Keys to Successful Public Private Partnerships (PPPs)

University of Southern California SPPD Research, 2006 by, Yin Wang

In PPPs literature, how to develop a successful partnership is always one of the important focuses. Public administrators believe that the key issue is the role and responsibility of each partner should be identified as early as possible and allocated to the partner best suited to accomplish them. In contrast, private managers emphasize on the protection of their benefits in PPPs by claiming that a good partnership should have the following characteristics: fairness, openness, risk sharing and respect for each other's contributions. There are some slight differences between the views from the public and the private, but one thing in common is they both believe "forge the partnership at the beginning and it will survive to the end" (DiLullo and Stainback 2001). This session will be discussing the key factors that forge a successful partnership.

1. A good plan

A good start is half success, and a well thought-out plan is a good start. A good partnership plan should include two parts: **organizational policy** and **a detailed work plan**. **Organizational policy** builds the foundation of a partnership by establishing the framework of partnering and designing the way of collaboration. The policy should first clarify the core values and main purposes of a particular partnership, and establish a number of non-negotiable, good-for-all principles. It should specify what partners want to achieve from this partnership, and what the criteria for success are. Also, it needs to explain the approach of framing the partnership, which includes identifying eligible participants as well as describing the skills, knowledge, and resources required (Agranoff and McGuire, 2001). Furthermore, the organizational policy should suggest how to create an environment to enhance favorable, productive interaction among partners, so that their technical expertise and moral authority can achieve greater gains (Buse and Waxmman, 2001). Additionally, it is also necessary to clarify when and why to bring a partnership to a close.

As another indispensable factor to a successful partnership, **a detailed work plan** must be carefully developed before hand. A well thought-out work plan, often done with the assistance of experts in the relevant area, can substantially increase the probability of success of a partnership. Oftentimes taking the form of an extensive and detailed contract, a work plan should clearly describe the roles, responsibilities and decision-making structure of both the public and private partners. Also, in order to best manage the operation process of a partnership, a good work plan should develop a method of dispute resolution since not all contingencies can be foreseen in advance and be written in the original contract (NCPPPS 2006 III).

2. Clear definition of the role, responsibility and input of government

Government has a unique role in partnership, different from both non-profit and for-profit organizations. On one hand, government is **the political leader** who takes the initiative to start a public-private partnership, and on the other hand, it is also **an active partner** in the operation of a partnership. These two responsibilities should be recognized separately.

Political leadership has significant importance because a partnership can succeed only if there is a commitment for the top. First of all, political leaders must be supportive of the concept of PPPs and truly understand what the private sector can offer in public affairs. Then they should also be willing to actively take a leadership role in developing a partnership and collaborating with private actors. Equally important, there should be a statutory foundation for the implementation of partnerships between the public and private (NCPPPS 2006 III). Once a partnership is formally established, the public sector needs to change its role from the owner and operator of public assets into **an active partner** in a joint project. Government needs to transfer some of its responsibilities and risks to the private sector and to collaborate with the private so as to accomplish the work together (Allen 1999). Nevertheless, the public sector must realize that there are certain responsibilities that cannot be transferred to or shared with the private sector. For example, government is ultimately responsible for the failure of service delivery in the areas of education, health, social welfare and some other public services with great social significance (Abrahams, 2000).

3. Clear definition of the role, responsibility and input of the private sector

An indispensable factor to a successful partnership is selecting the right private partner(s). The “lowest bid” is not necessarily the best choice (NCPPPS 2006 III). A right partner should have the following characteristics: relative experience, professional reputation, high technology, skillful personnel and suitable bid. It is necessary to give all-around consideration and select the candidate with the best “package”. In fact, selecting the right private partner is as important to a successful partnership as is an active public sector.

Equally important, the private partner should be clearly informed of it specific responsibilities and risks in the early stage of a partnership. It ought to be fully aware of what it is expected to do, what risks it needs to take, and how to work with the public sector.

Furthermore, it is also of great importance to develop an efficient decision-making and community system between the pubic and private partners. One big concern of the private regarding working with government is multiple public agencies execute authority in a partnership. It is quite often that some partnerships involve multiple public players from the same or different levels of governments, all having significant influence over the project operation. Private partners usually find themselves having a hard time dealing with multiple “supervisors” and trying to please all of them. Private Managers say that it will be a lot easier for them if they clearly know who to talk to and who to answer to.

A good plan and clear definition of the public and private sectors' roles are necessities of a successful partnership, but by no means the only ones. Some other factors also have great impact on partnership, such as social support, size of the project and capital sources. In fact, there isn't a set formula or an absolute foolproof technique in crafting a successful partnership. The three keys mentioned above and other influential factors are all involved in varying degrees depending on the specific situation of a partnership.

Benefits of PPPs

Proponents of PPPs believe that the public is good at certain things, the private is good at something else, and so creative partnership between the public and private could take full advantage of both sides' strength to work for the public interest. Specifically, they argue that partnership can provide quality public services without having to increase taxes. Also, they support partnership because it can efficiently utilize the capital and intellectual resources from both the public and private sectors. Furthermore, private involvement can help government with some sensitive issues which government might not be able to address otherwise. This session will discuss five major purported advantages of PPPs with the support from empirical research.

1. Cost reduction

According to a 1998 survey by the U.S. Council of State Governments (Seader 2002), the most crucial reason of using PPPs is to save costs. Cost savings can be achieved mainly through increase in efficiency and reduction in staffing and employment conditions (Skelcher 2005). Cost savings are also the result of improved management due to lack of red tape, increase in flexibility, and speedy implementation (Seader 2002). Support comes from David Seader Associates' research (2002), reporting that the U.S. experience with public service outsourcing results in 10%-20% savings over the traditional delivery system and in some cases savings as high as 40% have been achieved. Domberger and Jensen's research (1997) on the UK and Australia supportively shows that competitive tendering in these two countries has resulted in mean savings of about 20%.

However, it should be recognized that partnership doesn't save costs in all kinds of projects, and it might actually increase costs in some particular situations. Walsh and Davis' study (1993) found that some cost increases in competitive tendering were due to the service specification process showing the public sector that standards were undesirably low. Also, changes in accounting rules can increase costs, which is particularly the case where a PPP is presented as a means of purchasing public services without the cost impacting on government's balance sheet (Reeves 2003).

2. Access to private resources

The 1998 survey shows that the second-highest reason to use PPPs is the access to private resources, including **specialized expertise, proprietary technology** and **private capital**. Government is fully aware that the private sector has some advantages that cannot be found in the public sector. The private sector owns know-how and advanced technology and private laboratories accelerate change to an amazing rate, especially in high-tech fields like information and communication areas. In contrast, as a generalist, government can not afford to maintain know-how in-house, and it is even more impossible for government to conduct research and development in every field. Partnership provides a great opportunity for government to access **specialized expertise** and **advanced technology** from the private so as to better serve the public interest (Seader 2002). Also, partnership serves as a vehicle for the injection of private capital in public service delivery. It may permit projects to proceed when there are no enough public finances available. Or with private capital coming in, government can devote its finite finances to other high-priority areas of expenditure (Allen 1999).

3. Risk sharing

Another key benefit of partnership is the sharing of risks between the public and private. Scholars firmly believe that partnership can efficiently distribute particular risk to the partner best suited to manage that risk, and therefore the overall risk costs can be minimized (Allen 1999, Seader 2002, Skelcher 2005). Also, as we mentioned above, partnership offers the opportunity for the public sector to access private technology, and then a private partner will have to guarantee the effectiveness and efficiency of the technology it brings in. This will relieve the public sector of the risks of enormous costs associated with research, innovation, and performance. Furthermore, after signing the contract of a partnership, the private sector is obligated to perform with fixed or maximum costs for the operation of the project. This apparently relieves government of its open-ended financial risks in this particular public service area. In addition, in some cases where private actors are contracted to market on their own, like in concession projects, the public sector is even free from market risks or rate/pricing risks (Seader 2002).

4. Quality improvement

The impact of PPPs on service quality is relatively complicated to demonstrate compared with the cost-saving characteristic of partnership. The definition of service quality itself is multidimensional and sometimes subjective (Skelcher 2005). For example, the public sector's understanding of quality includes the consideration of environmental protection and other social externalities, which might not exist in private actors' agenda. Also, lack of available data on service quality is another main reason why judgments about PPPs' impact on service quality are difficult to reach.

However, empirical qualitative research is still able to offer this comment that in PPPs, both the public and private have better incentives to perform. To the public sector, partnership is a useful vehicle for increasing their familiarity and direct interaction with private actors; therefore public agencies are able to adopt more advanced managerial skills and expertise from their private partners. Also, partnership offers a good opportunity for government to closely communicate with clients – citizen or other particular service receivers – so as to better understand, determine and meet their needs (Allen 1999).

To private actors, PPPs also provide strong incentives for better performance. Risk sharing is the greatest incentive for good private performance. In many partnerships, payment is conditional upon the initiation of the actual provision of public services, or the quality of the services delivered. This mechanism is of the utmost importance in the case of the UK PFI. Plus, a private actor usually has access to a range of performance-based payment arrangements, which are rarely available in the public sector. Another reason why private involvement can increase efficiency is private actors are usually free from bureaucratic "red tape" and relatively isolated from political intervention, so that they are able to work more flexibly and effectively than a public agency (Allen 1999).

5. Help government with sensitive issues

PPPs offer the public sector a special benefit: helping government address sensitive political and labor issues. Actually, in the 1998 survey, this was the third-highest reason for the public sector to choose PPPs. Public administrators admit that when the political leadership can not directly take on a project because of its sensitivity, PPPs could be a great way to still accomplish their objectives without having risks of stirring up serious controversy. The sensitive-issue list consists of such issues as downsizing, regionalization, implementation of difficult policies, operation with cross border relationships, and coordination of political entities. Public administrators state that because of the flexibility and efficiency of private partners, they sometimes can rely on their private partners to handle those issues more easily and less controversially (Seader 2002).

Concerns regarding PPPs

Even though PPPs have been widely accepted as an alternative of public service delivery to provide quality services with better cost efficiency, there is serious doubt that PPPs might cause performance drawback. Involvement of the private sector in partnership raises the concern of private accountability, which has long been a controversial issue in PPPs. Besides that, empirical studies show that the public sector has also caused severe concerns, including job loss and unbalanced equation in risks/rewards sharing. This section will give a close look at these issues.

Concern about the private sector

Private accountability is the biggest concern regarding the private sector's involvement in the delivery of public services/facilities. Not only skeptical scholars but also some citizens are worried that the private actors might be less accountable than government to provide public services. Unlike public agencies, having the goal of best serving the public interest, the private sector, especially for-profit organizations, aims at maximizing its financial benefits. Critics argue that private actors might have strong incentives to take short cuts in providing public services to achieve cost-savings and financial benefits. It could get worse when private actors conduct illegal practices to win over government for a contract by bribery, black-box operations and other corruptions.

To rebut the criticism, both public administrators and private managers argue that private actors involved in PPPs actually have a high level of public accountability due to outside public scrutiny and inside profit incentives. Outside public scrutiny involves multiple players: private companies have to answer to the public agencies that hired them, and also to various regulators, such as the Securities and Exchange Commission and congressional oversight committees. Actually, regulators tend to enforce regulations more tightly with private actors than they do with public agencies, because ordering public agencies to comply with regulations can mean increased budget and higher taxes (NCPPPS 2006 IV). In some well-known and visible partnerships, the media plays a significant role in scrutinizing the private sector's performance.

Also, private partners have strong inside profit incentives to be accountable in partnership. The only way a company can achieve long-term success in business is to provide quality, value and dependability. Private partners have to establish a reputation of quality services and honest operations to win long-term contracts with government (NCPPPS 2006 IV). If a private company reduces service quality or conducts illegal practices for short-term profits, it will actually lose in the long run.

Concerns about the public sector

Skepticism on the public sector includes the concerns about job loss in the public sector and the government's unbalanced superiority in partnership.

<u>1. Job concern</u>

Contracting out public services raises a concern of public employees losing their jobs to the private sector. The criticism of partnership as a way to cut public payrolls and slash wages has actually been one of the most controversial barrier to promoting partnerships. To respond to this concern, the United States Department of Labor conducted a survey in 2001 examining the question. The results showed that partnership operations in the U.S. don't mean massive layoffs, and that public employees don't lose jobs because of PPPs. By conducting surveys in 34 cities and counties, the Department of Labor found that virtually all affected public employees were either hired by their private partners or transferred to other public positions. This survey also found that the most productive partnerships are those that actively involve public employees in their planning process (NCPPPS 2006 IV). For example, when public employees are hired by their private partners, private employers have union represent employees in their operations, and in most cases, union members have fared better than with public employers because of the greater flexibility of private employers (Seader 2002).

<u>2. Unbalanced equation</u>

The unbalanced equation between the public and private sectors in partnership is one of the major reasons why some private actors hesitate to collaborate with government. In many cases, private actors have to take the lion's share of the risks with the public partners looking for the lion's share of the rewards. The unbalance "at the beginning of negotiations rarely can be transitioned to a fair and equitable transaction" (DiLullo and Stainback 2001). Moreover, in some cases, public agencies demand significant non-refundable deposits to cover their costs incurred during the due diligence process. Private actors see this is unfair to them. Private actors invest significant time and capital to complete the solicitation process, consisting of "environmental and market analyses, design, cost estimating, engineering, financial analyses and other costly studies" (DiLullo and Stainback 2001). All these efforts lead to a proposal that the public sector can freely accept or reject. Even if finally winning a contract, the private actors can never ask for reimbursement for those costs invested in the solicitation process.

To solve this problem, the private sector suggests that the public and private sectors have to view themselves as partners at the time of the risks and rewards. It takes partners a lot of efforts to forge a partnership and they need to make sure that partnership is operated in an environment of fairness, openness, risk/reward sharing and mutual respect. The public and private sectors have to be committed to each other to perform a good partnership. "Forge the partnerships at the beginning and it will survive to the end" (DiLullo and Stainback 2001).

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