pursued by large businesses.

The main benefit for the government is achieving its public mission at substantially less cost: the public-to-private funding ratio for the H-JUMP school is roughly one to three.

Any form of collaborative governance can create new costs for governments that would not be accrued under public provision: production costs and the costs of managing the relationship with the non-governmental actors (transaction costs). Production costs in the PPP are clearly reduced, but the tripartite PPP involves bargaining between three independent parties—so these costs might be higher than under a traditional two-party PPP.

Another potential cost to governments is its reduced ability to control the programme. In the partnership, the government agency can no longer make solo decisions, but must instead consult and bargain with the two other parties to build consensus—again with potentially increased bargaining costs.

Overall, governments may perceive both benefits and costs to the partnership. As long as the non-governmental partners bear a significant share of the financial burden, however, it is unlikely that a government under fiscal stress would perceive negative *net* benefits from such a project. Therefore, the key consideration from the government's standpoint is the amount of expenditures that can be avoided by forming a tripartite partnership.

NPO

The main comparative advantage for the NPO is expertise—the NPO's role in a tripartite PPP is generally to implement and manage the project with funds provided by the other two partners. An NPO's main incentive for joining a partnership is access to resources. In the case of H-JUMP school, resourcing from the other two partners allowed the NPO to focus on implementing the project rather than on fund-raising (Austin, 2010).

An NPO risks losing autonomy after forming the partnership and receiving public money. Government regulations can increase the public accountability of the nonprofit sector, but may also impose substantial costs on the NPO (and, indirectly, on the general public; see Irvin, 2005).

Private sector

The corporate partner contributes to the partnership by sharing the financial burdens of implementation. The key distinction between a tripartite PPP and other forms of PPPs is that in a tripartite PPP, the participating firm generates no revenue from the project (for

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example Acerete *et al.*, 2016; Hong, 2016); it just provides funding as part of its CSR activities.

As the funding often comes from a company's CSR budget, a tripartite PPP can be seen as an amalgam of PPP and CSR. In order to understand why corporations participate in these partnerships, it is useful explore the reasons behind CSR activities. Previous studies point at two factors to explain why firms are motivated to undertake CSR activities (Young and Makhija, 2014). The first explanation is that firms pursue CSR to increase perceptions of their legitimacy. Legitimacy has been defined as 'the view by societal observers of the firm that its presence in society is desirable and socially worthy with respect to prevailing norms, values, beliefs, and definitions' (Young and Makhija, 2014, p. 672). According to this view, firms can reduce the likelihood of being penalized by society by improving the public perception of their legitimacy through CSR activities. Specifically, an improvement in perceived legitimacy can reduce the risks faced by firms in their interactions with internal and external stakeholders, including governments, customers, and employees.

The other approach to explaining firms' decisions to engage in socially desirable behaviour sees CSR through the lens of firms' self-interested profit-maximization activities. For instance, Drucker (1984) asserts that a firm's social responsibility is to 'turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth' (p. 62). According to this view, properly managed CSR activities may increase a firm's value by improving consumer loyalty and employee satisfaction (Godfrey and Hatch, 2007; Mackey *et al.*, 2007). However, they may also be viewed as a waste of resources that could be spent in ways that would be more valuable to the firm—or its shareholders (Lantos, 2001).

These two perspectives are not mutually exclusive (Young and Makhija, 2014). Enhancing social stakeholders' perceptions of a firm's legitimacy may also help the firm create value. Moreover, both institutional and profit-maximizing perspectives indicate that firms' socially desirable behaviours are more likely to be somehow compensated if the following conditions hold:

- The CSR project should be well aligned with social objectives and values.
- The firm's participation in the PPP should be publicized as widely as possible.

Social value

Whether a tripartite PPP increases social value compared to a traditional PPP is a different question from whether all parties benefit from it. There are three potential arguments for and against a tripartite PPP creating greater social value than either public provision or other forms of partnership. This is analysed by comparing the potential social welfare, defined as the sum of all value created for stakeholders in society.

First, a tripartite partnership means that the government, the firm, and the NPO to focus on their comparative advantages, leading to potential productivity gains (i.e. a reduction in the sum of public and private production costs). This may also be true for other forms of collaborative governance but, in the case of a tripartite PPP, each participating organization can bring highly distinct insight, expertise, and capability to the partnership, creating potentially greater synergy in the collaboration (Bryson *et al.*, 2006; Austin, 2010). Intuitively, this logic is based on the theory of comparative advantage, which asserts that the greater the differences between the trading partners, the greater the benefits. Moreover, such advantage would be even greater under 'inescapable interdependence'—a situation where no single entity can possess all the resources required to address the social goals (Austin, 2010).

Second, bargaining and monitoring costs generally arise if government initiates and maintains a partnership with a non-governmental actor, as opposed to providing the service itself (Globerman and Vining, 1996). Compared to other traditional forms of collaboration, tripartite PPPs can be expected to entail higher bargaining costs, but lower monitoring costs, resulting in ambiguous welfare implications. The bargaining costs for negotiating the partnership contract tend to grow as the number of parties involved increases. In this regard, one may expect higher average bargaining under a tripartite PPP than under a two-party partnership. On the other hand, the monitoring costs may be lower: in a tripartite PPP, the largest share of funding is provided by a non-governmental actor, whereas in most other PPPs the money comes from the government (i.e. taxpayers) or citizens who pay for the public service.

Third, the fact that a firm provides significant amounts of funding to a PPP may indicate that such arrangements generate significant *private* value in addition to social value (i.e. achieving the PPP's mission). Examples include improving the firm's

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reputation, enhancing perceived legitimacy, or improving consumer loyalty and employee satisfaction. If this reasoning holds, one should also consider these private values when determining the social welfare implications of the partnership.

Overall, the analysis indicates that a tripartite PPP has the potential to create greater social welfare than a traditional public–private collaboration. The potentially higher bargaining costs of a tripartite PPP suggest that it may be challenging to form such a partnership. Once the partnership is formed, however, the considerable private funding for project operation and the potential private value generated by the firm (in addition to the social value) make it difficult to deny such a partnership's social welfare advantage.

Interviews with partner organizations

To explore these effects, we interviewed staff in each stakeholder organization, shedding light on their motives for participating in the programme and providing qualitative support for our proposed framework. We first contacted JUMP, the NPO; we were introduced to the other two organizations by JUMP. Next, a formal introductory letter explaining the aims of the research was sent to each of the organizations. The authors then conducted an in-depth interview with the person in charge of the partnership at each organization. The interviews were conducted during October 2015 in the office of the Seoul Scholarship Foundation at Anguk-dong, took an average of two hours each, and were transcribed.

In the introductory letter sent to the interviewees, we outlined the questions that we would be asking them in their interview:

- What are your organization's motivations for providing youth from minority groups or disadvantaged families with an opportunity for high-quality education?
- What are your organization's motivations for joining the tripartite alliance and establishing H-JUMP school, rather than providing such a service on your own?
- What are the potential benefits and costs to your organization of being involved in the H-JUMP school?
- Has your organization ever thought of leaving the partnership? If so, what were the reasons? What are the key considerations when your organization decides whether to keep pursuing the partnership or to leave it?
- What are your organization's motivations for pursuing CSR activities more broadly? What are the advantages and disadvantages of H-JUMP school compared to other CSR activities? (This final question was posed only to the interviewee from Hyundai.)

Insights from the interviews with partners

The interviewees offered considerable insight into tripartite PPPs. The government agency, the Seoul Scholarship Foundation, explained the difficulties that might have arisen had it decided to pursue the project on its own. In order to initiate a programme similar to H-JUMP school, the agency would have had to increase its organizational and financial capabilities (i.e. hire more employees and provide a larger budget), which would have required persuading the members of the legislature. By forming a tripartite partnership, the foundation was able to pursue the project without obtaining legislative approval. The NPO and private company respectively provided necessary organizational and financial resources. This suggests that a tripartite PPP can provide a useful opportunity for governments, especially during times of legislative gridlock or increasingly polarized political landscapes.

The interview with the Seoul Scholarship Foundation representative also revealed the 'blame avoidance' nature of bureaucracy (Hood, 2011). Although the budgetary savings gained through the partnership were certainly important for the government, the key consideration for bureaucratic actors involves weighing the potential credit that they will be able to claim for the organization against the possible blame that may be attributed to them. A problem with PPPs is that they have greater risks of being blamed for failure than government projects due to the potential opportunistic behaviour of the private partners. Moreover, cost savings are generally unobservable and thus not appreciated by the public; as a result, the government has few opportunities to claim credit. For this reason, a bureaucrat's key consideration is whether the partnership will generate outcomes that can be seen by stakeholders, the legislators and the public.

In contrast, Hyundai's representative summarized the key benefits of the partnership as '3Rs':

- Reputation.

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- Risk management.
- Relationships.

By being in a partnership with an NPO and the government, the firm was able to improve its image. Further, outsourcing implementation can reduce the risks involved; for instance, the firm can avoid public crtisism that its CSR is just self-interest. Last, the firm can build good relationships with other social stakeholders, including nonprofits and the government.

The interview with Hyundai led us conclude that the 'tripartite' aspect is critical for making the partnership sustainable. However, as the interviewee added:

> *…we [Hyundai] would not have participated in the partnership without the involvement of the government agency.*

The participation of a government agency thus greatly enhances the partnership's legitimacy in the eyes of internal and external stakeholders. As the interviewee explained:

> *…a two-party partnership with JUMP would certainly have prompted criticism within the firm as to why [we were] partnering with JUMP as opposed to many other existing organizations.*

The NPO stressed the trade-offs involved in the partnership. With the partnership, it was able to access resources that would otherwise be unavailable and expand its operations to achieve its mission. However, these resources come at a price: the organization must compromise with partners and somewhat sacrifice its own interests. For instance, the JUMP interviewee explained that the organization's founding mission was to help educate children specifically from ethnic minority backgrounds. During the creation of H-JUMP school, however, JUMP agreed to also include children from disadvantaged families.

The JUMP interviewee also stressed the importance of trust between partners for maintaining the partnership:

> *We [JUMP] probably would not have participated in the partnership if we had felt like [we were] performing [an] outsourced service…without trust among partners or the sense of 'equal partnership'. We believe it becomes highly uncertain whether the partnership will contribute to achieving the organization's vision, as our voices will not be heard by the other organizations.*

As the NPO is destined to be weak in a partnership with a multi-billion dollar company and a government agency, the JUMP representatives worried that their values might not be properly pursued through the partnership.

There was a consensus among all partners on the importance of trust in maintaining the partnership. All three organizations felt that, without trust, the tripartite PPP could become unstable or fragile. This strong emphasis on trust between partners challenges prior research arguing for the importance of a clear principal-agent relationship for a successful collaboration (Provan and Milward, 1995; Kelman *et al.*, 2013). For instance, Kelman *et al.* (2013) finds that collaborations between police and other governmental organizations are more successful when managers prioritize 'hierarchy-light management practices', as opposed to building trust or sharing power equitably between partners. Although we have no evidence to explain this anomaly, we propose that collaborative management practices (such as building trust or sharing power equitably) become relatively important when the collaboration is not mandatory.

Analysis

Table 1 summarizes the discussion by presenting the key benefits and costs of participating in a PPP from the perspective of each partner. Synthesizing our conceptual analysis and interviews, we present the following propositions concerning critical factors for each partner in determining whether to maintain the partnership:

Proposition 1: As long as the partnership is socially desirable, the government's key consideration is whether the partnership contributes to budgetary savings.

Proposition 2: In addition to the budgetary savings from the partnership, another important consideration for the government partner is whether the partnership's results are clearly observable by the organization's stakeholders, including legislators and the public, so that they can claim credit and avoid blame.

Proposition 3: The NPO's key consideration is whether joining the partnership would help it achieve its mission. In this regard,

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government regulations should not significantly constrain either operational efficiency or organizational autonomy, which is critical for the NPO to achieve its mission.

Proposition 4: The firm's key consideration is likely to be how well the partnership is recognized by the firm's internal and external stakeholders, including the public, given the amount of money invested.

Proposition 5: Trust between partners and a sense of 'equal partnership' are critical in making a PPP sustainable, as they significantly reduce bargaining costs when forming and operating the partnership.

Conclusion and discussion

Our analysis leads us to conclude that a tripartite PPP has a better potential of creating social value than traditional forms of public–private collaboration. This form of PPP is particularly attractive in countries managing austerity. However, our analysis and interviews also suggest a number of potential barriers to widespread use of tripartite PPPs. First, the fact that a substantial share of the funding is provided by the business partner is a unique feature that makes the partnership attractive to taxpayers; at the same time, it may make it difficult to scale up the programme. The ideal level of CSR expenditures from the firm's perspective may be substantially lower than the ideal from the social point of view.

Second, a government's attempts to monitor the opportunism of non-governmental actors may well increase a partnership's accountability, but it can significantly limit the efficiency of service provision—so there is an important trade-off between administrative accountability and operational efficiency (Hong, 2017). For instance, in the case of H-JUMP school, the government conducts regular audits of the financial resources provided by both the government and Hyundai and these audits could stifle the non-governmental actors' attempts to innovate (Frey, 1993; Sundaramurthy and Lewis, 2003). For instance, as Frey notes, 'The agent may perceive more intensive monitoring by the principal as an indication of distrust, or as a unilateral break of the contract built on mutual trust' (1997, p. 664), which leads the agent to reduce his/her efforts. A potential solution to this problem would be improving the transparency of the accounting

Table 1. Potential benefits and costs of a tripartite PPP.

Partner	*Benefits*	*Costs*
Government	Reduction in production costs because a substantial share of the project's budget is financed by the corporate partner No need to get legislative approval for any necessary organizational and financial capabilities Potential reduction in monitoring costs	Need to share credit with non-governmental actors Greater risks for blame than general government projects due to potential opportunistic behaviours by the private partners Potential increase in bargaining costs
Business	May leverage the partnership to create a positive reputation, enhancing legitimacy in stakeholders' eyes, reducing the likelihood of social penalties, improving consumer loyalty and employee satisfaction, or, in some cases, generating profit	Need to provide funding for a significant part of the partnership's operation
NPO	Gaining financial resources from the corporate partner and various intangible assets from the government partner No need for fundraising	Limits on organizational autonomy Potential decrease in operational efficiency due to imposed government regulations

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information related to the PPP's operation, while relieving the heavy regulatory burden imposed on the non-governmental stakeholders (Han and Hong, 2017).

To conclude, we have some recommendations regarding the role of governments in creating a sustainable partnership. Due to the institutional structures (such as regular elections and bureaucratic job rotations) that influence politicians' and bureaucrats' actions, governments may become myopic (Hong 2017) and have an incentive to focus on the short-term efficacy of a partnership, rather than on building long-term capacity. For a partnership to have a long-lasting positive impact on society, it is vital that the government supports its non-governmental partners to build the capacity needed to ensure that the PPP is sustainable. Furthermore, governments need to tread lightly in terms of oversight. Of course, oversight is necessary but governments need to ensure that they are not damaging the PPP by doing it.

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IMPACT

This study has examined tripartite PPPs—partnerships between government, business, and nonprofit sectors. A tripartite partnership allows the government, the firm, and the NPO to focus on their particular advantages, leading to productivity gains. Tripartite partnerships have the potential to create more public value than traditional public–private collaborations. Trust between partners and a sense of 'equal partnership' are critical in making a tripartite PPP sustainable, as both significantly reduce bargaining costs when forming and operating the partnership.

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