

The Governmental Role in the Development of PFI/PPP Scheme

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Abstract

Nowadays, global trends of privatisation as well as reduced governmental roles continuously lead to the promotion of infrastructure development under the PPP/PFI scheme. However, privatisation has political as well as economic dimensions. Both successful and unsuccessful PFI/PPP-based projects testify to the truism that appropriate, legal and economical environments are a pre-requisite for the initiation of such schemes. Such environments must, of course, be fostered by the host government. Despite the enormous groundswell of interest in partnering and alliancing in recent years, there has been comparatively little research that has set out to investigate systematically the nature, feasibility, benefits and limitations of forms of client-contractor collaboration. Specific literature discussing governmental practices in managing PFI/PPP projects is scarce. It is therefore meaningful, in this paper, to study the governmental role of successful PPP formulation in terms of corporate development including the development of project documentation and procedures, human resources and technology, and to examine thoroughly the technology know-how and the barriers that have to be overcome such as: political, regional, social, religious, ethical and economic. The aforementioned factors in accordance with the operations of transnational firms under PPP contract and configuration of their partnering organizational structure and culture and the European region construction competitiveness will identify the appropriate government roles regarding the formulation and administration of PPP projects.

Keywords

Government, partnership, public, private, politics

1. Introduction

Concession models as well as Public-Private Partnership (PPP/PFI) schemes have been seen as a major trend of transaction in operation during the recent two decades concerning the privatization of public sector infrastructure developments in fields such as energy, transport, telecommunication, IT, health, custody and education, undertaken in many parts of the world, either in developed or in developing countries. This is because this mechanism offers host governments an opportunity to accelerate infrastructure development and to deliver services on time and to specified standards without incurring large public expenditure and borrowing. At the same time, it also creates new business orientation for the private sector to participate more positively in the world economic development. Therefore, this sort of strategic alliances are becoming an important means of survival for managing organizations and of the regeneration of the public sector confronting the challenge of globalization. Such alliances are a compromise between organizations doing business in isolation and

in mutual partnership with governmental bodies, where the involved parties are in a continuous and hard effort in exchanging experience regarding managerial, commercial creative skills and government related benefits.

However, the road to winning a privatised approach in relation to the use of a conventional public funded one is by no means easy. One of the most important key factors to competitive advantage of the PPP scheme against the traditional model lies in the ability of organizations and governmental bodies to form learning alliances; these being strategic partnerships based on business environment that encourages mutual and reflective learning between the public and private partners, who will enhance co-operation and a high level of trust and commitment.

Also, one of the most powerful but frequently overlooked influencers of successful project management in general, and specifically in PPP schemes concerns the roles played by knowledgeable personnel of both involved parties in using power and political behavior to promote successful implementation of this strategic alliance. Political behavior, sometimes defined as any process by which individuals and groups seek, acquire, and maintain power in modern societies.

In general, the field of PPP project management is one that is particularly fraught with political processes for several unique reasons. First, because due to its nature, the promotion of such a project has extremely tight bonds with the governmental will to take political risks and decisions with political cost for its initialization and execution. Second, project managers in many companies and governmental bodies do not have a stable base of power (either high status or over-riding authority). They must learn to cultivate other methods of influence in order to secure the resources from other departments and to attain flexibility and immediate response in taking decisions necessary to attain project success. Third, and closely related to the second reason, these projects often exist outside of the traditional (functional) structure, relegating project managers to play super numerous roles. Therefore, it is necessary, the promoting entrepreneurs to take a long view of contract negotiation, because of the long duration and high capital costs of infrastructure projects and changing priority of the host governments.

2. The Learning Organization Concept

Most organizations, especially the construction ones, as well as public bodies, function in a strategic mode that is inflexible and unresponsive to changes in contemporary market trends and customer demands. Due to globalization and the needs emerge from this aspect, the collaboration and co-operation between the public and private sector is vital in order both the involved parties to gain citizens' and customers' satisfaction respectively. Thus, a pre-requisite in succeeding in their own mission and goals is that they must acquire competitive advantage concerning the formation of their alliance in relation to other traditional ones. In general, competitive advantage requires that both organizations and governmental bodies must at least do three things more effectively:

- They must quickly recognize changes in market demand that could have an adverse impact on their operation (and conversely those that could yield positive impact)
- They must be flexible enough to respond to cultural and organizational changes due to the strategic alliance and finally
- They must understand their own capabilities relative to the scope of the formation of this strategic alliance.

In order the three aforementioned goals to be satisfied, a learning organization is required. Such organization has the ability to change; and more importantly recognize the way it needs to go about its business (Nesam and Holt, 1999). This is important because in general various industrial sectors are increasingly competitive demanding improved not only inter-organizational relations, but also strong partnership skills. Also, it is becoming increasingly difficult for organizations and governmental bodies to remain self sufficient in a turbulent and changing business environment; demanding focus and flexibility especially when the new trends are extremely challenging and fast growing. Bearing

this in mind, the recommendation of Latham Report (Latham, 1994) confirms that strategic alliances are an important aspect of procurement process especially in the construction industry.

Strategic alliances, such as the PPP (Public Private Partnership) model can provide a 'means of survival' for organizations providing opportunities for partners to cooperatively join forces and create value, rather than simply achieve basic, commercial transactions and a 'means of a new streamlined public sector structure' (HM Treasury Taskforce, 1997), as it was recognized that PPP transactions require a level of commercial knowledge, experience of project management and the provision Governmental Departments and Agencies which will ensure delivery of quality transactions. Collaborative alliances encourage learning and that the key to maintain competitive advantage stems from resulting learning alliances.

According to Bronder and Pritzl (1992), a strategic alliance exists when the value chain between at least two organizations (with compatible goals) are combined for the purpose of sustaining and/or achieving significant competitive advantage. Alliances can either be collaborative or co-operative. In collaborative strategic alliances parties have clear objectives and have a clear knowledge and understanding how their partner's objectives can affect their success. Acquiring knowledge from partners is not a devious act, but rather represents a commitment to absorb each other's skills. Co-operative strategic alliances encourage partners to commit resources to the relationship. A reduced level of competition follows and partners feel more committed to work together. Co-operating organizations have been found to obtain lower costs for as long as they maintain trust, internally among employees and externally among the network (Ketelholm, 1993). In partnerships between the public and private sector is rather difficult to establish accurately the form of structure of the alliance due to partnership's nature. However, according to the above-mentioned, it is suggested that these alliances have the co-operative form. Regardless the alliance form, both of them facilitates knowledge transfer. This entire process relies on a learning mechanism and trust. Without trust, benefits to the alliance are minimized.

The complexity of the learning organization grows when different types of learning are considered ranging from adaptive to institutional experience. Some suggest single-loop learning or adaptive learning; double-loop or generative; and even triple-loop learning as dialogue (Argyris, 1990). In the case of PPPs, we have a range that involves incremental and adaptive learning focused on changing routines and culture; pushing towards a new framework for learning and practice; and learning about learning through revealing and altering the tacit infrastructure of thought due to the specific nature of the partnership. Therefore, it is vital to consider a learning organizations model which will be genuinely different from traditional approaches and which will have a systemic and holistic focus (Katz and Kahn, 1978).

One of the most important key factors of a successful learning organization for PPP transactions is that feedback processes need to be in place and provision of information must be clear. Project managers within the partnership need to have an understanding of how sub-systems of the alliance are inter-related and how they individually influence procurement or service they are providing. Managers at various levels within the alliance need to create and stimulate an appropriate organizational climate. Fundamentally, learning requires receptiveness to new ideas. There must be firm commitment from senior management to free up employees so they can have the time to reflect and review their actions. Such an approach is embedded in the process of double-loop learning. By encouraging this process, members of the organization are required to act as change participants and progress with a dynamic relationship, where knowledge transfer and information is intense and highly valuable.

Organizations effectively co-operating with each other, are better able to adapt to dynamic environmental changes. Another important factor of learning is the encouragement of dialogue with alliance members. All partners of the alliance must be able to receive and transmit information (across internal and external boundaries) with the Governmental partners having the regulatory role (Pantouvakis, 2003). Critical also is how knowledge is communicated. A critical part of the exchange between partners is the ease of access to all forms of knowledge, from knowledge about people, facilities, management systems and practices, to critical information about differences in values and beliefs. It has been suggested that alliances can sustain joint learning structures if the following steps are integrated into relationships:

- Becoming aware and identifying new knowledge
- Transferring/interpreting new knowledge
- Using knowledge by adjusting behaviour to achieve intended outcomes and
- Institutionalizing knowledge by reflecting on what is happening and adjusting learning behavior (Levinson and Asahi, 1995)

Knowledge and communication are valuable components and should be constantly monitored and extended. However, the most significant learning that can take place in organizations involves changing mental modes. Essentially, people need to learn how to surface, challenge and adapt their mental modes to cope with change (Nesan and Holt, 1999). To support the alliance learning process, joint-learning structures, strategies and processes need to be developed. This should include: designing reward and incentive systems that encourage both individual and organizational learning and establishing mechanisms for collecting and transferring information from both inside and outside the alliance.

The governmental role in the learning organization process lies directly on what was described above. In countries where PPP transactions are in a quite progressive stage, such as in the UK, the government has proceeded in the formation of the HM Treasury's Taskforce, an independent institutional body that exists to promote the PFI, and to develop a body of best practice to be published as guidance to assist both procurers and providers. Within its structure, there is the taskforce projects team, a group of leading PFI experts recruited from the private sector, and the taskforce policy team, which in conjunction with the projects team, continually develops and publishes standardized models for key stages of the procurement process.

3. The Role of Politics

Bearing in mind that project management and politics are inextricably linked, successful project managers have long known the importance of maintaining strong political ties throughout their organizations as a method for achieving project success and are usually those who intuitively understand that their job consists of more than simply being technically and managerially competent. This argument is even stronger when it applies for project management in public – private partnerships. An understanding of the political side of organizations and the often intensely political nature of the project implementation of the PPP transaction gives rise to the need to develop appropriate attitudes and strategies from both the involved parties that help project managers operate effectively within the system. So, the question is what are the steps to be followed in order project managers to become politically astute, if this approach is so necessary to effective project implementation.

Firstly, project managers within the alliance must understand and acknowledge politics as a fact of organizational and project life. The acknowledgement of the political nature of organizations and of the project selection concerning the PPP transaction is necessary. Hence, pursuing a medium ground of political sensibility is the key to project implementation success. The process of developing and applying appropriate political tactics means using politics as it can most effectively used: as a basis for negotiation and bargaining. Another question is how a project manager within the alliance succeeds in establishing the sort of sustained influence. Keys and Case (1990) highlight five methods managers can use for enhancing their level of influence with all the involved members. Therefore, they suggest that the establishment of a reputation as an expert in the project is extremely powerful. This is due to the fact that a project manager who is widely perceived as lacking any sort of technical skill or competency cannot command the same ability to be perceived as a 'true leader' of the project team.

A second technique that can establish greater influence is that managers need to make conscious decisions to prioritize their relationships in terms of establishing close ties and contacts with those around the alliance who can help them accomplish their goals, rather than on a basis of preference. From the perspective of seeking to broaden their influence ability, project managers need to break the ties of habit and expand their social network.

The third tactic is to network as part of creating a wider social set composed of organizational members with the power or status to aid in the project's development, project managers will also establish ties to acknowledged experts or those with the ability to provide scarce resources the project may need during times of crisis.

A fourth technique for expanding influence process is that it only works when it is done well. Project managers seeking to use influence to succeed must carefully select the tactic they intend to employ. Finally and closely related to the fourth one successfully influencers are socially sensitive, articulate and very flexible in their tactics who seem to know intuitively how best to balance the alternative methods for attaining the other manager's cooperation and help.

Apart from the five methods, which exert influence, an important aspect of almost every project manager's job involves negotiation, which is a primary aspect for the Private Finance Initiative. Negotiation is an often-distasteful side effect of the project management process. The key for a successful negotiation is primarily to use a form of principled negotiation (Fisher and Ury, 1981) in which both parties search for fairness, Win-Win outcomes, and mutually acceptable solutions. A negotiation is not an opportunity to take advantage of the other party. On the contrary, it is a chance to gain the best terms possible for your side while seeking to address the other party's interests as well. When negotiation is seen as a bargaining session between long time colleagues, it changes the dynamic from one of manipulation to one of problem – solving.

Politics and project management are two processes, which, while very different, are also inextricably linked. No one can go far without understanding just how far politics will take him or her not only in their organizations but also in strategic alliances organizations. Although, being a successful manager is a matter that requires a combination of personal talents, the governmental bodies can ensure success for the projects' implementation by making clear to the private organizations and public departments which take place in the PPP process that the negotiation process is a process of win-win outcomes and mutually acceptable solutions. This can be achieved by recruiting high caliber staff, regarding their technical skill, with strong interpersonal and leadership skills, who can exert influence due to their personal characteristics, acquire flexibility, and are not keen in conflict processes.

Also, during negotiation stage, the government should provide all those means, such as information access, communication, procedure standardization and specialization in order to demonstrate its good will for a principled negotiation which will not get burst into conflict and hence to highlight the initiation of culture change.

4. Conclusions

Co-operative alliances such as the one of Public-Private Partnerships can create a shared vision of mutuality and enhances an organization's capacity to learn continuously and to improve the effectiveness of its systems and operations. Also, as politics and project management are two key issues which are very different but inextricably linked, and in the case of the PPP transaction strongly influence their implementation is vital for the government re-determine its approach and to ensure measures regarding the learning organization theory and the role of politics. Thus, remaining all the involved parties focused on the alliance objective, may not only reduce costs, but also maintain a sustainable competitive advantage as well as a win-win business transaction.

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