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The International Cooperation of Businesses in order to Improve Local Public Services.

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ABSTRACT

Changes in local government policies about the management of public services has been the focus of many investigations all around the world. However, what has not been studies is how some of the new models have relied upon international business alliances in order to improve the public services provided. A qualitative analysis, based on case studies of alliances between Colombian and Spanish companies, have been performed to help address this question. The results indicate that the changes in local policies have not only improved the public services but, with the agreements signed, a strong and agile partnership has been achieved.

KEYWORDS: public services; management; contracting; business agreements; international.

I. Introduction

Extensive research has been conducted on the management of public services of local governments; the two main perspectives addressed are the public and private ones. Local, public services in many different countries have been privatised in recent decades (Bel & Fageda, 2009). This approach has been adopted in the years following the 1980s, when a process of liberation and deregulation was carried out in a large number of developed countries that sought to maximise efficiency in the provision of these services with the goal of improving social welfare. Early academic analyses of the fiscal effect of privatisation usually found there to be a positive correlation between privatisation and gross economic costs, an opinion shared in early reviews by Domberger and Jensen (1997).

The United Kingdom was one of the countries that pursued the privatisation of public services on a large scale. The reforms and measures, known as “new public management”, came to be a reference point for other developed countries in this form of management, such as New Zealand and the United States. Observing the developing countries around this time, Chile, Mexico, and Argentina took the initiative of the privatisation of these services.

In this context, business cooperation agreements have been one way of addressing this type of public-private partnership concerning the model change that emerged in the delivery of services in local government environments. In the 1990s, most Latin American countries were conducting reforms regarding the management of public utilities. Chile was among the first to carry out the changes in legislation, followed by Mexico and Argentina, who experimented with the private sector. A second phase was undertaken by countries such as Peru, Bolivia and Colombia with ambitious laws in the mid-1990s. Subsequently, Brazil and Central America executed similar changes to national legislation. By the end of the decade, most Latin American countries had implemented new methods of management of public utilities.

Under this new model of public service management by private companies, the business cooperation agreements include not only national companies, where objectives align with those

of local governments, but there are also examples of international companies participating in some projects.

The general purpose of this article is to analyse how the local governments of Colombia work the cooperation agreement between the public and the private sectors (in particular international companies) linked with the management of public services (water and waste). The rest of the paper is organized as follows. Section 2 shows the relationships of local government, public service management, contracting and the cooperation agreement most commonly analysed in the literature. Section 3 explains the methodology with profile of the enterprises. Finally, Section 4 presents our own empirical analysis and results which is followed by a summary of our main conclusions.

II. Local Government and (water and waste) public services management.

In the 1980s, a new trend began to emerge in which several developed countries opted for reforms in the public sector. This led to the private sector taking on a more prominent role in the management and delivery of public services in local governments.

Privatisation in the management of public services has been the focus of many studies (Oh & Park, 2017; González-Gómez & García-Rubio, 2008; Foster, 2002). The process of changing the management of public services through privatisation has been theoretically justified from Public Choice Theory (Buchanan & Tullock, 1962), where it is proposed that the problems associated with bureaucracy within a monopoly should be solved by opening the market up to competition. On the other hand, the Property Rights Theory (Coase, 1937; Grossman & Hart, 1986; Hart & Moore, 1990) poses that property has repercussions in the performance of management and the theory of the agency. (Jensen & Meckling, 1976), presents the dichotomy of the conflict of interests between the public manager (agent) and the citizen (principal). A series of costs is inferred, known as "agency costs" that arise due to the differences in access to information between the two parties.

These theories have aided the analysis of different perspectives taken into account when addressing the changes that have occurred in the management of public services. However, it is also necessary to recognise other aspects specific to the cause of the change, such as the following:

“ -The significant growth of public bureaucracies, a product of the post-Keynes welfare state, which have become increasingly complex and have failed to deliver the goods, leading to public disenchantment.

-Funding expenditure of public services through taxation is seen as diverting resources to lesser productive purposes and is crowding out to private sector.

-The emergence of conservative regimes Britain and United States with the election of Margaret Thatcher (1979) and Ronald Reagan (1980) led to what is now regarded as the neoliberalism or conservatism of the 1980, bringing on pressure for reform of the public sector...” (Mascarenhas, 1993: 319).

In general, this new emphasis on public sector reforms has led to decentralisation, deregulation, economic liberalisation and privatisation of the management of public services. These changes that lead to decentralisation have spread to local governments, which have had to face the challenges of managing municipal services with formulas where the importance is placed on efficiency, reflected in the social well-being of societies. The existing literature on local government services covers a variety of government-provided services ranging from the operation of airports and nursing homes to electricity supply and waste collection and disposal services (Walls et al., 2005: 594). Bel & Fageda (2009) identifies four main reasons: economic efficiency, fiscal stress, political processes and ideological attitudes.

Public services contracting

The changes (decentralisation, deregulation, economic liberalisation and privatisation) of public service management models in local governments have led these governments to play an active role not only in decision-making but also in policy monitoring and in the strategies they have developed. One of the alternatives facing the challenges of the changes in the management of the public services consists in the contracting of the services of private companies. Ferris (1986) argues that contracting is always less costly than public provision because a contractor operating

in more than one community can exploit economies of scale in the provision of a service and because competition in private markets lowers costs.

In the literature, there are several studies that have focused on analysing the contracting of public services, mainly water-related services (González-Gómez et al., 2011; Bakker, 2008) and waste management (Walls et al., 2005). The approaches and results do not delve into the profiles of the suppliers or private companies with whom they agreed to manage and provide the service, but focus on the factors by which the local government decides on the type of service provided and the motivations for choosing privatisation. The possibility for private companies to provide municipal public services has given way to agreements involving companies of both national and international type. The latter are generally companies that have extensive experience in the provision of services and products in the sector, giving them a significant advantage over potential domestic competitors. However, since they have less knowledge of the local business environment in which services are provided, in many cases they are interested in partnering with local companies when obtaining contracts. These, in turn, may be interested in having an international partner to provide additional understanding and guidance when functioning on a larger scale.

Business cooperation agreements

The local governments that have resorted to hiring private companies, in order to provide public services, have had to look for solutions to the challenges these changes in management have posed. Such obstacles are amplified when the independent characteristics, regulations and general function of national companies must be taken into consideration as well as the matters international companies that, due to their size, resources and experience, are able to provide these services with a broader vision in mind. Business cooperation agreements with these two types of companies provide one such alternative for local governments. However, “the lack of an agreed-upon vocabulary for describing different cooperative efforts is also evidenced by the absence of clear definitions for terms such as alliance, coalition, association, and so forth”.(Schaeffer & Loveridge, 2002: 170).

Cooperation agreements or strategic alliances are not a new subject and this can be seen by the fact that authors do not always agree on the way they define them. Some of the most accepted definitions and the ones that are currently still being cited nowadays are the ones that present internationalisation “as a durable agreement between one or more enterprises that implies changing, sharing or co-developing products, technologies and services” (Gulati, 2007). Another definition is “an agreement between two or more independent enterprises that unifying or sharing a part of their abilities and/or resources, without coming to a fusion, establish certain degree of relation between them, having as a goal to increase their competitive advantages” (Fernández, 1991).

The following three characteristics are those that Rangan and Yoshino (1996) expect that a strategical alliance would possess simultaneously, since they consider them necessary and sufficient:

- “- Two or more companies that merge into one to achieve a set of predetermined goals that remain independent throughout the duration of the alliance.”
- The partners share control over the completion of the assigned tasks associated with the alliance and the accompanying benefits.
- The partners contribute regularly to the foundation of the alliance.”

In relation to the cooperation agreements for the provision of the public services, the definitions can be found as follows:

“British public sector unison (n.d.) defines public-private partnerships as “any arrangement where a public service is delivered in cooperation with the private sector” and refers to “a growing use of public-private partnerships (PPPs) across the public sector.” The Ministry of Municipal Affairs (1999), British Colombia, presents a similar definition:

Public-private partnerships (PPPs) are arrangements between government and private sector entities for the purpose of providing public infrastructure, community facilities and other related services. Such partnerships are characterised by the sharing of investment, risk, responsibility and reward between the partners.” (Schaeffer & Loveridge, 2002: 170).

III. International business agreements in local public services in Colombia

The general purpose of this article is to analyse how the local public services in Colombia are provided by private companies using cooperation agreements, especially with international companies. The two cases observed in this paper principally relate to the establishment of cooperation agreements between a national and international company in order to provide the public utilities of water and of waste collection, although one of these cases is extended to other services. These cases are developed in the context of the relationship between companies within Colombia and Spain. They arise from Law 142 of 1994 of Colombia, where a normative framework was created that aimed to maintain that state companies were guided by the same theory as, and could compete in equal conditions with, the private companies, thus enabling the possibility of investment in the public services sector.

The bill was presented by the Colombian National Government to Congress in 1991. The proposal was made to regulate public utilities (from water, sewage, sanitation, electricity, fuel gas distribution, basic switched public fixed telephony and local mobile telephony in the rural sector; to the activities carried out by people providing public services) because the public administration was suffering from serious deficiencies that were reflected in the quality of services.

The introduction to the document of the public utilities law begins with the presentation of the preliminary headings which outline the general principles and definitions linked to the services, and then regulate what it refers to as “the people providing public services”, the regime of acts and contracts of companies, the labour regime, and other provisions (such as: control of management of results, information of utility companies, expropriation and servitude, takeover of utility companies , liquidation of public service companies, among others). The following headings also indicate regulations related to the tariff regime of utility companies, organisation and administrative procedures, public service contract, with special rules for some services (drinking water and sanitation, electric power and fuel gas) and ends with the transition regime and other provisions.

In short, Law 142 of 1994 obliges municipalities to create, or to transform existing entities into, companies by stock or industrial and commercial enterprises of the State. In other words, this law

made explicit that the services sector would not be exclusively state controlled and opened the participation of private companies even if they came from an international background. This legal change entails not only adopting the administrative measure most appropriate to the general interests of the community, but also introducing structural changes.

In this way, the local governments of Colombia have had the possibility of making agreements not only with the purpose of improving the provision of public services (in this case, specifically, water and waste management) but also to extend its catalogue of products and services to other cities of the Colombian territory and, furthermore, to allow both partners to cross borders in previously unexplored international contexts.

IV. Research Method

Qualitative approaches are frequently used to understand complex and unexplored phenomena (Jaouen & Gundolf, 2009: 48). This study contains both of these phenomena; these are the reasons why this approach was chosen, seen from a deductive perspective. Researchers used case study as the methodology; according to Gummesson (2005) this is systematic and holistic given that it offers complete and rich reports on the relations and interactions between a large amount of events and factors. Such “case studies” often rely on multiple sources of data and forms of analysis although interviews are commonly used ((Piekkari & Welch, 2006: 571). In fact, this methodology has been recognized and supported by many authors in the enterprise alliances field including Bianchi (2009) and Solesvik & Westhead (2010).

Case selection did not require statistic formulas once the researchers chose the multiplicity of enterprises. According to Yin (2013) this depends on the way research is based, the resources available to carry it out and the researcher’s availability. In addition, enterprise confidentiality policies played a determinant role on the case selection process.

In this article, there were two cases (with four enterprises). According to Yin (2013) these multiple-case studies typically provide a stronger base for theory building. It is also important to

clarify that “the purpose of the research is to develop theory, not test it, and so theoretical (not random or stratified) sampling is appropriate”. (Eisenhardt & Graebner, 2007: 27).

Focusing on the context which is addressed in the base objective of this research, it namely approached the study from the perspective of a developed country: Spain, and a developing country: Colombia. There were four enterprises in total that established alliances (two cases) with public sector (local government) allowing for the internationalisation of the former towards the latter. This selection, as in research works like Hyder and Abraha (2008) was made following a series of steps.

Evidence was gathered through interviews with directors involved in the alliance management. (Gomes et al., 2011); that has been the base on which the case study has been built. The questionnaire in the interview was designed to analyse the process of two Colombian enterprises that use cooperation agreements with two Spanish companies to provide services to local governments; containing several issues that reflects some of the aspects related to the improvement of public services through the collaboration between private companies from different countries.

The interviews were semi-structured and they lasted 80 minutes on average. Interviews are a highly efficient way to gather rich (broad), empirical data, especially when the phenomenon of interest is highly episodic and infrequent (Eisenhardt & Graebner, 2007). Most of the interviews were carried out at the location of the enterprise itself, which allowed the researchers to get to know the facilities, workers and working methods. Moving between the Colombian and Spanish context where the enterprises were located allowed the researchers to obtain opinions from the users. This part of the study was completed through continuous telematics communication.

In addition, the research followed the triangulation principle; data gathering from several sources and the use of several means to compare it, for as long as possible in order to make sure it is consistent and to overcome limitations inherent with each means. (Yin, 2013). More precisely, annual reports, balance sheets, press articles, corporation websites, historic information of the enterprises and the sectors they belong to were taken into account. In this article includes “the use of summary tables and aids that summarize the case evidence complements the selective story

descriptions of the text and further emphasizes the rigor and depth of the empirical grounding of the theory”. (Eisendart & Graebner, 2007, p. 29)

V. Case 1: Municipal contract for the provision of management of waste services in some areas of the localities of Bogotá, Colombia.

The tender consisted of the provision of services for the collection of household refuse and sweeping of public roads, localities of Upland, Engativá and some sectors of the localities of Barrios Unidos and Chapinero, Usaquén, Bogotá, Colombia.

Company that wins the tender: Ciudad Limpia S.A. Public Services Company (E.S.P.) This company, owned by the FANALCA group, began working in Bogotá in 1989. Some of the services that Ciudad Limpia S.A. E.S.P. provides are: home collection, sweeping and manual cleaning, mechanical sweeping, debris collection, special services, pruning and lawn cutting, cleaning and washing of walls, monuments and public areas. This company broadens its portfolio of services to the specialized collection of pathogenic wastes.

Description of agreement

The companies Proactiva Medioambiente S.A. (Spanish) and Fanalca S.A (Colombian) formed a cooperation agreement through Ciudad Limpia SA, to respond to a business opportunity in the field of waste management in the Colombian capital, as a result of knowing the proposed law 142 of 1994.

The purpose of this link by the Spanish company was to penetrate and gain new ground in the Colombian territory. The Colombian company, meanwhile, aimed to advance its own growth, in this case by expanding and consolidating the offer of a new service at the local level by an international partner.

The company Proactiva Medioambiente, S.A. belongs in part to VEOLIA, the French leader in innovative solutions for the sustainable development of cities and companies, through the control and maintenance of urban networks of heating, industrial utility and energy services in buildings and installations. Veolia had begun to deal with potential partners in Colombia, prior to the approval of the opening of the provision of public services with private companies, but when

Proactiva Ambiental S.A was set up together with the Spanish company FCC, the agreement was formalized and closed in Colombia under this joint venture.

The first agreement in which FANALCA and Proactiva Ambiental S.A. worked was for the provision of waste management services in some areas of Bogota, via the company Ciudad Limpia, S.A. owned by FANALCA and through which the proposal of these two companies was presented in the tender. As for the main added value that each company contributes to this project; Proactiva Medio Ambiente S.A. is recognised as having the "know how" regarding the integral management of water and waste, while Fanalca, S.A. handles both the administration (where dominance of the environment predominates) and physical operation of waste collection duties. This agreement does not imply exclusivity; however, at the moment in which it is chosen to be part of a project, each company commits to being serious and responsible not only with its competencies, but furthermore with its handling of unforeseen occurrences (and implementation of suitable solutions) throughout the development of the agreement. The evolution of the agreement has resulted in the development of several projects (within different zones of Colombia) and both companies have moved a step closer to their ultimate objective with the agreement, whereby a project will be undertaken in a country other than the origin of both companies (in Ecuador).

Participating companies

The name of the Colombian company is FANALCA, S. A, founded in 1958 (59 years old). In Colombia it has two headquarters- one in Cali (auto parts plant) and another in Bogotá. At industrial level the company constructs motorcycles (Honda) and is engaged in metalworking and commercial affairs; it is distributor of Honda (1988). In its investment portfolio it participates in the public transport sector (Transmilenio) in Panama and Chile. Regarding waste disposal collection, it has obtained contracts in Panama, Chile and Colombia, with the development of the latter seeing contracts achieved in Tibitó, Guayaquil and Bogotá.

Currently Fanalca S.A. has the infrastructure, resources and experience of more than 38 years to meet the demands of manufacturing tailor-made products and adapting to the needs of the main assemblers of vehicles and trucks of the Andean community.

The name of the Spanish company is Proactiva ambiental, S.A, which has headquarters in Madrid (Spain), and 12,000 workers worldwide in 75 offices (eight countries). It holds expertise in the management of the water cycle, as well as solid waste.

Proactiva Medioambiente S.A is one of the leading companies in Latin American environmental services, specialised in integral water and waste management. Among its objectives is to penetrate 8 of the main countries of the region: Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Venezuela. They are backed by two world leaders: FCC Citizens Services and Veolia Environment, international names in the construction and services industries. With a wide network of professionals and delegations, Proactiva state-of-the-art technologies in the improvement and protection of the environment, serving more than 40 million people. The company maintains a criterion of high quality standards, reflected in the various certifications they continue to possess (ISO 9000, ISO 14000 and OHSAS 18000 standards).

Development of the agreement and associated results.

The involvement that the companies (including the local government) attain in the business is made tangible with the establishment of a corporate governance. This represents the two companies within the future project, before a formal document is produced (usually a contract) tailored to the project, in which a key point is the capital contribution of each company (an indispensable requirement for companies in order that they see the support of one another within the project). Business consultants indicate that the agreement has been built based on a good relationship which is ultimately observed with the outcome of the project.

From the Spanish company Proactiva Medioambiente S.A., the strategic factors considered in the lead up to the formation of this alliance were, in order of importance: access to new partner market networks, access to partner resources, internalisation strategy, compliance of legislation. Rule or role. (Seeking knowledge of the environment) to ensure that the project was appropriate for the country, guarantee the political sector and security and finally, the complementarity with the political party and long-term public company. That is why the level of importance within the country was strategic, according to Proactiva Medioambiente S.A., for being an appropriate way to be able to collaborate with the local government.

The primary motivations for choosing the partner (from the Spanish company) in terms of individual attributes were: technological capacity, financial health and management and knowledge experience. In the collaborative attributes, there are complementary resources and a compatibility of cultures, where skills and targets in the alliance are not the same (negating internal competition), because they contribute the capital and knowledge of the environment.

Regarding the difficulties encountered over the duration of the partnership, at first there were problems within the public domain, which were generated by deficiencies in the provision of the water infrastructure; overcome with various scheduled works. In short, the foundation of the company may have encountered a few minor issues of a sporadic nature, but none that have developed into major problems.

Among the strengths are the following: two very efficient teams complementing one another, both financial and legal; fluid communication and the ability to work in tandem to solve shared problems relating to the agreement. The weakness in the aforementioned alliance occurs because Proactiva faces market volatility. Internally, the rotation of executives who change periodically can be observed as a threat to agreement stability. As for the opportunities that could be used in future alliances or to strengthen the present, the deficit of Colombia's infrastructure in public services could be used more because it has thus, far improved the country's security.

In the analysis of results, economic benefits have been presented with the signed agreement, reflected in the capital costs, costs of design, costs of succeeding and not losing capital, where the priority is to preserve financial stability, and high importance is given to the assurance that the partner does not incur debts. For the population and locality of the environment, the alliance has contributed social benefits and improved quality of life, such as with infrastructure and generated employment, which has resulted in obtaining five more contracts.

The results of this alliance are classified as good, where the strengths are built on compliance with the agreement (it is customary not to comply). As for weaknesses, some of them have not been clearly identified and no known threats have emerged. Regarding the opportunities that could be used in future alliances or to strengthen the present, the evolution of the agreement has resulted

in the development of several additional projects (within different zones of Colombia) and a further step towards the broader vision of the companies within the agreement: to achieve a project in a country other than the origin of both companies (in Ecuador). Since this case study, there have been other projects, for example in San Andres and Providencia (Northern Colombian Islands), and 8 years ago work commenced on a project in Ecuador in the city of Guayaquil.

VI. Case 2. Municipal contract for the management of aqueducts and sewerage in the town of Manizales, Caldas Department, Colombia.

Contract for the provision of public residential services of (i) aqueduct, (ii) sewerage, as well as control of related activities of the two, meaning the company will be in charge of: the municipal distribution of water suitable for human consumption, including the infrastructure and metering, and associated activities such as water collection and processing, treatment, storage, handling, transportation; the municipal collection of, mainly liquid, waste by means of pipes and / or other channels; and other complementary activities of transport, treatment and final disposal of such waste.

Company with the winning bid: Aguas de Manizales S.A. E.S.P. is a mixed capital entity, formed by way of a joint-stock company, of a commercial nature, in accordance with the provisions of Law 142/94 and other applicable laws of the Republic of Colombia. According to the Manizales Council Agreements 133 and 134 of September 1, 1995, authorisation was granted for the establishment of companies that provide public residential services in the form of a joint-stock company.

The institutionalisation of the company in 1996, separating the services of drinkable water and sewerage, previously controlled by the Public Companies of Manizales, started a series of steps aimed at: conservation of water sources, refinement of the processes of purification, extension of networks, standardisation of processes , assembly and start-up of laboratories, acquisition of technology and commercialisation of products and services easily accessible to the public through bills; through a commercial network of wide coverage.

The company was established as a result of business reforms that the National Government proposed for companies providing Public Services, with the aim of making them efficient and autonomous.

Description of agreement

The local government authorised the creation of the company Aguas de Manizales S.A. in anticipation that this company would not only provide public water and sewerage services, but could expand its catalogue of services to other areas that were not related to this sector. At that point, the subsidiary "Mapfre Colombia S.A." contacted Aguas de Manizales S.A. to negotiate a contractual agreement in which Aguas de Manizales would be committed to the management of billing and collection of micro insurance of the subsidiary of Mapfre Colombia S.A.

The resulting agreement included the responsibility over: providing the service of electronic data processing, settlements, documentation/ administration and billing/ bill distribution/ debt collection, encompassing the entire billing process for each public service clearly differentiated in the invoice. Furthermore they would preside over the advertising services included in the Aguas de Manizales SAESP invoice, which would have remuneration.

With regard to the particulars of the companies Mapfre Colombia S.A. and Aguas de Manizales S.A. E.S.P., it is worth saying that they hold clear expertise in specific sectors (Mapfre Colombia S.A. with the services and products of insurance and Aguas de Manizales S.A. E.S.P. with water supply and sewerage). In addition, it should be taken into account that if a subsidiary, such as Mapfre Colombia S.A., of a larger parent company like Mapfre Group (Spanish) decides to work on a project with a company that has little significance within Colombia, regardless of its reputation , it does not fail to at least draw attention.

Participating Companies

The Colombian company is Aguas de Manizales S.A. E.S.P (Public Service Companies), headquartered in Manizales, Caldas (Colombia). It has 240 workers, distributed in two locations (Manizales and Tumbes - Peru). The Colombian company is more than 20 years old.

Aguas de Manizales S.A. E.S.P. has been working since 1996 on the consolidation of an Integral Water Resources Management Model supported by: compliance with national legislation and

technical standards of the sector, continuous training of its work team, implementation of information systems and quality management systems, application of new technologies, constant work with the community, adequate conservation of the environment and accurate short, medium and long term planning of their investments. The culmination of this model has allowed the company today to provide an improved quality of life to its users, and indirectly encourages the growth and development of the regions where it has a presence.

Thanks to its operational organisation, it ranks as one of the leading companies in the country, which is reflected in its management indicators such as: 27% unaccounted for water, 99% aqueduct service coverage, 98% sewer service coverage, 100% service continuity, 100% micro measurement coverage, 99% collection efficiency, water suitable for human consumption; although since 2001 having all the certified processes that make up the services of aqueduct and sewage, to the accredited standard of ISO 9001 version 2000, and since 2008 the accreditation of the laboratory of meters under the standard NTC ISO / IEC 17025.

Aguas de Manizales S.A.E.S.P has also been the pioneer in managing and advising the first Departmental Plans in Colombia. The original was developed in Cesar 3 years ago, and the goal was to improve the conditions of coverage, quality and efficiency in the provision of public services for drinking water and basic sanitation. In the year 2010 a plan for the advised management of the departmental water in Magdalena and Caldas was devised. The experience the company has accumulated since 1996 allows them to offer from their proven management model a complete portfolio of services including insurance marketing, which is tailored to the particular needs and local reality of its clients.

The Spanish-owned company is Mapfre Colombia S.A. (a subsidiary of the Spanish group MAPFRE S.A.) with headquarters located in Bogota. It has 800 workers located in the 173 sites in different places of the Colombian territory excluding the more isolated regions. It has the largest coverage of the insurers with national presence and the company was founded in 1995.

The activities of Mapfre Colombia S, A. are conducted through 2 branches: MAPFRE general insurance of Colombia s.a. and MAPFRE Colombia Vida Seguros s.a., companies supervised by

the Superintendencia Financiera de Colombia, a technical agency attached to the Ministry of Finance and Public Credit.

The Group's parent company is the holding company MAPFRE SA, which has a strong international presence. Its shares are listed on the Madrid and Barcelona Stock Exchanges and are part of the IBEX 35, Dow Jones Stoxx Insurance, Dow Jones Sustainability World Index, MSCI Spain, FTSE AllWorld Developed Europe Index, FTSE4Good and FTSE4Good IBEX.

GRUPO MAPFRE possesses a stable footing within Spanish Insurance, and implements its services on a wide, multinational scale. At year-end 2010, it ranked sixth in the European Non-Life Insurance rankings and obtained first position for companies based in Latin America.

Development of the agreement and associated results.

Once Aguas de Manizales, won the tender regarding the municipal contract for management of water and sewerage systems in the town of Manizales, Department of Caldas, Colombia, the company had the option of collaborating with other private companies offering services that will add value to its service. In this way, at the end of 2009, the alliance between Aguas de Manizales S.A. E.S.P. and Mapfre Colombia S.A. is initiated through a contract that commits Aguas de Manizales to the management of billing and collection of micro insurance of Mapfre Colombia S.A. where the latter company works exclusively to the needs of the former. There was no need to establish a different company than the one that had won the tender because the regulations considered this kind of collaboration legal. The agreement was initially set for three years with automatic renewal.

One of the resultant advantages of Colombian Law 142 of 1994 is that it has opened up the possibility of private companies working in different areas of the provision of public services and they are no longer limited exclusively to the traditional services managed (in this case water and sewerage). Under this new scheme, the relationship between the companies Aguas de Manizales, S.A. and Mapfre S.A. has been approved by the local government for the expansion of its services with the perception that the management of billing can be improved with the incorporation of a micro insurance collection. The collaboration involved an alignment of the objectives of both companies, from sharing new technological programs and know-how from the company

specialized in the insurance sector (Mapfre S.A.), to the knowledge of the working environment that Aguas de Manizales E.S.P had at its disposal, in particular the close ties of collaboration it held at different levels in the local government.

This alliance is an innovative agreement because, by providing water and sewerage services to a municipal public institution, it takes advantage of the possibility of offering an additional service (micro insurance) to families of all types of income and socioeconomic stratum, guaranteeing a better quality of life and generating employment in the municipalities where it serves.

This type of cooperation agreement has a margin of confidentiality defined explicitly in the contracts that are signed. Mapfre Colombia S.A. has an office in Manizales it uses to reach individual clients in far-reaching manner. Thus, Mapfre Colombia S.A. commercialises substantial insurance in large volumes through strategic alliances with other companies that that handle of a vast array of services. In the case of Aguas de Manizales, this company has databases and the pre-established means to facilitate the marketing and collection of this type of insurance (micro insurance). In addition, the Spanish company seeks to enhance its reputation in a region that, because of its culture, prefers a well-known company from the region. Of the businesses agreements between these companies, none are verbal and they are written in a contractual manner in which the responsibilities of the parties, objectives, remuneration, duration of contract and other details are specified. This is necessary because Mapfre Colombia S.A. makes high value investments that are not recovered in the short term. With this type of partnership, Aguas de Manizales is the client and Mapfre Colombia is the service provider, and therefore the alliance is governed through an operating manual which describes all the processes that must be carried out in the agreement. This includes provision of services and other obligations necessary to meet the demands of the partnership, ie. it is formalised by contract, which is in accordance with the guidelines that have previously been established in law 142 and indicated by the local government.

From Aguas de Manizales S.A. E.S.P. the partner is chosen according to the individual attributes of a company such as the financial health, experience and excel management experience. In the collaborative field, the reasons for selecting it were based on the motivation evident in

correspondence, shared goals and compatibility of cultures, where the same mission objective is shared in the alliance, and that the partner is on the lookout for opportunities for international growth and business that monetise the Equity at a level of manageable risk.

In strategic terms, the pro-alliance factors in order of importance were: access to new market networks from the partner, access to skills or knowledge of the partner and, by convention through billing, reach their customers directly and streamline the collection service. From the perspective of Mapfre Colombia S.A, the alliance is qualified as very important. However, it is clarified that all strategic alliances are important, because it is based on these partnerships that the company conducts its business nationwide.

The agreement was signed with a mixed company (Aguas de Manizales S.A. E.S.P.) in which a municipal governing body has shares (a partner), where the partner was chosen according to the attributes: technological capacity, financial health, management experience and knowledge, and potential for new market penetration. Regarding the collaborative attributes, the critical factors were: access to complementary resources and the benefits of combining bases of knowledge, where each company has a completely different purpose, which allows separable targets, since each partner has competencies in its own right within the alliance.

Regarding the evaluation of results, the cooperation agreement signed in Colombia has produced economic, social, and market-based positive outcomes. The alliance has also benefitted the local population and the environment, with social improvements, employment through sales opportunities and improved quality of life. From this contract, others have subsequently arisen with professionals within marketing, advertising, service providers (funeral), uniform distributors and, finally, reward schemes/ incentives.

Difficulties encountered over the course of the agreement include means of integration of billing (information) systems and a market knowledge deficit. As for the overall results of the alliance, these are classified as excellent, taking into account the number of insurances obtained, customer permanence, social results, new revenues generated for the company and brand positioning. The strengths of the partnership have been, the respectable image - both companies can boast enhanced reputations in the target regions; experts within each business; technological coupling suitable for

managing this type of business and mass marketing of products to reach the entire population of Manizales.

The weaknesses have surrounded the fact that the agreement is subject to the invoicing of the company Aguas de Manizales S.A. E.S.P. ; this legal framework in which the agreement is framed must not change; In part this is limited to political choices/ changes to personnel in office. The threats centre around not being able to renew policies on the expiration of the terms. The projection of future agreements, of those which we can mention, generate a more robust portfolio; product diversification; new markets Peru - Valledupar; smaller aqueducts and generation of new learning programs.

VII. Conclusion.

In the first of the cases analysed, the companies Proactiva Medioambiente S.A. (Spanish origin) and Fanalca S.A. (Colombian company) participated in the bidding process for a municipal contract for the provision of waste services management in some areas of Bogotá, Colombia. These companies won the bid through the joint company Ciudad Limpia S.A. (owned by FANALCA S.A.) and through the cooperation agreement they were able to share their complementary resources (The "know how" of the management of different types of waste from Proactiva Medioambiente S.A. while FANALCA S.A. contributed the management of the administration and background knowledge of operation Colombia) that allowed them to reach predetermined goals. Success was achieved on behalf of both the Spanish company (mainly market penetration and growth in the Colombian territory) and the Colombian company (to continue growing, ie. to expand and consolidate the offer of an additional service) as well as the population of the localities of Bogota where the cooperation agreement contributed with social benefits and improved quality of life, such as: with infrastructure and generated employment. This resulted in obtaining more contracts.

In the second case, the company Aguas de Manizales S.A. E.S.P. (Colombian company with mixed capital, public and private) bid for a municipal contract for the management of aqueduct and sewerage in the town of Manizales, in the department of Caldas , Colombia, under the

aforementioned law of 1994. With the contract obtained through the tender, the portfolio of services and products could be expanded beyond those strictly related to water and sewerage management, through a collaboration agreement with the company Mapfre Colombia S.A. (subsidiary of the Mapfre group of Spanish origin) where it takes on the commercialisation, billing and insurance (micro insurance) collection aspects of the contract, in the city of Manizales (Colombian capital of the department of Caldas). This last collaboration, led the companies involved to align their complementary resources to not only serve the market of the area of Manizales, but also saw them cross borders to work together in Peru, utilising the same collaboration framework.

Local governments have determined this type of agreement to positively affect civil society because they have noticed an improvement in the provision of the public service, which means that in general terms, a positive social benefit has been observed in affected communities.

In summary, these two cases have provided evidence of the changes and reforms that have been made in the management and delivery of public services in Colombia as part of a process to address a crisis that stemmed from the inability of local governments to effect sufficient improvement on their own part. Through Law 142 of 1994 regulating the provision of public services, the private sector was for the first time able to participate in the tender of contracts and used alternatives such as cooperation agreements between companies of both national and international provenance, as a means for local governments to promote the improvement of public services effecting an overall social benefit for the majority of the population.

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IX. Biographical paragraph

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Recent publications

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