

## ORIGINAL ARTICLE

# Novel procedures to choose the management of PPPs

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### ABSTRACT

There is a large literature on public-private-partnership, covering many different areas and aspects. This article deals with a specific but important aspect: the decision-making mechanisms to choose the management of PPP enterprises. In this sector, a suitable choice of managers is of particular importance because the persons chosen must balance the public and private interests. This is often difficult to achieve. Two new procedures are discussed, “Directed Random Choice” and “Rotating CEOs”. In each case, the advantages and disadvantages of the procedure of choosing the managers of PPP enterprises are discussed and evaluated. It is concluded that the two novel mechanisms should be seriously considered when choosing the managers of PPP enterprises.

**Keywords:** *PPP enterprises; Directed Random Choice; Rotating CEOs; selection risk; diversity; burn-out; succession problem*

## 1. Introduction: Selecting managers of public-private enterprises

There is an extensive literature on public-private partnerships, covering many different aspects.<sup>1</sup> This is relevant because the combination of public and private institutions is of great and increasing importance in the modern economy. The author does not want to contribute to this literature but rather engage in an aspect less considered in academic writings: the selection of the management of public-private enterprises. To achieve efficiency with respect to the provision of infrastructure, it is essential to have suitable managers. If they are incompetent, or uninterested to perform well, this goal certainly cannot be achieved.

To identify the “best” top manager is a difficult, and sometimes nearly impossible, task in any organization. The persons involved in the selection must have a good knowledge of the education, experience and personality of the candidates. Even more difficult is to predict what the future challenges of the organization will be, and how well the various candidates are

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<sup>1</sup> See e.g., Hodge and Greve (2005; 2017), Liu *et al.* (2014) and de Bettignies and Ross (2004).

likely to master them. To put much weight on past performance may be suitable if the likely problems to deal with in the future are reasonably well known. It can be expected that a manager who performed well in the past will under such condition also perform reasonably well in another organization in the future.

However, in a *dynamic economy*, organizations most likely will have to master tasks still unknown in the present. In a public-private enterprise, predicting what the future tasks will be is even more difficult. Relevant are not only the general economic conditions, and the particular features of the sector in which the firm is acting, but also the specific interaction between the public and private parts of the enterprise. It may be that the public influence will be reduced, in which case a person who used to act in a private firm may feel at ease and will perform well. In contrast, when political conditions develop such that the public influence in enterprises is raised, such a person may feel in the wrong place and will not be able to function in a satisfactory way. Conversely, an administrator who used to understand how public bureaucracy works might then have an advantage. The direction in which the relationship between the two spheres in a public-private firm will develop in the future is nearly impossible to predict. As a result, the choice of successful managers is particularly difficult in this realm.

The choice of managers in public-private enterprises is made by a group of persons on the basis of a set of criteria for each candidate. Specialized managing consultants may help in selecting what are considered suitable candidates. But often there are direct political influences by the government, individual politicians, as well as by highly ranked public officials. The candidate selected in that case is likely not to be the most suitable one to master future challenges. As a consequence, the selection of managers is an even greater problem in public-private enterprises than in private enterprises.

For these reasons, this paper argues that new ways should be explored to select the Chief Executive Officers<sup>2</sup> of public-private enterprises.

This contribution discusses two novel proposals:

- The first is to establish a system of “Directed Random Selection” of Chief Executive Officers (CEOs).<sup>3</sup> This is discussed in Section 2.
- The second novel proposal is to introduce “Rotating CEOs” (henceforward called R-CEO) for public-private organizations.<sup>4</sup> This is discussed in Section 3.

At first glance, these two proposals are rather uncommon; they even seem to be outlandish. However, the author will try to carefully discuss the basic idea and the possible advantages as well as the disadvantages of each proposal. At the end (Section 4), the two proposals are compared and evaluated. The new light on the selection of managers of public-private enterprises should be of

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<sup>2</sup> A discussion from the economic point of view is provided by Bertrand (2009).

<sup>3</sup> See the joint work with Margit Osterloh: Osterloh and Frey (2016). Another term for randomness is sortation or selection by lot, and the application in politics is called demarchy or aleatoric democracy; see Buchstein (2010) and Frey and Osterloh (2016a; 2016b). Random choice as a general decision mechanism is discussed, e.g., in Frey (1969), Intriligator (1973), Elster (1989), Frey and Steiner (2014) and Van Reybrouck (2016).

<sup>4</sup> This section is based on joint research with Reiner Eichenberger. For a more extensive presentation, see Eichenberger and Frey (2019).

interest to both academics and practitioners.

## 2. Directed Random Selection of managers

### 2.1 The basic idea

A directed random selection of managers proceeds in two steps:

- *First step:* A selection committee chooses candidates for the managerial positions who are considered capable of performing well. They are evaluated according to the criteria considered relevant for the position to be filled. It is important that both the desired capabilities with respect to business as well as to public administration are taken into account. This step is in line with the way CEOs of public-private enterprises are chosen today, with the substantial difference that a *group* of candidates considered capable is determined, instead of a single person.
- *Second step:* A *random* selection among the managers in the *group* is performed. The candidate determined by this *aleatoric* procedure is installed as CEO.<sup>5</sup>

### 2.2 Advantages of Directed Random Selection

The determination of the CEO of a public-private enterprise via a random mechanism is in various ways superior to the selection of the CEO by a committee:

- The process is *efficient*. It is well known that to choose the top person among a group is in most cases time-consuming and often leads to marked conflicts among the members of the selection committee. As a result, the choice procedure tends to lead to an unsatisfactory management of a firm.<sup>6</sup> It is relatively easy to establish whether a candidate fulfills the basic requirement to lead a firm, but it is much more difficult to agree on who is best able to do that. This holds in particular because often some members of the committee introduce murky and damaging personal interests. In contrast, a random choice can be undertaken quickly and easily.
- The result is *clear*. When selecting by a committee, it is rarely obvious who the best candidate is because the members of the committee normally put different weights on different criteria.
- The random choice process establishes *equality* in the sense that every one of the contenders has the same chance of being selected. As a result, the person chosen as a CEO is less prone to be overconfident compared to the other managers.<sup>7</sup> The danger of hubris—which tends to lead to mistaken decisions—is contained. If the contenders not chosen by lot are employed in the public-private enterprise, the winner makes an effort not to be considered pretentious or even arrogant.

<sup>5</sup> Random selection, or aleatoric systems, have a long history starting in ancient Greece and Rome. See Sally (2002), Sintomer (2011) and Zeitoun *et al.* (2014).

<sup>6</sup> Bad leadership is discussed in Kellerman (2004).

<sup>7</sup> See Hayward *et al.* (2004) and Malmendier and Tate (2005)

## 2.3 Disadvantages of Directed Random Selection

Random selection has disadvantages to be taken into account:

- If a person is selected by lot out of an underlying group, possible *differences in qualification* are disregarded. The question is, of course, whether these differences are revealed. In principle, the criteria used by the selection committee should make clear whether a contender meets the qualifications required for the job. The problem is that these differences do not come up to the fore but remain hidden. This applies in particular to the performance of future tasks where it is not well known what the qualifications needed look like.
- Random selection will find *many opponents*. It is a novel idea, and such ideas are rarely accepted by a majority of the selection committee under normal circumstances. The members of such a committee tend to agree that they are well able to select the best candidate even if they disagree who he/she is. To accept a choice by lot may be interpreted by outsiders to indicate that the members of the committee are not up to their task. As a result, it is likely that random selection only has a chance to be implemented under extraordinary circumstances.

Directed random selection thus has major advantages and disadvantages, which need to be carefully compared also with other decision-making procedures.

## 3. Rotating CEOs in public-private enterprises

### 3.1 The basic idea

This selection mechanism also proceeds in two steps:

- *First step:* This is the same as for directed random choice. *According to the criteria established*, a selection committee determines the group of candidates considered capable of performing well as CEO of the public-private enterprise.
- *Second step:* One of the members of this team of managers is chosen as Rotating-CEO (R-CEO) for a restricted period of time. Thereafter, another member of the team becomes CEO, and so forth.

This mechanism allows fixing several important parameters:

- (a) The *length* over which a manager acts as R-CEO can be varied. It makes sense for the tenure not to be too short—it should probably not be less than half a year. On the other hand, no manager should be on top for a long period because he or she would accumulate too much power and may develop hubris. One year under many conditions seems to be a suitable compromise.
- (b) The *competences* of the R-CEO can range from just being a “*primus inter pares*”, essentially organizing the necessary meetings, to a “dictator” but with a limited period in power. The consequences for a firm are substantial, and therefore it must be carefully considered what competences are given to the R-CEO. Again, an intermediate solution may be most attractive.

- (c) The *compensation* of the R-CEO is different compared to that of the other members of the top management team. The difference in pay will certainly be smaller than the one typical between a sole CEO and the lower management.

### 3.2. Advantages of Rotating CEOs

Appointing R-CEOs is in various regards better than a single CEO:

- There is a *smaller selection* risk. If an R-CEO turns out not to be able to run the public-private enterprise successfully, his or her position ends within a foreseeable time. This contrasts to single CEOs, who sometimes cling to power though they are not performing well.<sup>8</sup>
- The overall management team is based on *greater equality*. Each R-CEO is well aware that he or she has to go back into the ranks of other managers. R-CEOs have an incentive to be leaders in the context of a team as their tenure will elapse.<sup>9</sup> The tendency to dominate the rest of the team—which often occurs with a sole CEO—is avoided. Indeed, an R-CEO is interested in supporting the team spirit because he or she will benefit from it in the future when back in the ranks.
- Over time, the enterprise experiences *more diversity* at the top echelon. Some managers may be especially capable with respect to business issues, while others may be with respect to dealing with public sector administrators. With the system of R-CEOs, these advantages are consecutively used within the enterprise.
- As each member of the top management team is Chief only for a limited period, there is *less danger of burn-out*. In the system with a single CEO, it sometimes happens that the CEO loses part of his or her capacity but nevertheless stays in power.
- The *leadership succession problem is strongly mitigated*. This issue haunts many firms after a single CEO departs for some reason or other.<sup>10</sup> There is regularly a period of unrest before a new CEO is appointed. This issue has become more prominent as a single CEO's period in power has on average shortened over the last decades.<sup>11</sup>

### 3.3. Disadvantages of Rotating CEOs

There are two major disadvantages of a system of R-CEOs:

- The managers acting as CEOs for a short period are *not able to gain as much experience* in their position as does a single CEO.
- An R-CEO *has less opportunity to build up an extensive outside network* within business and with the public administration and politicians. This disadvantage plays an important

<sup>8</sup> Vancil (1987), Aasland *et al.* (2010), Schyns and Schilling (2013) and Sui and Humphreys (2015).

<sup>9</sup> See also Alvarez *et al.* (2007), Alvarez and Svejnova (2005), Pearce (2007), Arnone and Stumpf (2010) and Arena *et al.* (2011). Broad reviews of distributed leaderships are provided by Bolden (2011) and Bennett *et al.* (2003).

<sup>10</sup> E.g., Favaro *et al.* (2011) and Björnberg and Feser (2015).

<sup>11</sup> Marcec *et al.* (2018).

role in some public-private enterprises, but not necessarily in all of them.

The system of R-CEOs has marked advantages and disadvantages over other procedures. It must be compared to other systems, taking into account different conditions.

#### **4. Conclusion: Comparing Directed Random Selection and Rotating CEOs for public-private enterprises**

Neither Directed Random Selection nor R-CEOs can be a system solving all major issues confronted by public-private enterprises. This holds in general but in particular also with regard to infrastructural investments. But the same is true also for the existing system of a single CEO. Which system is better depends on the specific conditions in which firms act.

This paper intends to open the discussion for two novel ways of selecting public-private top managers. An enterprise needs not depend on a single CEO<sup>12</sup> but the two other systems proposed here allow us to choose other mechanisms to well govern a public-private enterprise.

Directed Random Selection seems a welcome procedure when it is difficult to find criteria with which to identify a sole CEO, when it is especially difficult to match job contenders to the criteria, and where it is difficult or even impossible to agree on one single person to run the public-private enterprise.

Rotating CEOs can well be applied in similar circumstances as Directed Random Selection. Indeed, the two systems can be simultaneously used: selection by lot can be used to choose an R-CEO (e.g., instead of a regular sequence between all top managers). The R-CEO system is particularly strong when a public-private enterprise has to meet the requirement of economic efficiency *and* political/administrative demands. In that case, persons as Chief Officers with different capabilities in the two areas may be very advantageous.

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<sup>12</sup> Henderson *et al.* (2006) and Quigley and Hambrick (2015) discussed to what extent CEO leadership is obsolete.

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