



THE PROCESS OF OWNERSHIP SEPARATION IN CO-OWNED COMPANIES OF THE TEL AVIV MUNICIPALITY AND THE STATE OF ISRAEL. A CASE STUDY

AVI KETKO^{*}, MARIA VIORICA BEDRULE-GRIGORUȚĂ^{**}

Abstract: *Professional literature deals extensively with commitment (management and personal commitment), trust between partners and transparency as critical success factors in collaboration in general and in collaboration among public entities in particular.*

The State of Israel and the Municipality of Tel Aviv owned seven joint subsidiaries with different holdings in each of the companies.

The Israeli government made a decision to sell the State's shares in these companies to the Tel Aviv Municipality.

In 2016, a long process, of over eight years of negotiations, between the parties on a commercial basis, came to an end.

The purpose of this article is to demonstrate how the implementation of principles of commitment, trust and transparency in practice led to the successful conclusion of the process.

The research method was qualitative research, using semi-structured interviews, in the process where involved 12 people.

Keywords: *Collaboration, Trust, Management Commitment, Co-owned companies, Separation of Ownership, Municipality Institutions e.*

JEL Classification: 790, 830

1. INTRODUCTION

The Case Study of ownership separating described in this article is unique because of the vision underlying the decisions to implement it and its implementation after many years of experience and partial acceptance of bureaucratic processes that prevented its promotion.

* Avi Ketko, Bureau of Municipality Corporations, Tel Aviv Municipality, 69 Ibn Gvirol st, Tel Aviv-Yafo, 6416201, Israel, e-mail: ketkoavi@gmail.com

** Maria Viorica Bedrule-Grigoruță, "Alexandru Ioan Cuza" University of Iasi, 22, Blvd. Carol I, Iasi, 700505, Romania, e-mail: maria.bedrulegrigoruta@uaic.ro

This process is unique because it is made for the first time with this magnitude, among public entities thanks to the boldness and vision of the heads of the two organizations involved (the Government Companies Authority and the Tel Aviv-Yafo Municipality), their mutual trust and commitment to implement it.

The process described in the article, and as expressed in all the interviews with the stakeholders in this study, substantively demonstrated all that is stated in the literature about cooperation – enablers, obstacles and ways to overcome them, as some of them will be described in practice in the article itself.

In cooperation in general and in cooperation described below in particular, the elements of cooperation such as a common vision, agreed goals, defined objectives, trust, management commitment, accountability, communication, assessment and control – as facilitators and enablers if they exist or obstacles in their absence.

The purpose of all the stakeholders involved in the process was to ensure that these components have the right measure, to take most of the necessary actions to prevent them from being used as obstacles, to find ways to overcome the crises that have arisen on the way and ultimately, achieve successful implementation.

2. LITERATURE REVIEW/ THEORETICAL BACKGROUND

The professional literature on collaboration includes many terms such as: partnership, collaboration, alliance, cooperation, joint venture, coordination and so on. In some of the literature the differences between the terms is the extent of the intensity and manner of the relationships of the partners involved in the process.

Regardless of how the collaboration is carried out, its shape, scope, number of participants, the importance and duration of the collaboration, there must be a number of essential components to enable its implementation. These components include: defining a shared vision, goals and objectives, partner identification, partnership structure, trust, management commitment, accountability, processes, crisis resolution, communication, agreements and contracts, key factors for success, assessment and control.

Trust is one of the most important components of success. Trust appears as the element of “magic“ required for success. One of the definitions of trust speaks of the partners’ ability to rely on each other, and each side is interested in the well-being and success of the other. Another definition of trust speaks about the likelihood that the other partner will act not only on the basis of independent interests in an opportunistic manner, but in favor of the overall partnership.

Reciprocity is a key factor in promoting a common vision while taking into consideration the organizational interests of the parties (Olson, 2004:33).

Walker, Smith, and Adam (2009:53) Define trust as the expectation that one can rely on the fulfillment of commitment and fair behavior when there is a possibility of opportunism. Trust in cooperation has greater significance, since in a joint system the organizations consciously remove control of their actions, remove defensive walls and expose themselves (policies, processes, knowledge, resources, ideas, development plans, etc.) to other organizations in general and to those capable of influencing them in particular. Collaboration changes the attitude and management of the potential damage, risks and level of uncertainty of the partners.

Prescott and Stibbe (2017) refer to three core principles of co-existence. Building trust and mutual respect – the recognition that each partner has a vital contribution to bring to the “table“ and for what he is valued, together with the right to make his voice heard, in a manner that respects him in the decision-making process. Transparency and trust – is the basis of a working relationship that is the heart of an operative partnership. Such a system is essential for building and maintaining trust. Trust is like oil in the engine of the partnership that enables the parties involved to commit themselves out of faith and recognition that the other partner will comply and also uphold its commitment. Mutual benefits – partnership based on sharing risk and benefits. A strong partnership recognizes that each side needs to achieve a specific value beyond common benefits and all partners should help ensure that each partner achieves its goals.

Fasel (2000: 94-96) refers to trust in a number of aspects. Building mutual trust leads to productivity-enhancing partnerships by focusing attention on work, encouraging innovation, reducing monitoring and control costs, and increasing the energy and enthusiasm of both individuals and groups for the joint project. Trust cannot develop when there is inappropriate personal behavior, hidden agenda, unreliable information, faulty systems and processes, and lack of integrity. In order to build trust and respect between partners, the partners needs to be skilled and capable of carrying out the work assigned to them, and there is a common and agreed purpose of the participants. The information is reliable and accurate, the metrics, reward and recognition are compatible and are adapted to outcomes and all participants operate with full integrity.

Harpaz (2015) notes that trust relates to two areas: trust in man and his pure and good intentions, and trust in his ability to “deliver the goods“ he has undertaken in the framework of matching and coordinating expectations. Trust in a partner is central and meaningful, and the intention is not only that the other side is

telling the truth, but also that it can be relied on for the rest of the period of cooperation. Trust begins to be built when the parties know each other genuinely whether in an informal and/or formal framework. It is necessary to make sure that the words and statements correspond to the intentions, which can be proved only through doing. The fulfillment of promises strengthens the trust of the parties and proves internal integrity. Both sides should feel and know that one can rely on the word of each other and that they do not act in a way that contradicts the understandings and their common interests.

Walker, Smith, and Adam (2009) mention three mechanisms for increasing coordination: the use of authority (an option is possible mainly in bureaucratic systems, the creation of interests for coordinated actions and the establishment of trust based on solidarity); Common characteristics (ethnicity, culture, organizational function, professional and personal background); Reciprocity (based on shared interests, a history of positive experience and expectations from the shared interaction).

The real challenge in managing a strategic alliance is to move the sharing agreements into a productive and effective relationship. The way in which the sharing begins and the interaction – in the first stages, affects the development of the entire collaboration later on and its success. Lack of attention to issues such as trust, organizational culture, management commitment, communication, and transparency are the factors that can cause the lack of cooperation on the one hand and are the key factors for success on the other. Managers and work teams involved in cooperative processes for common goals may sometimes have different assumptions and expectations about the sharing itself and how it is to be achieved. This situation becomes more complex in light of cultural differences, barriers of communication, and suspicion about the hidden interests of partner organizations. If the lack of certainty or conflict between stakeholders is not properly managed and handled from the earliest stages, there may be a lack of trust and could reinforce the potential partners' perception of “we are against them“. One way to prevent such situations in advance is to create effective (formal and informal) communication of high quality that provides a basis for commitment and trust. Open communication and information sharing among partners is critical to building a common understanding of shared goals and objectives (Kelly, Schaan and Joncas, 2002; Beyerlein and Harris, 2004; Smith, 2005; Southern, 2005; Bachmann and Inkpen, 2011; Swärd, 2016).

Management commitment is another vital and important factor to the very creation, motivation and successful completion of the partnership. The managements of the partner organizations play a key role in execution and implementing of the partnership. The role of the senior management is to draft

policies, to create a shared vision, goals, and objectives, to deliver them clearly and easily to the middle managers and staff, to allocate resources, and to resolve conflicts during the collaboration processes. Without senior management's commitment to statements, and especially behavior and actions on an ongoing basis, the chances of success are almost nonexistent. Leadership is required from both sides involved that can rise above the current crises, see the overall picture and the ultimate common goal, and steer all involved to achieve the goals originally defined for sharing (Gray, 1989; Perri, Leat, Seltzer and Stoker 2002).

3. THE CASE STUDY

The State of Israel and the Municipality of Tel Aviv-Yafo jointly owned five subsidiaries with different holdings in each of the companies (four jointly owned companies of 50% each and one company with a majority hold by the State).

As a result of the understanding at the State level (by the Ministry of Finance – Government Companies Authority), the Israeli government made the decisions to sell the State's shares in these companies to the Tel Aviv-Yafo Municipality (Government Resolution on 12 May 2009 and 1 June 2014). The outline and the scope of the project were as follows:

- The Government of Israel would sell its holdings (stocks) in the “Atarim” company to Tel Aviv Municipality and the company would become a company 100% owned by the Municipality. (“Atarim” company is in charge of development, management and maintenance of the Tel Aviv coast line –tourist and recreation sites, art and cultural compounds, leisure areas, and other projects which serve and promote tourism in Tel Aviv – Yafo).
- The Government of Israel would sell its holdings (stocks) in the “Tel Aviv Port” company to the Tel Aviv- Yafo Municipality and the company would become a company 100% owned by the Municipality. (“Tel Aviv port” company runs leisure and entertainment complexes – the water front of Tel Aviv which is a unique meeting place between the city, the people and the sea.
- The Government of Israel would sell its holdings (stocks) in the “Old Jaffa Development” company to Tel Aviv- Yafo Municipality and the company would become a company wholly owned by the Municipality. (The aim of the Old Jaffa Development Company is to develop Old Jaffa as a center for art, tourism and entertainment).
- The Tel Aviv-Yafo Municipality would sell its holdings (stocks) in the “Ayalon Highway” company to the Government of Israel and the

company would become a company entirely owned by the Government. (The company specializes in management projects, in the field of infrastructure and land transportation).

- The co-owned company “Halamish“ (public housing, rehabilitation and renewal neighborhoods in Tel Aviv-Yafo), would be dismantled. The public housing assets would be handed over to a similar government company and remaining assets would be divided by agreement between the two owners.

As part of the preliminary understanding between the Municipality and the Government it was agreed that the above outline is a “one piece“ and should not be dismantled into parts.

After the publication of the government resolution of Jun 2014 a “kick off“ meeting was held with the participation of the Municipality's Director General and the Government Companies Authority's Director General. Both would represent their superiors (the Finance Minister and the Tel Aviv-Yafo mayor), which authorized the process. Immediately there after, two teams of experts were established representing the Government and the Municipality.

The Government team included members from several units and sub-units in the Ministry of Finance: Government Companies Authority, General Accountant, Israel Land Authority and legal Counselor. The municipal team included representatives from the planning department in the Tel Aviv-Yafo Municipality: the Bureau of Municipality Corporations, the Budgets wing, the Assets wing and lawyers from the legal department. Each team was assisted by external professional consultants, according to the different fields of knowledge – accountants, appraisers, external lawyers and land assessors. These two teams that became a target group, met together for dozens of meetings and sessions throughout the two years between June 2014 and June 2016 – the successful end of the process.

The first step taken by the teams was to agree upon the existing and future economic value of assets in the companies. For this purpose, an expert company, which provided the parties with an evaluation of the existing assets in the joint companies, was jointly selected. On the basis of this assessment, each side added its estimate of future trends that could affect the value of the assets (such as future construction plans, changes in the trading trends in the relevant areas and the future change in the commercial contracts).

Of course, after this process, the value of the assets in the “coast line companies“ (“Atarim“, “Tel Aviv port“ and “Old Jaffa development company“) decreased according to the Municipal account (the purchasing side), whereas the

value by the State increased (the selling side). The same process, only in the opposite direction, happened also within the “Ayalon Highway“ company – the value by the Municipality increased (the selling side), while in the opinion of the State (the purchasing side) the value decreased. The gap between the overall assessments of the parties amounted to 50,000,000 €. After approximately three months of deliberations relating to the assumptions that were the basis of the economic and trade estimations, the parties succeeded to reduce the gap to 10,000,000 €.

At this point, since the parties had completed the dialogue between them, the escalation mechanism went into effect and some meetings were held between the Municipality Director General and the Government Companies Authority Director General. In those meetings the disputed points were discussed and at the end an agreed value was fixed. This value actually determined the price of sale of the various companies and the cost of the entire transaction.

Once this issue was over, the parties began drafting legal contracts with the help of both internal and external lawyers. This activity is particularly complex and complicated, since a detailed legal formulation of agreed principles reveals many points that are not expressed in the framework of the agreement, on a general formulation of the principle in the framework of the overall outline. Again, during this process, the escalation mechanism has been activated several times. The Municipality Director General and the Government Companies Authority Director General met every two or three months to overcome disputes and disagreements that came up between the parties in drafting the legal contracts. After another ten to twelve months, the legal agreements were finally ready for signature by the authorized signatories of the parties.

After two years of intensive work, that included ups and downs in relations between the parties, the work was finally completed and the agreements were signed in June 2016.

4. RESEARCH DESIGN

The method of the research is based on a constructive approach (Bryman and Bell, 2015) and we used both grounded theory and case study design techniques, since one of the authors was part of the process described in this paper (Charmaz, 2014; Hancock and Algozzine, 2011, Creswell, 2014). The purpose of this study is to explore the contribution and the influence of the commitment of management at all levels, trust and personal relationships between the teams and their managers, as well as transparency in ongoing work.

The participants in the study were members of the teams and semi-structured interviews were conducted with the following questions: background questions, how the process works, the relationships between the teams' members (formal and informal), the extent of trust between them, the flow of information and the senior management commitment to the process (Appendix A).. Data were collected through those individual semi-structured interviews and first analyzed using open coding. The researchers then used axial coding to reconstruct the data in new ways by making connections between the categories. The categories emerging from open and axial coding were the basis for the findings as revealed through the analysis of the data collected.

5. FINDINGS

At the beginning of the process the municipal team was convinced that the expert company for asset evaluation was biased in favor of the government side. Therefore the Municipality team hired another expert company which prepared a parallel evaluation of the assets on which the continuation of the negotiations was based. This event planted seeds of distrust between some members of the Municipal team – a lack of trust that caused the prolongation of the process brought disagreement from time to time regarding data and basic assumptions. The decomposition of the evaluations into their basic components enabled the teams to extract the agreed-upon issues from the overall picture and to discuss the issues in dispute one by one. This method of highlight and emphasis on the many agreed and approval issues, compared with the few remaining issues in dispute – enabled the parties to take a positive attitude and to strive for formulation of agreements on all the issues that were on the agenda. At the end of this process, all the principles were agreed upon and the outline of the transaction was ready for the stage of legal drafting of the agreements.

The external lawyers of the parties accepted the principles and began formulating the legal agreements. The lawyer tried to provide solutions to any problem that could arise in the future between the parties, big or small without any distinction. This situation has reawakened the debates on those issues that have already been agreed and even on new issues. At that point some of the professional team members overruled the legal positions (after hearing all the arguments) and overcame non-substantial legal disputes (which were true for many of them). As indicated by the participants, this intervention prevented unnecessary negotiations and brought increased trust among the team members. The increase in trust was the

result of the fact that the parties saw that each side did not hold on to legal arguments that might delay the process and even brought it back to the beginning.

During the negotiations between the teams in the presence of all the members, at internal consultations or in separate one-on-one discussions, dozens of formal and informal drafts and copies of documents were formulated. Those documents contained and expressed everything that was discussed and agreed, including special aspects that were disputed. Because of the large number of drafts, documents, and updates, there were cases where mistakes were made in wording or formulating, without one of the parties paying attention to it, even though it was in favor of the other side. On a few occasions this happened, the side which ostensibly gained immediately brought it to the attention of the other side and agreed to a suitable correction. Such behavior indicates a high level of fairness, honesty and rectitude that developed among the teams, mainly because the trust between the professional members and their commitment to the process led to the desired results and outcomes.

During the two years of meetings and discussions (principle, economic and legal negotiations) there were a few occasions that the parties were forced to use the conflict resolution and dispute settlement mechanism. This mechanism included escalation to the higher level – the Municipality Director General and the Government Company's Authority Director General. At every such meeting the two Director Generals were presented with all the data and points of dispute, and they evaluated the situation they reached a satisfied solution for all. In such a way they proved unequivocally their unbounded commitment to the process and its outcomes. Moreover, the commitment that they showed to the members of the teams, strengthened the significance, worth and importance of completion of the mission.

6. CONCLUSIONS

In accordance with the findings presented above, the processes and the techniques used are in fact common and accepted procedures in the world of conflict resolution and negotiation. Those processes made it possible to depersonalize the problems encountered, focus on interests rather than on positions, and to comprehend the difficulties and obstacles of the other side – were actually expression and execution of the open communication and the trust that have been formed between the members of the teams (Fisher and Ury, 2011; Lax and Sebenius, 1986; Kuttner, 2011; Tomas and Kilmann, 2017).

As seen in the literature regarding collaboration, cooperation and partnership – the components of trust, management commitment and open communication were actually expressed in our case study. Without trust between the team members, the senior management commitment and transparency – the process would not have come to a successful end.

The function and the part that the two C.E.O's took were most significant, their combined and integrated leadership and ability to resolve disputes and conflicts as they functioned as Conflict Specialists (Kuttner, 2011: 104). This leadership influenced and motivated the team members to develop mutual relationships in the day to day work. This work layout arrangement enabled the parties to make commitments and obligations to each other under the assumption and belief that the other side would fulfill its own obligations (Prescott and Stibbe, 2017). While working together and based on successes and achievements over time, a healthy partnership was created. The parties at all levels recognized that each side needs to achieve specific values beyond common benefits and all partners helped in practice to ensure that each partner achieved its goals.

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APPENDIX A – QUESTIONS FOR THE SEMI-STRUCTURED INTERVIEWS

1. What is your role in your organization?
2. What was your role in the negotiation team?
3. What were your authorities in the negotiation process?
4. In which phase did you join the negotiation?
5. In your opinion, how were the meetings carried out?
6. Who were the factors that supported the process?
7. Who were the factors that delayed the process?
8. Was there informal interaction among the members of the team? Between teams?
9. Was there an atmosphere and a sense of trust among the team members?
10. If so, how was this reflected?
11. If not, how should it have been expressed?

12. Were there any organized trust-building activities between the teams?
13. Did you feel that the other side was being dishonest?
14. Did you feel that the other side was hiding data, information?
15. Was all the information available to the teams?
16. The other side shared problems that made it difficult to advance at certain points?
17. Was the duration of the process appropriate?
18. What was the involvement of the senior management (government and municipality) in the process?
19. Was the senior management available when their assistance was needed?
20. What was the level of commitment of the senior managements?
21. How does this level of commitment express itself?
22. Were the necessary resources allocated? On time?
23. What were the strengths of the process?
24. What lessons should be learned from this process for similar cases in the future?
25. Would you do something differently?
26. What do you have to add beyond what has been said so far?