

Cambridge University Press & Assessment
978-1-009-01099-3 — The Right Privatization
Why Private Firms in Public Initiatives Need Capable Governments
Sergio G. Lazzarini
Frontmatter
[More Information](#)

THE RIGHT PRIVATIZATION

The public debate is rife with polarized views on how to deliver essential services such as education, health, and security. While some tout privatization as a way to mitigate poor public-service performance by governments, others warn that private firms maximize profits at the expense of socially oriented service attributes. In reality, all forms of service delivery – public, private, and hybrid public–private collaborations – have merits and flaws. This book scrutinizes the menu of delivery forms in public services and the conditions that should make them work. It argues that privatization benefits from capable government units committing to well-defined policy objectives, mobilizing critical resources, and incentivizing effective and inclusive delivery. Societies counting on capable governments can look beyond single solutions and experiment with plural paths to improvement, where public and private organizations coexist and learn from each other. This book will appeal to students, academics, managers, and policy makers interested in examining the public–private boundary and the many ramifications of this critical issue.

SERGIO G. LAZZARINI is the Chafi Haddad Professor of Management at Insper in Brazil. He is the founder of Insper Metricis, a center dedicated to the study of the management and measurement of high-impact socio-environmental projects. He has held visiting positions at the University of St Gallen (2009), Harvard University (2010, 2012), HEC Paris (2014), Insead (2015), Brandeis University (2016), Imperial College London (2017), the University of Utah (2019), and the University of Toronto (2021–22). His research has received several prizes including the Glueck Best Paper Award of the Strategic Management Division of the Academy of Management (2003), Best Presentation Prize of the Strategic Management Society Special Conference in Rio (2011), Best Paper Award of the Strategy Division (Cooperative Strategy Track) of the Academy of Management (2020), and the Jabuti Prize for the book *Capitalismo de laços* (*Capitalism of Ties*, Elsevier, 2011). In 2014, he published the book *Reinventing State Capitalism: Leviathan in Business, Brazil and Beyond* (Harvard University Press, with Aldo Musacchio). He has been a consultant to firms and organizations including the OECD, the Inter-American Development Bank, and the World Bank, and he has been cited and interviewed by news sources such as the *Economist*, the *New York Times*, the *Financial Times*, *Forbes*, the BBC, and Bloomberg.

THE RIGHT PRIVATIZATION

*Why Private Firms in Public Initiatives Need Capable
Governments*

Sergio G. Lazzarini
Insper



Cambridge University Press & Assessment
 978-1-009-01099-3 — The Right Privatization
 Why Private Firms in Public Initiatives Need Capable Governments
 Sergio G. Lazzarini
 Frontmatter
[More Information](#)



CAMBRIDGE
UNIVERSITY PRESS

Shaftesbury Road, Cambridge CB2 8EA, United Kingdom
 One Liberty Plaza, 20th Floor, New York, NY 10006, USA
 477 Williamstown Road, Port Melbourne, VIC 3207, Australia
 314–321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre, New Delhi – 110025, India
 103 Penang Road, #05–06/07, Visioncrest Commercial, Singapore 238467

Cambridge University Press is part of Cambridge University Press & Assessment,
 a department of the University of Cambridge.

We share the University's mission to contribute to society through the pursuit of
 education, learning and research at the highest international levels of excellence.

www.cambridge.org
 Information on this title: www.cambridge.org/9781009010993

DOI: 10.1017/9781009024167

© Sergio G. Lazzarini 2022

This publication is in copyright. Subject to statutory exception and to the provisions
 of relevant collective licensing agreements, no reproduction of any part may take
 place without the written permission of Cambridge University Press & Assessment.

First published 2022
 First paperback edition 2024

A catalogue record for this publication is available from the British Library

Library of Congress Cataloging-in-Publication data

NAMES: Lazzarini, Sérgio G., author.

TITLE: The right privatization : why private firms in public initiatives need capable
 governments / Sergio G. Lazzarini, Insper Institute of Education and Research (Brazil).

DESCRIPTION: Cambridge, United Kingdom ; New York, NY : Cambridge University Press,
 2023. | Includes bibliographical references and index.

IDENTIFIERS: LCCN 2021045496 (print) | LCCN 2021045497 (ebook) | ISBN 9781316519714
 (hardback) | ISBN 9781009024167 (ebook)

SUBJECTS: LCSH: Public-private sector collaboration. | Privatization. |
 Privatization – Government policy. | BISAC: BUSINESS & ECONOMICS /
 Organizational Behavior

CLASSIFICATION: LCC HD3871 .L39 2023 (print) | LCC HD3871 (ebook) |
 DDC 658/.046–dc23/eng/20211119

LC record available at <https://lcn.loc.gov/2021045496>
 LC ebook record available at <https://lcn.loc.gov/2021045497>

ISBN 978-1-316-51971-4 Hardback
 ISBN 978-1-009-01099-3 Paperback

Cambridge University Press & Assessment has no responsibility for the persistence
 or accuracy of URLs for external or third-party internet websites referred to in this
 publication and does not guarantee that any content on such websites is, or will
 remain, accurate or appropriate.

Cambridge University Press & Assessment
978-1-009-01099-3 — The Right Privatization
Why Private Firms in Public Initiatives Need Capable Governments
Sergio G. Lazzarini
Frontmatter
[More Information](#)

*To my research partners with whom I collaborated on several
projects and ideas presented in this book.*

*To Edite and Juliana, with love and gratitude, always
and forever.*

To Eleni, nello spazio senza fine.

Cambridge University Press & Assessment
978-1-009-01099-3 — The Right Privatization
Why Private Firms in Public Initiatives Need Capable Governments
Sergio G. Lazzarini
Frontmatter
[More Information](#)

Si no hay una sola respuesta para nuestros problemas sino varias, nuestra obligación es vivir constantemente alertas, poniendo a prueba las ideas, leyes, valores que rigen nuestro mundo, confrontándolos unos con otros, ponderando el impacto que causan en nuestras vidas, y eligiendo unos y rechazando otros, o, en difíciles transacciones, modificando los demás.

Mario Vargas Llosa, *La llamada de la tribu*

Contents

| | |
|----------------------------------------------------------------------------------|---------------|
| <i>List of Figures</i> | <i>page</i> x |
| <i>List of Tables</i> | xi |
| <i>Acknowledgments</i> | xii |
| Introduction | I |
| 1 Public or Private? The Conceptual Foundations | 7 |
| 1.1 Public goods do not need public management | 8 |
| 1.2 Do private motives undermine public gains? The cost–quality trade-off | 10 |
| 1.3 Covenants without a sword | 14 |
| 1.4 Government failure and public bads | 17 |
| 1.5 Is privatization “just”? | 19 |
| 1.6 From public goods to public values: the legitimacy of privatization | 24 |
| 1.7 One issue, many arguments | 27 |
| 2 The Effectiveness–Inclusion Framework | 30 |
| 2.1 Effectiveness | 31 |
| 2.2 Inclusion | 33 |
| 2.3 The interplay between effectiveness and inclusion | 34 |
| 2.4 When inclusion is a priority | 36 |
| 2.5 Just comparisons | 40 |
| 3 Public, Private, and Their Variations: A Comparative Analysis | 43 |
| 3.1 The menu of public and private forms of delivery | 46 |
| 3.2 Choosing between options: direct comparisons | 50 |
| 3.3 A simplified decision tree | 52 |
| 3.4 Perceived legitimacy constrains the choice of delivery forms | 65 |
| 3.5 Can public and private organizations coexist – and benefit from one another? | 68 |

Cambridge University Press & Assessment
 978-1-009-01099-3 — The Right Privatization
 Why Private Firms in Public Initiatives Need Capable Governments
 Sergio G. Lazzarini
 Frontmatter
[More Information](#)

viii

Contents

| | | |
|-----|-----------------------------------------------------------------|-----|
| 4 | Privatization Needs Capable Governments | 71 |
| 4.1 | Good governments in poorly governed countries? | 74 |
| 4.2 | The dimensions of government capabilities | 77 |
| 4.3 | Government capabilities in public–private collaborations | 86 |
| 4.4 | Government capabilities as surge capacity: the case of COVID-19 | 88 |
| 4.5 | Many roads lead to Rome | 91 |
| 4.6 | The relevance of irrelevance | 92 |
| 5 | Completing the Contracts: Paying for Social Outcomes | 96 |
| 5.1 | The power (and weakness) of incentives | 99 |
| 5.2 | Do we need investors in public contracts? | 102 |
| 5.3 | A snapshot of outcome-based contracts | 105 |
| 5.4 | The seven deadly sins of measurement | 109 |
| 5.5 | Beyond incentives: the virtues of coordination | 117 |
| 6 | Private Investors in the Public Interest? | 120 |
| 6.1 | The impact of profits | 121 |
| 6.2 | What if financial sacrifice is required? | 124 |
| 6.3 | Irreconcilable differences | 127 |
| 6.4 | Impostors among us | 128 |
| 6.5 | The elusive impact | 130 |
| 6.6 | Can corporations save the Amazon rainforest? | 133 |
| 6.7 | The ultimate responsibility | 138 |
| 7 | Public Promotion of Private Capabilities | 142 |
| 7.1 | Industrial policy: the good, the bad, and the crucial | 144 |
| 7.2 | Do we need development banks? | 149 |
| 7.3 | Frugal policy | 156 |
| 7.4 | COVID-19, again: developing private surge capacity | 158 |
| 7.5 | Does public support crowd out private investment? | 160 |
| 7.6 | Knowing when to stop | 162 |
| 8 | A Roadmap to Privatization (and Its Alternatives) | 165 |
| 8.1 | A process of privatization | 167 |
| 8.2 | Nationalist privatization | 174 |
| 8.3 | When the public becomes private-like | 176 |
| 8.4 | The challenge of building government capabilities | 179 |
| 8.5 | Pitching privatization | 182 |
| 8.6 | The plural consensus | 184 |

Appendices

| | | |
|-------------------|---------------------------------------------------------------------|-----|
| <i>Appendix 1</i> | <i>A simple model of private management with public supervision</i> | 187 |
| <i>Appendix 2</i> | <i>Decomposing gains in effectiveness and inclusion</i> | 191 |

Cambridge University Press & Assessment
978-1-009-01099-3 — The Right Privatization
Why Private Firms in Public Initiatives Need Capable Governments
Sergio G. Lazzarini
Frontmatter
[More Information](#)

| | |
|----------------------------------------------------------------------|-----|
| <i>Contents</i> | ix |
| <i>Appendix 3 Factors affecting attitudes toward privatization</i> | 193 |
| <i>Appendix 4 Improving measurement affects delivery performance</i> | 197 |
| <i>Notes</i> | 200 |
| <i>References</i> | 232 |
| <i>Index</i> | 262 |

Figures

| | | |
|-----|-----------------------------------------------------------------------------------------------------------------|----------------|
| 3.1 | Stylized menu of public and private forms of service delivery | <i>page</i> 47 |
| 3.2 | Choosing between alternative service delivery forms: a decision tree | 53 |
| 4.1 | External engagement and government capabilities: outcomes of public projects in Brazil, India, and South Africa | 74 |
| 4.2 | How government capabilities reduce differences in effectiveness across public and private forms of delivery | 94 |
| 5.1 | Countries that announced outcome-based contracts after the first SIB was initiated | 98 |
| 5.2 | Public–private contracts with outcome-based payments | 103 |
| 5.3 | Cumulative evolution of outcome-based contracts | 106 |
| 5.4 | Types of investors in outcome-based contracts | 107 |
| 5.5 | Number of outcome-based contracts according to their total expected investment | 108 |
| 6.1 | The illusion of no financial trade-off | 126 |
| 6.2 | Impact-oriented business model: sustainable commercial production in the Amazon | 135 |
| 8.1 | The process of privatization: potential sources of failure and critical steps to prevent it | 168 |

Tables

| | |
|---------------------------------------------------------------------------------------------|----------------|
| 1.1 Perspectives on the engagement of private actors in public activities | <i>page</i> 28 |
| 2.1 Inclusion dilemmas in water and sanitation | 38 |
| 3.1 Comparing the performance of private and public firms: the case of HIV testing services | 44 |
| 3.2 Decision nodes in the choice between service delivery forms | 54 |
| 4.1 The dimensions of government capabilities | 78 |
| 7.1 Should public development agencies be in the banking business? | 152 |

Acknowledgments

This text completes a trilogy of books focusing on the nature and implications of interactions at the public–private boundary. It started with *Capitalismo de laços*, published in Brazil in 2011, discussing how privatizations during the 1990s surprisingly reinforced the presence of the Brazilian government in several corporations and industries. The subsequent book, *Reinventing State Capitalism*, was coauthored with Aldo Musacchio and published in 2014. We examined state-owned firms with diverse mechanisms of public sponsorship mingled with private capital.

Those books essentially advanced the idea that, throughout the world, liberalization and privatization reforms did not reduce the relevance of governments and, contrary to initial expectations, created new conduits of state influence in companies and even whole sectors.

During my presentations and discussions of those books (and related research papers), a question that frequently arose was: If government is back in business – or perhaps never really lost its centrality in the economy – is that a good or bad thing? Are these remaining forms of government influence improving or hurting firms and industries? Could we envision new proposals of reform in an opposite direction, that is, with greater private engagement?

These questions were already present in several of my research projects, but I felt that it was time to organize all we know about the topic and promote a balanced discussion, avoiding simplistic and polarized answers. This book is essentially about options: distinct forms of private and public engagement, all with their flaws and merits, and the conditions that make them work.

To the best of my competence, I strove to write the book in accessible language – most citations and technical details are in the endnotes and appendices.

In preparing this book, I have drawn from a large body of literature examining the public–private boundary, in part involving my own work

Acknowledgments

xiii

with several coauthors. As I have indicated in my Dedication, many ideas that I present here derive from joint work with friends and research partners with whom I have had the privilege to interact in various projects.

With Sandro Cabral and Paulo Furquim de Azevedo, I had an opportunity to develop empirical work on privately outsourced prisons and delve into the mechanisms of hybrid (public–private) contractual arrangements. A long-term collaboration with Nobuiuki Ito, Felipe Medeiros, Armen Ovanessoff, and Leandro Pongeluppe was instrumental in advancing the plural argument that I present in this book and especially the importance of capable governments. Equally important was my previous work with Aldo Musacchio and other coauthors on state-owned enterprises and public investment vehicles – including Ruth Aguilera, Rodrigo Bandeira de Mello, Carlos Inoue, Pedro Makhoul, Rosilene Marcon, Luiz Mesquita, Felipe Monteiro, Mariana Pargendler, and Emily Simmons. Sandro Cabral, Aldo Musacchio, and Armen Ovanessoff, in particular, kindly read and provided detailed comments on earlier drafts of this book.

On the topic of public–private collaborations and impact-oriented private strategies, I have partnered with and learned from Dirk Boehe, Michael Cook, José Heleno Faro, Luciana Ferreira, Sergio Firpo, Ilze Kivleniece, Anita McGahan, Jackson Nickerson, Bertrand Quelin, Angelica Rotondaro, Rogerio Thamer, and Todd Zenger. With Marcos Lisboa and Klenio Barbosa, I had the opportunity to engage in an applied discussion on how to assess the benefits and costs of privatization. In several of these projects, I had the pleasure of interacting with a number of brilliant doctoral students, including Fernando Deodato Domingos, Vitor Freire, Leandro Nardi, and Thomaz Teodorovicz.

Naturally, I have also benefited from the insights of other research partners with whom I have worked and learned throughout the years, but whose work is not directly tied to the topics examined in this book. They all have my admiration and gratitude.

In addition, I conducted several interviews and had illuminating discussions with practitioners and academics dealing with public policy, public administration, corporate strategy, and impact investing. They include Henrique Martins de Araújo, Eduardo Azevedo, Jay Barney, Claudio Barahona, Karla Bertocco, Emily Bolton, João Marcelo Borges, Andre Antunes de Camargo, Mirela Carvalho, Caroline Cavallari, Isadora Cohen, Bill Crim, Paola Criscuolo, Toby Eccles, Amanda Feldman, Eduardo Gaban, Marta Garcia, Raf Goovaerts, Danilo Gregorio, Claudio Haddad, Fernando Haddad, Alisa Helbitz, Mark Innocenti, Daniel Izzo, Dominic Llewellyn, Joseph Mahoney, Frederic de Mariz,

Carlos Melo, Naercio Menezes, Vera Monteiro, Jane Newman, Alex Nicholls, Jeremy Nicholls, Isabel Opice, Ricardo Paes de Barros, Andrew Park, Affonso Celso Pastore, Carolina Pedrosa, Markus Perkman, Samuel Pessoa, Gilberto Ribeiro, Bruno Salama, Erica Salvaj, Fernando Schuler, Milton Seligman, Geraldo Setter, Felipe Silva, Daniela Barone Soares, Sara Guerreiro de Souza, Subramanian Rangan, Angelica Rotondaro, Marcela Ruiz-Tagle Ortiz, Brian Trelstad, Joseph Wong, and Kleber Zanchim.

I must also acknowledge the highly competent work of research assistants, several of them working at Insper Metricis: Felipe Bispo, Fernando Cesar Furtado Ballesteros Fincatti, Vinícius Kronfly da Mata, Amanda Rufino Matricciani, and Lais Nascimento da Silva. Anitha Stephen also helped greatly with the indexing of the manuscript. Weberson Santiago kindly provided the evocative artwork on the book's cover, which nicely illustrates the discussion in Chapter 1, section 1.1. I also thank Lucy Metzger for the excellent copyediting work.

Finally, I thank Insper and the Haddad Foundation for the honor of being associated with the Chafi Haddad Chair, and I am grateful for their financial support of this project. I am also thankful for the support of CNPq (grant 302000/2019-4) and FAPESP, which funded my visiting periods at Imperial College London in 2016–17 and the University of Utah in 2019 (grants 2016/03818-2 and 2018/14786-0), during which I was able to conduct several interviews and conversations whose insights helped me to develop the argument and analyses in this book. This project would not have happened without the editorial support and encouragement of Valerie Appleby of Cambridge University Press. Needless to say, the blame for all remaining errors and omissions is my own.