

## MANAGING MULTIPLE MARKETS: BIG FIRMS AND PFI

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## MANAGING MULTIPLE MARKETS: BIG FIRMS AND PFI

### ABSTRACT

The Private Finance Initiative is frequently portrayed as a vehicle for change for the UK construction sector. Significant change in the working practices of construction companies are predicted as new business models based on whole-life value creation emerge. This paper shifts the focus of discussion from projected ideals and possible developments to the current situation. More specifically it focuses on the challenges which large firms participating in both PFI and traditional markets face. The analysis focuses on the relations between business units and on day-to-day challenges to greater long-term commitment, through life-service provision and greater integration between construction and service provision. The paper concludes with reflections on the contributions of this case to an appreciation of the effect of PFI on construction practice and to theorizing on organizations and strategic change.

**keywords:** PFI, value creation, multiple markets, collaborative working, integrated solutions

## INTRODUCTION

In the UK, the Private Finance Initiative (PFI) has been portrayed as a vehicle of change for a construction sector that is not living up to its potential (cf. Winch, 2000; Saxon, 2005). The dominant view over the last decade has been that PFI projects create business environments that encourage improved practices in construction (cf. HM Treasury, 2000, 2003). Notably it is claimed that, as these kinds of arrangements involve replacing cheaper public finance with more expensive private finance, project participants will look for compensatory savings in other cost areas (e.g. Birnie, 1999). The fundamental pre-requisite for such savings is assumed to be the opportunities and incentives provided for collaborative working arrangements between designers, constructors and operators (cf. HM Treasury, 2008b). This, it is claimed, leads private sector actors to provide innovative solutions in response to the client's service requirements (cf. HM Treasury, 1997, 2003, 2006).

Not surprisingly, PFI projects and their international counterparts Public-Private Partnerships (PPPs) have attracted considerable attention from academics from a variety of disciplines. Within the construction related literature, interest developed in the latter parts of the 1990's, primarily in the area of risk management (e.g. Akintoye *et al.*, 2001; Grimsey and Lewis, 2002). More recently, several studies have been undertaken to establish how best to organise for projects, both on micro and macro levels (e.g. Clifton and Duffield, 2006; Koch and Buser, 2006; Barlow and Köberle-Gaiser, 2008; Zheng *et al.*, 2008). A significant number of research publications have

focused on means of improving project performance and have provided a vast array of best practice recommendations and critical (success) factors (e.g. RICS, 2003; Doane, 2005; Li *et al.*, 2005; Pitt *et al.*, 2006).

The present paper adopts a different approach. The focus is on how large construction companies have adapted to the PFI market. Current discussions rest on the assumption that the PFI procurement route will transform not only individual project performance but the sector in general. While this vision may eventually be realized, it deflects attention from the dynamic and heterogeneous context in which construction firms currently work. Big firms work within a variety of different procurement systems, in multiple markets, with multiple institutional logics. This paper explores some of the challenges which this situation creates. In particular it investigates the effect of PFI on the relations between organisational business units. This analysis provides a basis to assess the much touted promise of PFI to transform the working practices of the construction sector

Section one examines current PFI markets, while section two documents what we refer to as ‘the PFI ideology’. We use the term ‘ideology’ cautiously to underline the visionary quality of most policy statements and academic research on the topic.

Rather than providing an account of how PFI contracts actually work, most policy documents offer prescriptive and normative accounts of the PFI promise. Curiously, much of the academic literature accepts this ideological account as empirical description; instead of exploring actual experiences on the ground, it focuses on

technical fixes designed to secure the vision. Section three provides a conceptual framework for analysing the effect of PFI procurement on the structure and practice of large construction firms. The approach adopted builds on the conjunction between the sociology of organizations, and in particular, neo-institutional analysis, and work on strategic change. More specifically, it underlines the symbolic and instrumental challenges which entry into the PFI market introduces.

The paper concludes with reflections on the contributions of this case to an appreciation of the effect of PFI on large construction firms and to theorizing on organizations and strategic change. Whereas much policy and academic literature assumes that firms are unitary entities which work in uniform environments and that strategic change involves a shift from one coherent environment to another, PFI challenges this model and calls for empirical and theoretical inquiry into the challenge of internally complex firms in multiple markets.

## **I. THE PFI MARKET**

### **The Private Finance Initiative**

PFI was first introduced in the UK by the Conservative government in 1992 as a means to modernise an ageing public and social infrastructure. Most commentators maintain that it was the limited availability of public funds that led the government to

invite the private sector to compete for the provision of public infrastructure facilities (Clark and Root, 1999; Broadbent and Laughlin, 2002). Others point to the high propensity of public sector projects to exceed costs and time constraints in the 1980's (Greenaway et al., 2004; Davies and Salter, 2006). Since its launch, PFI has expanded significantly to comprise 10-15 % of UK government's capital procurement budget (HM Treasury, 2006). As such, it represents a sizeable part of the overall UK construction market. However, it is characterised by extensive barriers to entry and firms need sizeable capital resources to carry the cost of bidding (NAO, 2007b). Indeed, it is not for everyone as opportunities to take leading roles in projects tend to be limited to a small minority of firms within the construction sector (RICS, 2003; Shaoul, 2009). Only a handful of the large contractors operating in the UK are routinely engaged in bidding for long-term PFI projects that involve the financing, design, construction and operation of assets.

In addition to growing in size and scope, the initiative has also been marked by significant changes in policy context, procurement procedures and forms of contract. The initiative was, for example, re-launched twice; first in 1993 and again in 1995. It was subsequently revitalised and partially rebranded as Public-Private Partnerships by the incoming Labour government in 1997. It has since been subjected to a number of government-sponsored reviews (e.g. Bates, 1997, 1999) and has been influenced and guided by bodies such as the Private Finance Panel, the Treasury Task Force, Partnerships UK and the Office of Government Commerce.

Changes in procedures and policies have been driven in no small way by successive additions to the EU public procurement directives. Of note is the introduction of ‘Competitive Dialogue Procedure for complex projects’ in 2006. The procedure has significantly effected the way in which relationships between the client and Special Purpose Vehicles (SPVs) play out in the early tendering stages as well as in the preferred bidder stage (NAO, 2007b; OGC, 2008). Changes in public procurement strategies within the country have also had an impact on PFI. A notable recent development is the £45 billion ‘Building Schools for the Future’ programme (Education and Skills Committee, 2007). Its emphasis on increased involvement of local authorities and the forming of local education partnerships is far removed from previous PFI practices (cf. HM Treasury, 2006).

In summary, PFI plays a limited but important part in public sector capital investment in the UK. The official arguments and justifications for PFI have developed over time (HM Treasury, 2000, 2003, 2006) and forms of standardised contracts and procurement procedures are continuously evolving (HM Treasury, 2007; NAO, 2007b)

### **The challenge of multiple markets**

Most large contractors acting on the UK market operate on the basis of a devolved corporate strategy and structure. They are commonly the result of a string of mergers and acquisitions and are characterised by decentralisation and localised autonomy.

The business units within these companies frequently possess their own distinct

cultures and identities. They are likely to have made significant investments in relationships with other organisations, in particular with clients, in order to secure their channels to market. Hence, construction firms venturing into the PFI market do so with established track records in the various construction disciplines and trade on the reputations of their individual business units.

There is little doubt that the present PFI market is too big for most of the large construction firms active in the UK to ignore (HM Treasury, 2008b). But the current market is hardly large enough to be the single source of business. The initiative is, as previously noted, under frequent re-evaluation and highly sensitive to government policies (HM Treasury, 2008a). In addition, the nature of PFI projects and the relative infrequency of them being put out for tender makes the market anything but stable. PFI projects differ quite sharply in size, scope and in the nature of construction and operation. They do not appear on a consistent basis and invariably they have long gestation periods. All in all, large PFI infrastructure projects are few and far between. It is therefore inevitable that contractors strive to maintain their profits in traditional practices (cf. Green *et al.*, 2005; Green and May, 2005). This requires them to play a dual game of securing their position in traditional markets whilst mobilising resources to compete in the PFI market. One of the main challenges facing large construction firms active in the PFI market (from here on called PFI firms) is how to adapt their internal organizational structure to meet the demands of multiple markets, with distinct institutional logics.



## **2. THE PFI IDEOLOGY**

As indicated above, we adopt the phrase ‘PFI ideology’ to refer to the widespread consensus expressed in both policy documents and academic research concerning the characteristics and benefits of PFI. A brief review of the key tenets of this faith serves to outline the rules and standards to which firms must be seen to conform in order to gain the status of ‘legitimate PFI player’ and win work in this market. This discussion, in turn, provides a basis to examine the challenges which participation in PFI and traditional procurement systems poses for PFI firms.

### **Value-for-money through the provision of integrated solutions**

Government and public sector client organisations are undoubtedly key stakeholders within the PFI context. A recurrent theme in their justifications of PFI has been the potential of delivering ‘value for money’ (e.g. HM Treasury, 2000, 2003, 2006). The argument put forward is founded on the assumption that collaboration between different specialist niches will lead to cost effective innovative solutions to the client’s service requirements (cf. Leiringer, 2006). Sought after activities are those that accord with the perception of the commercial organisation maximising its skills in planning, designing and providing public services (HM Treasury, 2008a).

Various professional bodies and industry interest groups have adopted this view and similarly commented on the potential that PFI has for initiating significant change in the working practices of the construction sector (e.g. CIC, 1998; RICS, 2003). A recent report goes as far as stating that “The Private Finance Initiative (PFI), and its corporate counterparts, are opening up new business models for life-cycle value creation” (Saxon, 2005, p.1). The supporting argument draws heavily from the literature on ‘integrated solutions’ in capital goods provision, which repeatedly emphasises that added value is generated through the provision of customised solutions that accord to specific customer needs (e.g. Davies, 2004; Hobday *et al.*, 2005). This, it is argued, is not achieved solely by adding services to complement traditional product offerings, but requires firms to take over activities previously performed by their customers (Brady *et al.*, 2005b). This is considered to require a significant degree of restructuring of the organisation (Galbraith, 2002).

As this brief account indicates, the model of organizational change associated with PFI is identical with long sought after changes in the construction sector as a whole. Common elements include long-term commitment; customer satisfaction and through-life collaborative working (cf. Saxon, 2002).

### **Whole-life considerations and service delivery**

The idea that consortium members are contractually tied up for the long term is frequently presented as a guarantee that issues such as functionality and through-life value for money will be at the fore of project proposals and that technical solutions

will be aligned to these. That value and innovations accrue in this fashion have been reiterated in several policy documents (e.g. HM Treasury, 2000, 2003). A distinctive feature of the model concerns the effects of prolonged contractual obligations, which supposedly force the contractor to consider the interaction of design solutions and construction methods with long-term performance. Thus, long-term commitment is believed to force private actors to produce something that is durable and functional whilst keeping whole-life costs to a minimum (HM Treasury, 2003).

From a policy point of view, there is a strongly articulated belief that the added whole-life dimension in PFI leads to an integration of products and services that is beneficial to the clients and, ultimately, the taxpayer (HM Treasury, 2000, 2006, 2008a). Recently, service provision has become the main focus of the value debate and measures have been taken to facilitate benchmarking and market testing of the services provided (NAO, 2007a). This has led some commentators to argue that it is the effective delivery of services in the post-construction phase that ultimately determines the overall project success (Tranfield *et al.*, 2005). This is also seen to force the introduction of a ‘service-delivery focus’ into construction (*ibid.*).

### **Academic literature**

The benefits of PFI to the taxpayer have always been heavily contested. The largely positive documentation emanating from the Treasury (HM Treasury, 2000, 2003, 2006, 2008a; PUK, 2006) and Government commissioned reports (e.g. Arthur Andersen and Enterprise LSE, 2000; PwC, 2001) is contradicted by a significant

number of articles in accounting and public policy academic journals (e.g. Pollock *et al.*, 1999; Broadbent and Laughlin, 2003; Flinders, 2005; Shaoul, 2005; Pollock *et al.*, 2007); PFI has also met with vehement opposition from some trade unions (e.g. UNISON, 1999, 2001, 2004). Nevertheless, broad support for the line of argument presented in government policy documents is evident in the construction literature. A wide variety of benefits supposedly accruing from PFI arrangements have been put forward. These include benefits to the tax payer such as lower project costs (e.g. Haynes and Roden, 1999) and shorter construction times (e.g. Tiffin and Hall, 1998). They also cover benefits to the private sector firms in the form of competitive advantages (e.g. de Lemos *et al.*, 2003) and raised company profiles (e.g. Baldwin, 2003) and benefits to both public and private actors such as an increased use of innovative solutions (e.g. CIC, 2000). PFI is also repeatedly presented as providing the opportunity and incentive for construction firms to re-orientate their organisational strategies and structures (Saxon, 2005).

The PFI ideology and the vision for the construction sector championed by Saxon (2002, 2005) have strong persuasive appeal and have found plenty of support in the construction management literature. While there is some recognition of the difficulties that individual firms face in seeking to restructure themselves (e.g. Winch, 2000; Brady *et al.*, 2005a; Davies and Salter, 2006), a significant portion of this work begins by accepting this idealized model as given and targets areas where it is believed that performance could be improved (e.g. Robinson and Scott, 2009). Commonly, practices that are deemed not to live up to the doctrine of improved

performance and value creation are highlighted and normative recommendations are provided to 'fix the problem'. Examples include recent publications on: alliance contracting techniques (Clifton and Duffield, 2006); bidding (Zitron, 2006); contract negotiations (Ahadzi and Bowles, 2004); critical success factors (Li *et al.*, 2005); innovation (Eaton *et al.*, 2006); knowledge management and knowledge transfer (Carrillo *et al.*, 2006); principal factors in creating value for money (Pitt *et al.*, 2006); and relationship management (Smyth and Edkins, 2007).

### **The PFI ideology encapsulated**

As this brief overview suggests, policy reports and academic studies hold out a number of promises for PFI. According to this ideology, the PFI procurement route will facilitate added value in construction projects, lead to integrated product and service provision, involve the industry in service provision and support the long-term commitment of firms to their infrastructure offerings. Furthermore, these effects will not only be limited to specifically PFI projects. Instead, the promise in the literature is that PFI will serve as a catalyst for the structural and cultural transformation of the construction sector as a whole.

### **3. THEORY: SITUATING PFI FIRMS AT THE INTERSECTION OF NEO-INSTITUTIONAL AND STRATEGIC CHANGE THEORY**

The analysis of PFI firms which follows draws on elements from both neo-institutional and strategic change theory to explore the demands which participation in both PFI and traditional markets places on the internal organization of a large construction firm. We take from neo-institutional theory its emphasis on the position of firms in organizational fields marked by distinct logics and its insistence on the central importance of legitimacy for market participation (cf. Meyer and Rowan, 1977; Zucker, 1977; DiMaggio and Powell, 1983; Zucker, 1987, 1988; Scott and Meyer, 1994; Kostova and Zaheer, 1999). Building on institutional theory, markets or organizational fields are characterized by a taken for granted set of rules and shared meanings governing commercial practice; these include rules concerning who can participate in a particular type of practice, the relations between them and how they should act. Legitimacy depends on conformity to these normative codes of conduct (cf. Baum and Powell, 1995; Dacin *et al.*, 2007). We use the term ‘PFI market’ to refer to the organizational field surrounding PFI.

As these brief remarks suggest, neo-institutional theory focuses on relatively stable situations in which fields are highly institutionalized and the rules are taken for granted. PFI, however, present a different problem, namely the creation of a new market by government decree. In this situation, we argue, the rules governing social interaction have yet to pass into the realm of common sense and legitimacy depends,

not on a fit with institutional norms, but on a fit with stakeholder ideology. In the case of PFI firms, this insight draws attention to the need for PFI players to conform to the demands and expectations of PFI projects, as spelled out in policy statements and government directives, i.e. the 'PFI ideology'.

We take from strategic change theories their focus on the role of managers in securing legitimacy both vis-à-vis stakeholders and, more importantly for our purposes, within the firm. Whereas neo-institutional theories treat rules and standards as the building blocks of commercial activity, strategic change theories treat them as resources to be manipulated in the pursuit of legitimacy (Dowling and Pfeffer, 1975; Pfeffer and Salancik, 1978; Pfeffer, 1981; Ashforth and Gibbs, 1990; Suchman, 1995). The focus on strategic change draws attention to the processes by which managers respond to changes in the broader environment or organizational field (cf. Van de Ven and Poole, 1995; Rajagopalan and Spreitzer, 1997; Fiss and Zajac, 2006). This may come about as a result of market crises, government action or decisions by firms to reposition in a new market. Both neo-institutional and strategic change theories, it should be noted, privilege symbolic elements – be it rules, standards, norms or values – in the regulation of market relations and both treat legitimacy or the securing of stakeholder approval as a central aspect of all commercial activity.

A major contribution of strategic change theory for our line of investigation lies in its focus on the different mechanisms which managers use to secure legitimacy. These

include substantive and symbolic activities (Pfeffer, 1981; Ashforth and Gibbs, 1990; Fiss and Zajac, 2006). Substantive management involves 'real' changes in organisational goals, structures and processes to align firm structure and practice with the ideals and expectations of the organisation's stakeholders. Symbolic management techniques, in contrast, focus on the use of language and frames to communicate the rules governing the firm's practice. Whereas strategic change approaches tend to treat these forms as devoid of substantive content, institutionalists treat them as constitutive of firm structure and practice. The discussion which follows builds on the latter approach. Instead of viewing substantive and symbolic actions as distinct types of activities, we conceptualize them as two dimensions of the same activity. The same practice may have a symbolic effect, helping to display the fit of firm practice with broader institutional structures and thus securing needed legitimacy in the eyes of stakeholders and a substantive effect altering everyday practices within the firm.

A key difficulty which we have with most of this literature is the failure to conceptualize the challenge of heterogeneous firms working in multiple markets. To the extent that the strategic change literature acknowledges the existence of multiple environments, it is almost always presented as a problem of transition from one to another, rather than a 'normal' situation which has to be continually managed. In one of the few exceptions to this rule, Suchman notes that:

*organizations occasionally find themselves unable to operate in a single, coherent environment, despite their best efforts. When this problem occurs, managers may attempt to control conflicts by selectively reconfiguring environmental constraints, either by segregating environments and catering to*



*one at the expense of the other, or by integrating environments and demonstrating that organizational behaviors would be legitimate under any applicable standard (1995, p. 590)*

Whereas Suchman presents this situation as unfortunate, construction firms accept multiple marks as a permanent feature of their institutional landscape. Thus, of the two responses which Suchman identifies, neither characterizes successful PFI firms. The PFI ideology calls for the integration of the two environments, but through the extension of PFI logics to all projects, be they private, public or mixed. However, as the discussion which follows indicates, this has yet to happen – if it will at all. Instead, PFI firms participate in both traditional and PFI markets. The questions which we pose here are: How have PFI firms adapted to their current heterogeneous environment? What internal structural challenges does engagement in multiple markets pose? And what institutional mechanisms have they adopted to manage them?

To anticipate our findings, two strategies seem to be particularly central. These include structural re-organization and ambiguity-by design (Gioia and Chittipeddi, 1991). The first refers to the creation of new business units to coordinate and mediate participation in PFI markets. The latter refers to the openness or interpretive flexibility of certain key concepts, which allows business units to ascribe different meanings to the same terms, while affirming adherence to a shared corporate identity and legitimating participation in multiple markets. But whereas Gioia and Chittipeddi present this as the result of a Machiavellian strategy to manipulate different groups in an organization to support a new corporate strategy, we view this ambiguity as an

inherent feature of ideologies and abstract goals such as ‘value added’. The empirical question is: What range of meanings are ascribed to key terms and does that ambiguity facilitate or obstruct the ongoing work and legitimacy of the firm?

#### **4. RESEARCH METHOD**

The paper draws on data collected for a larger study of one of the largest international construction companies operating in the UK. The research focused on how through-life value is conceptualised in a large construction firm and the factors that facilitate or inhibit firms to compete on this basis. The research was undertaken over a period of two and a half years, 2006-2008.

##### **The case study firm**

The case study firm offers an example of a successful PFI firm which is both internally complex and active in multiple markets. Intbuild (fictitious name) is a highly successful construction company. Much of this success relates to a de-centralised business structure and an organisational culture that affords individual business units the room to operate autonomously. The company is essentially a holding company comprising more than twenty business units, several of which have a presence in the UK. Each unit functions as a separate entity with its own projects, clients and budget. The relative freedom afforded to the business units has created a

company that is characterised by a high degree of adaptability to respond to different markets. The case study focused on three of these: the civil engineering unit (CivilCo), infrastructure and asset management services (ServiceCo), and the private finance and investment unit (FinanceCo).

In line with many of its competitors the company seeks to promote itself as a provider of services and ‘added value’ to its clients, and frequently highlights this in corporate reports and promotional materials. The company has by its own admission been hugely successful in winning PFI bids. It is well established in the PFI market and is widely regarded as a leading PFI contractor with an expressed policy of embedding investments for the long term.

### **Data collection and methodology**

Data was gathered from a variety of sources. Numerous visits were made to a range of construction sites and local and corporate offices and were supplemented with in-depth reviews of corporate material, including published annual reports, internal company reports, presentations and strategy documents. A research log was maintained throughout the case study allowing for interactions with the company to be formally documented. Reviews were also made of relevant governmental and public sector client policy statements and strategies and other publicly available literature, such as the technical press and interest group reports. Complementary insights were sought from discussions with a variety of client bodies and six interviews were undertaken with senior officials with responsibility for procurement.

Throughout the case study the emergent findings were tested through regular feedback sessions with representatives from the three business units. These sessions were also complimented with in-company workshops. Additional insights were derived from twenty-seven semi-structured interviews with senior managers across the three business units, each lasting between 60 and 150 minutes. The interviewees included directors; bid, contract, commercial and business development managers; and HR, operational and site managers. All interviews were recorded and subsequently transcribed *verbatim*.

The analysis and discussion which follows relies primarily on these semi-structured interviews. While the data was not collected with the challenge of multiple markets in mind, the insights gained through interviews with these senior representatives nevertheless provide a valuable window into the relations between business units bidding for PFI projects. Thus, for the purposes of this paper, the transcripts were revisited and data was recoded for insights into unit managers' views of corporate and business unit identity, the effect of structural re-organizations in general and PFI contracts in particular on individual units and for the interactions between business units.

## **5. DATA ANALYSIS**

The three business units CivilCo, ServiceCo and FinanceCo have been involved in bidding for and realising several PFI schemes since the latter parts of the 1990s. The discussion which follows explores a number of the central tenants of the PFI ideology and the way in which business units experience and manage the firm's general commitment to these goals. Before entering into the analysis, it is helpful to say a few words about these three units and their place in the internal organization of the firm.

### **Semi-autonomous business units**

'ServiceCo' is well embedded in the UK infrastructure services market. The unit's origins lie in road and town maintenance contracts for local authorities. Since its establishment in the UK in the 1990s, it has successfully secured several long-term 'term maintenance contracts' with a variety of local authorities. The business unit has over the last decade also established itself as one of the major players in highways maintenance and asset management. It has been so successful in this particular market that it is close to the limit in the amount of business that is allowed under current regulations. ServiceCo's role in PFI projects has grown steadily in line with the general trend of the service/maintenance portion of the contracts increasing.

CivilCo has a long history and tradition and has over the years served as the backbone of Intbuild. In many ways it is the epitome of the traditional civil engineering contractor. It has an established international track record of winning

high-profile projects. In the UK it operates across all segments of the infrastructure market.

Intbuild has been active in bidding for PFI contracts ever since the initiative introduced in 1992. In the first couple of years business units within the firm bid for these projects individually. However, as the number of PFI projects slowly started to increase in the mid 1990's FinanceCo was created as a business unit in its own right, largely in response to the potential growth of PFI. FinanceCo is currently the primary point of contact with PFI clients and is presented as the focal point behind which other business units come together in bidding for PFI projects. As such, it takes a co-ordinating role in bringing together other parts of the organisation. Key in-house capabilities include strong legal and financial management skills and a high proportion of the employees come from a non-construction background.

### **Structural integration and business unit reputations**

At a company wide level much is made of the company's track record in various markets. There is a sense of pride in what the company and the individual business units have achieved and this is considered a significant competitive advantage vis-à-vis competitors. At the same time, there is a certain tension between the demands for greater integration and business unit reputation.

*[FinanceCo] is our PPP part of the business and it is an important part of the business and a very profitable part. But I think it exists a lot because of the*

*delivery and the credibility of CivilCo and the regional businesses to deliver schemes successfully. [Director, CivilCo]*

One of the main changes associated with bidding for PFI projects is a shift in responsibility for negotiating contracts from business units to the FinanceCo. This arrangement was readily promoted as facilitating greater collaboration between specialist niches.

*I think the end product and the whole contractual arrangement is an improvement in the way that, people can work together and, hopefully, deliver best value. [Senior manager, CivilCo]*

However, below the surface, interviewees hinted that such attempts were not without difficulties. In particular, internal stakeholders differed over how to strike a balance between what was best for the bid and what was best for the individual business units. FinanceCo's main priority is to win the bid whilst managers in other business units have their own lines of reporting and the responsibility to make sure that their organisations remain competitive in their home markets. The creation of a separate finance unit may increase the ability of the firm to design customised solutions and attend to client needs, but it also distances individual units from their clients. A number of managers noted that they were asked to sacrifice established channels to markets and customer relationships, which at times led to considerable frustration.

*I think in some ways we are more removed from the client in a PFI situation, because you have got essentially some sort of concession organisation. You have got an SPV entity, which effectively is the buffer protecting equity investment and is the direct client [Director, CivilCo]*

In part, this tension between business units can be understood as a difference in the meaning of ‘added value’. For the FinanceCo, added value depends on integration and their ability to put together the business deal; for the ServiceCo and CivilCo it lies in the quality of work and contacts which they bring to each job and which are subsumed under the concept of reputation. The fact that all units buy into the firms’ commitment to added value and the ambiguity of the term helps to mediate this tension, as does the FinanceCo's sensitivity to the issue and its recognition that part of its job is to manage the aspirations and priorities of the various business units. A closer examination of collaborative working arrangements illustrates some of the strategies adopted to manage this tension.

### **Collaborative working arrangements**

The system of approval processes that FinanceCo has put in place in order to manage the aspirations and priorities of the other business units is, out of necessity, very sophisticated. This level of sophistication reflects the high risks at stake and helps overcome some of the tensions caused by the different lines of reporting that exists within the company. A direct consequence of this approach is that the three business units, even when developing joint PFI bids, exist as quasi-independent entities, rather than inter-dependent ones that are aligned towards the provision of customised integrated solutions.

To all extent and purposes, CivilCo and ServiceCo bid for work as they would for any other project and retain responsibility for returning a profit.



*The budget is held by the concession, but in terms of the construction and the operation side, we do that with our fellow business units. ... And they, of course, will pitch that to us at an arms length basis and receive their commercial margin for doing that, if they are successful. Effectively, it is traditional construction business... They bid a price to us and we build that into our PFI offer to our Local Authority client. [Senior manager, FinanceCo]*

The commercial negotiations are, thus, at arms length; FinanceCo maintain close control over the bidding process, albeit with little control over other business units pricing policies. While this system may not fit completely into the PFI ideology, it represents a structural accommodation to the need to work in multiple markets and to the ambiguity contained in concepts such as added value.

The solution is not, however, without tensions. On the one hand, separate business units will seek to keep as much money in their own divisions, but on the other hand, they are reliant on their relationships with fellow business units and decisions made at the concession level.

*I feel that we are not fighting internally all the time. But having said that, the commercial negotiations between various company business units are, indeed, at arms length against, you know, fully developed contracts and those discussions are interesting, yeah, interesting. [Senior manager, FinanceCo]*

Small step changes in attitude and behaviour can be identified, in particular in a growing recognition of certain advantages to coordination.

*If one of us wants to be building a road and the other one wants to be maintaining the road, then there is no conflict at all, we work well together. We are not yet brilliant at capitalising on the strengths of both of us, but what we are probably better at, is seeing the weaknesses and mitigating them, so we sort of do that bit, but we are not yet good at seeing the opportunity and working closely together. [Senior manager, ServiceCo]*

At the same time, coordination is far from complete not least at the operational level. As a manager within CivilCo indicated: “*We probably find it easier to work with [major competitor] than we do to talk to ServiceCo*”.

### **Mobilising for service delivery**

Another central tenant of the PFI ideology concerns service delivery. The concept is a key component of Intbuild’s corporate identity and figures centrally in corporate documents. All three business units have incorporated this central feature of the firm’s corporate identity into their individual unit identities and the importance of service aspects in PFI was unilaterally agreed upon across the three business units.

*PFI, let us not forget, was brought in to try and herald a new service-based approach to procurement...So, there is the whole concept of service provision underpinning the whole sort of philosophy of PFI. [Director, CivilCo]*

ServiceCo in particular was consistently presented as being at the forefront of service delivery and portrayed as pivotal to the company’s PFI undertakings. However, whilst the importance of service was unanimously agreed, and there was a wish across the three business units to promote the company’s service-focused delivery capacity, the meaning given to ‘service’ varied significantly across business units. The many different interpretations of service within the company, and how they had been appropriated to suit individual needs, were duly noted by a ServiceCo director:

*You go into a meeting to talk maintenance and they have never seen a bit of maintenance in their life, but they are talking about,” well, we have to think about the maintenance, you know, we are the experts”. Almost all the*

*construction people say:” Oh, we are the experts in maintenance, we do not really need you, [ServiceCo], to tell us about maintenance, we are thinking about it now”.*

ServiceCo employees were in general similarly dismissive of their CivilCo counterparts’ claims of being service providers; reflecting the different day-to-day realities in which they operate. It should, however, not be forgotten that the distinction between product delivery and service provision lends itself to a significant degree of interpretation in construction. Indeed, that construction invariably takes place at the point of delivery explains why the managers in CivilCo would consider themselves providers of construction services.

Despite an apparent endorsement of a more service-focused approach there were still limits to the extent to which individual managers in CivilCo were willing to concede a shift in emphasis in business strategy.

*We are, after all a Civil Engineering business, or that was our origins. I think it is important for us that we maintain that identity and we do not diversify to purely a service provider type organisation. I think it is important that we recruit good civil engineers, who want to build and construct things and improve things. [Director, CivilCo]*

Thus, managers within CivilCo understood the real and potential significance of a service-focused approach in PFI. They also had fairly clear views on what it meant to be a service provider. But they did not readily recognise themselves or their unit as service providers in the same sense as the managers in ServiceCo.

## **Long-term commitment to PFI undertakings**

Intbuild's long-term commitment to PFI projects is frequently highlighted in corporate material. Apart from the obvious declarations of being a long-term player, significant substantive effort has gone into creating and participating in concessionaire brands. The official strategy is quite clear and it has filtered down the organisation, especially within FinanceCo.

*At the moment we have been stating quite strongly in our bid documentation that we are a long-term player, and we are in it for the life of the concession, and it is not in our interest to sell down to churn the equity into other projects. [Director, FinanceCo]*

The idea of being a long-term investor in the projects is a source of pride in FinanceCo and, indeed, in the company as a whole. Employees across the three business units frequently pointed out that not all construction firms claiming to be in PFI projects for the long term act accordingly.

*From my exposure to [major contractor], and where they have given papers at conferences, and so on and so forth, and our knowledge of them when we were working on [major PFI project], and other European contractors who we work with in joint venture, and a lot of the UK contractors who we work with, or work as competitors, we know that they are really only interested in the construction work. [Director, FinanceCo]*

The implication here is that, for some of Intbuild's competitors, long-term commitments are more ceremonial or symbolic than substantive. Holding on to equity and staying in the concession companies for an extended period and hence being

considered a long-term investor in PFI concessions is, thus, considered to be a strong differentiator and advantage in relation to competitors.

However, this image of long-term commitment is not as complete as the ideology might suggest. Whilst the company so far has kept the majority of their equity shares in concessions, they are still keen on renegotiating the contracts with their subcontractors. In this fashion they push operating risks and responsibilities down the supply chain.

*The way the contracts are written, or the way the contracts were initially thought, we win a 30 year contract and you let supply chain contracts for five years. So, each time those five years have come up, more risk has been passed to the supply chain. [Director, FinanceCo]*

Thus, whilst clearly taking on a greater degree of long-term commitment by retaining their equity shares, FinanceCo nevertheless strives to limit its responsibilities in the long-term operations. Similarly, managers in FinanceCo are well aware of the maturing secondary market for the sales of PFI equity (NAO, 2006; HCCPA, 2007) and like many of their counterparts in other major construction companies they do get involved in refinancing and restructuring of the contracts.

*It is not that we are not keen on it, and we do do it, and we do sell on parts of our concessions and then buy them back again as well. So we do, do those things, but it is not part of our operating regime to do it. Our strategy is not based on that. Our strategy is based on a long-term investment. [Director, FinanceCo]*

In this way the firm sustains a symbolic and substantive commitment to long-term investment, while leaving itself room to modify the amount of time which long-term

entails. This is a reasonable and essential strategy given the relative novelty and volatility of the PFI market.

## **6. DISCUSSION AND IMPLICATIONS**

### **Managing multiple markets**

The firm examined in this paper is hugely successful in winning PFI bids and is commonly considered as a leading contractor in the PFI infrastructure market, and indeed in several other sectors of PFI. Much of the literature relating to PFI and the working practices of the construction sector assumes that PFI provides a significantly changed environment and the economic imperatives to instigate changes in organisational structures and collaborative relationships. The empirical findings suggest a much more complex picture whereby participation in multiple markets calls on the successful PFI firm to move between different institutional logics. This is due to the relatively small share of PFI projects both within the market as a whole and for individual firms. It also reflects the continuously evolving nature of the initiative itself.

Our analysis of the views of managers in three different business units reveals some of the mechanisms by which these tensions have been managed. Two, in particular,

stand out: structural re-organization and the embrace of ambiguity. Both, we suggest, have substantive and symbolic dimensions.

A number of structural arrangements, including the creation of a specialist PFI unit (FinanceCo) attest to the firm's commitment to integrated solution provision. This unit serves the symbolic function of proclaiming the firm's commitments. They also help to secure construction and long-term service contracts. At the same time, this model challenges the firms' own strong philosophy of decentralization and allowing business units to manage their own affairs.

The tension is managed to a certain extent by a second mechanism, namely the ambiguity surrounding terms such as 'added value' and 'service'. For CivilCo, these terms refer to the high quality which their specialist niche provides, their ability to drive out costs and personalized service between themselves and their client. For the FinanceCo, they refer to the additional value which coordination by the FinanceCo promises to offer their clients. For the ServiceCo, 'service' refers to the provision of infrastructure and asset management. Far from being a problem, these differences in meaning would seem to be crucial to ensure business unit adherence to a shared corporate identity and the firms justified reputation as a legitimate PFI player.

### **Towards a new research agenda**

This brief exploration of business unit managers' experiences and views of the PFI procurement route provides an insight into the intra-organisational implications of

bidding for and undertaking PFI work. As such, it provides a starting point for explanations of why several of the sought after changes in behaviour not have materialised and why so many publications provide recommendations on improved practices. Whereas most of the literature focuses on various ‘success factors’ and ways of realizing the PFI vision, such as introducing knowledge management tools, our analysis makes a case for empirical studies of the situation on the ground. Instead of continuing to look for generic ‘technical fixes’ based on simplified models of both PFI firms and their environment, the case study findings suggests the need for more firm and project-level case studies, exploring the extent and nature of changes associated with PFI.

While it is clear that the past fifteen years of appeals for greater integration, value-for-money, customer satisfaction, service delivery and long-term commitments have transformed the dominant discourse amongst policy makers and managers, it is less clear how things have changed on the ground. Instead of working with an idealized dichotomous model of total fragmentation versus total integration, the case study highlights the need to explore the myriad of practices contained in terms such as ‘collaboration’ and ‘service delivery’, as realized in specific projects, situated in complex, yet specific environments.

In the case of Intbuild, the tension between the demand for integration and business unit reputation and different understandings of service provision and long-term commitment highlight some of the challenges which all PFI firms face. Instead of



criticizing firms for not collaborating more or responding better, this case suggests the interest of instead asking how PFI firms manage to protect the expertise and working relationships that support their excellence in specialized niches and secure their positions in more traditional markets, while realizing their PFI remit. This line of inquiry could lead to a more practical and nuanced understanding of intra-organizational dynamics throughout the project life-cycle. It could also, in turn, lead to a greater appreciation of the working relationships between different firms at different stages of PFI projects.

Research questions which this type of empirically driven research agenda raises concern the type of coordination which does in fact occur on PFI projects and the relation between different projects, firms and units within a firm. One of the aims of such studies, would be to identify the different internal stakeholders involved in a given PFI project, to consider the place of that project in their larger portfolio of activities, to explore the tensions which participation in multiple markets pose for them and explore the different ways in which these were managed at the unit, firm, joint venture and consortium level.

Longitudinal studies would directly contribute to our understanding of the ways in which abstract policy goals are being met. For example, long-term relationships are seen to provide a powerful stimulus to innovation, knowledge sharing and learning. Similarly, collaborative relations between designers, contractors and service providers are consistently promoted as facilitating the realisation of value for money.

Yet, relatively little is known about the scope and nature of the conditions which support or inhibit these relationships, the challenges which they pose, the redistribution of risk and responsibility with which different arrangements are associated or the added value which they offer.

#### **CONCLUDING REMARKS**

The establishment of PFI has undoubtedly had an impact on the UK construction sector, even if the resultant benefits not might be as evident as the literature will have it. The tendency of firms to sell on their interest in the concessions upon completion of the construction phase, or soon thereafter, calls into question the extent to which PFI initiates a change in operating practices or whether it merely provides an alternative route through which construction companies secure work. Indeed, compelling arguments for a substantive shift in intra-organisational behaviour, in and beyond the project environment, have yet to be established.

That said, the fact that PFI has not transformed the sector in the ways predicted, does not mean that it has not had any effect. It simply illustrates the limitations of assuming that the goals of PFI ideology have and will necessarily be realized on the ground in the way in which the idealized model predicts. This recognition, in turn, highlights the need to move beyond research directed at providing deterministic and prescriptive recommendations. It also underlines the need to abandon a simplistic

model of centralized homogeneous firms, working in a single institutional environment, and to capture the dynamics of decentralized large firms working in multiple markets on a variety of projects, some of which are PFI. The current research agenda should be expanded to include more empirical case studies, designed to capture PFI practices. This work, in turn, would provide a basis to explore the way in which particular mechanisms, such as structural re-organization and symbolic ambiguity, vary across cases, as a function of both firm structure and environmental logics. It would also provide researchers insights into the range of different forms which PFI practice has taken and the effect of environmental constraints on those practices. Such an agenda we submit would be equally valid in other countries and PPP projects in general.

This empirical analysis promises insights both to policy and theory. In terms of policy it helps to move policy makers (and researchers) away from highly abstract principles and the search for standardized technical fixes to a set of practical guiding principles which could be adapted to different settings and circumstances. Far from diverting attention from the broader goals of project performance and industry reform, this research would provide a base for more realistic and thus fruitful models of how to realize the PFI vision. It would also provide a basis for more learning in and between projects than is currently possible (cf. Winch, 1998).

From a theoretical perspective, this type of analysis would help to move discussions of legitimacy and strategic management away from simplified production based

models in uniform environments to models capable of capturing and theorizing the complex dynamics of lengthy, complex projects, in heterogeneous firms, in multiple markets. Instead of treating this situation as an unstable moment in the movement towards a simpler model, the proposed analysis would use case studies to identify the range of structural challenges and solutions. This paper, for example, highlights the tension between the demands of PFI for centralized coordination and the benefits in quality and value associated with decentralized organization and specialist niches. Theorizing would be around processes and mechanisms, rather than structural arrangements. The pay-offs would be a more realistic set of tools both for policy and further inquiry.

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