Public Private Partnerships: The Management Challenges

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ABSTRACT

Despite increasing academic interest in public-private partnerships (PPPs) there appears to be little empirical research into their internal management. This paper addresses this gap in the literature by reporting on the key findings of a grounded theory study that aims to gain a clearer picture of the key management issues associated with PPPs and how they might progress through a series of managerial stages.

The study's findings suggest that PPP projects move through four distinct and sequential stages. Each stage is characterised by its own set of management challenges. In addition, this study suggests that the nature of PPPs can lead managers to adopt a particular management style. This style is distinguished by the emphasis that managers place on the use of psychological contracts and the existence of strong emotional bonds to gain the cooperation of managers from partner organisations.

Keywords: public-private partnerships, cooperation, grounded theory

INTRODUCTION

This paper examines the managerial challenges involved in the establishment and maintenance of partnerships between the public and private sectors, what are most commonly referred to in the extant literature as 'public private partnerships' (PPPs). Increasingly governments around the world are moving towards the formation of PPPs as a preferred method of delivering both economic and social infrastructure at a time of ever diminishing public resources. However, despite this global trend little is known about the management of these forms of strategic partnerships at the micro-management level. That is, at the level of managers working at the interface of the partner organisations and who are responsible for the on-going management of PPP projects. In this study, these managers are labelled as 'key managers'.

Public Private Partnerships – A Solution

The notion of governments working with the private sector is not new with the term PPP itself being traceable to the urban renewal projects that spread across the United States in the mid-1960’s. However, it was in the 1990’s that PPP projects began to gain increased favour with governments in many parts of the world. No country has made more of the PPP concept to finance investment in public services than the UK. According to Johnson (2003: 23) there are “£25 billion plus of new PPP projects underway or finished” in the UK. Successive Blair Labor governments have applied the PPP concept to a diverse range of traditional government activities ranging from the construction of new hospitals, prisons and schools to the upgrading and maintenance of the London underground. Primarily as a result of the focus on PPPs by the UK government, governments throughout Europe, South Africa, North America and Asia are increasingly using the concept and term PPP. This includes China where the organising committee of the 2008 Beijing Olympics are adopting the concept (Murray, 2003). In Australia, the State governments of both New South Wales and Victoria have demonstrated their commitment to the use of PPPs by developing formal guidelines for the establishment of PPPs, including the type of government services that may lend themselves to PPPs.

Providing an explanation for the continual rise in the popularity of PPPs has attracted the attention of a number of academic writers (e.g., Goldsmith, 1997; Coburn, 1994). Most frequently the reason for the growth in PPPs is what Dodge (1988: 2) labels the “fewer dollars” issue. That is, a gradual but ongoing decline in capital available for public sector services and infrastructure at all tiers of government throughout the world. The second most commonly given reason for the rise in PPPs are
demands for performance improvement in the public sector (Woodward, 1994; Stainback, 1990). This second reason is often based on political rather than economic arguments. This leads writers to suggest the growth in PPPs has been influenced by political ideologies and linked government initiatives as much as anything else (Collins, 1997; Gray, 1997). This body of literature provides not only an understanding of the possible reasons for the growth in PPPs, and a sensitivity to the political aspect of PPPs, but also an argument for PPPs to be considered a management solution to the perceived woes of the public sector. For governments in need of delivering infrastructure improvements within the context of a continually shrinking public budget and/or facing criticism over a public sector viewed by some as inherently inefficient and bureaucratic then the use of PPPs can become a very attractive solution to address such pressures.

Arguments in support of the use of PPPs as a solution to the problems facing many governments can be found in the relatively few substantive studies of PPPs within the extant literature (e.g., Boase, 2000; Weiner & Alexander, 1998). This literature concerns itself with assessing the outcomes of particular PPP projects, most often adopting a positive view. Invariably this literature considers PPPs in terms of the financial savings for the public sector partner. One example of this type of article is that of Mays and Roy (1999: 67) who suggest PPPs are an “efficient and effective way to manage and operate wastewater treatment facilities.” This view is based on the single criterion of “estimated” cost savings to public authorities. The weakness in this argument, as with many similar writers, is that Mays and Roy do not quantify these costs savings, which are based on their personal association with just one PPP project. Although the bulk of this literature adopts a positive view of PPPs, there is beginning to emerge work that is strongly critical of the alleged benefits of PPPs. For example, Murray (2003) is strongly critical of the London underground PPP. However, as with much of this literature, Murray has a strong personal interest. In this case he is the communications officer for the train drivers’ union who are strongly opposed to this PPP on ideological grounds.

In summary, there is a body of literature that provides valuable insights into the rise of PPPs and their attraction as a solution to the perceived woes of the public sector in financing new infrastructure projects, and supposedly increasing the public sector’s efficiency. However, this literature does not provide insights into the management of PPPs.

There are a number of writers that could be expected to identify how PPPs progress over time and what the major management challenges of PPP projects are. That is, those writers that focus on describing the requisites for a successful PPP (e.g., Lawson, 1997; Grant, 1996). Grant (1996: 27) is one writer that offers, what he labels “critical success factors for any PPP”. Like other writers, these “factors” are not based on empirical research, but on personal observation. In the case of Grant, his list of success factors is based on his association with PPPs as a management consultant with Anderson Consulting in Canada. Grant (1996: 29) provides a list of seven factors he considers important in a PPP project, including amongst others, “leadership and commitment”, a “genuine need to partner” and a clear indication of the “purpose” of the PPP.

Lists such as those by Grant (1996) may be valid and beneficial in suggesting some of the desirable characteristics of a PPP arrangement. However, in the main they do not provide insights into the internal management of a PPP at the level of key managers. The ‘key factors’ or ‘lists’ literature has limited explanatory power since they do not attempt to detail the association between ‘success factors’ and the progression of a PPP project over its life span nor with the dynamics of any social interaction that might occur between key actors within PPPs. Most often, this literature has as its base only personal perceptions of PPPs gained from the individual’s involvement in one or two PPP projects. That is, these articles most often lack a formal empirical basis. Accordingly, although the insights provided by these ‘antecedents for success’ might be relevant to the management of PPPs, they are essentially untested propositions.
Limitations of the PPP Literature.

In the main, the extant PPP literature can be considered as being in an early stage of theoretical development. At this point it lacks both conceptual sophistication and significant formal research. In general, the existing literature is concerned with examining PPPs at only the broad social or organisational level. The extant PPP literature provides few insights into the evolutionary stages that may characterise the life of a PPP and the micro-management issues that may be attached to such stages. This deficiency in the literature may be considered as representing a significant gap in the current understanding of PPPs.

This study begins to address this gap in the extant PPP literature by attempting to develop an explanatory theory of the evolutionary life of PPPs and the associated micro-management challenges of PPP projects.

METHODOLOGY

An orthodox grounded theory methodology was selected for use in this study. This is a qualitative methodology capable of building an explanatory theory of the patterns of behaviour within a substantive area of inquiry (Glaser & Strauss 1967). Its use is particularly appropriate in situations where little is known of the social phenomenon under investigation (Goulding, 2002; Sarantakos, 1998; Martin & Turner, 1986; Glaser & Strauss, 1967). According to Locke (2000: 95) grounded theory is a research method that “is particularly appropriate” to researching managerial practice in new organisational forms, of which PPPs are a prime example.

These characteristics of orthodox grounded theory research, in particular its ability to build managerial theory in new organisational forms, are consistent with the aims of this study. That is:

- To identify and provide a conceptual theory of the managerial stages through which a PPP project might progress over its life.
- To gain a clearer picture and understanding of the micro-management issues associated with PPPs when viewed from the perspective of those individuals charged with responsibility for their management, i.e. what is termed in this study ‘key managers’.

The Research Sites and Data Collection

Data in this study was collected through non-participant observation, archival records, publicly available documents and interviews with key public and private sector managers with responsibility for the establishment and maintenance of ten contrasting PPPs in Australia and the UK. Managers were selected for interview on the basis of their degree of involvement in the formation and on-going management of the ten PPPs with interviews following a largely unstructured format.

The ten PPPs are similar in that they all involve a local or regional government, albeit different local/regional governments. However, the PPPs are significantly different in several important aspects, namely:

- The level of experience of the different key managers. This varied from managers with seven or more continuous years experience with several PPP projects to managers with only several weeks experience in a single PPP.
- The larger political framework surrounding the formation of the PPP. The political framework can often dictate the goals of a PPP project, the level of resources allocated and the degree of support managers can expect to receive.
- The nature of the PPP project itself. In general PPP projects are orientated towards either an economic or social infrastructure goal. For example, the construction of some public utility or the provision of a social service.
- The size of the PPP in terms of financial cost structures. The higher the costs associated with a PPP the greater the perceived risks and often the pressure applied to key managers.
The stage of the PPP project reached. Projects ranged from those in the early stages of partner selection through to closure where the project had been completed. Table 1 summarises these differences between the ten research sites.

Table 1: A summary of the key characteristics of the ten PPP projects.

<table>
<thead>
<tr>
<th>Location</th>
<th>Project Aim</th>
<th>Project Size (UK£ or AUD)</th>
<th>Stage Reached</th>
<th>Experience of Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Aust.</td>
<td>Housing</td>
<td>$700 million</td>
<td>Construction</td>
<td>Public – none</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Private – extensive</td>
</tr>
<tr>
<td>Rural Aust.</td>
<td>Defence Services</td>
<td>$1 million</td>
<td>Contract development</td>
<td>Public – limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Private – none</td>
</tr>
<tr>
<td>Metropolitan Aust.</td>
<td>Waste Management</td>
<td>$5 million</td>
<td>Project completed</td>
<td>Public – none</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Private – none</td>
</tr>
<tr>
<td>Regional UK</td>
<td>Tourism</td>
<td>£200 million</td>
<td>Final stages</td>
<td>Public &amp; Private - none</td>
</tr>
<tr>
<td>Metropolitan UK</td>
<td>Education facilities</td>
<td>£50million</td>
<td>Project completed</td>
<td>Public &amp; Private - extensive</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metropolitan UK</td>
<td>IT services to</td>
<td>£500,000</td>
<td>Sizing up</td>
<td>Public – some</td>
</tr>
<tr>
<td></td>
<td>community</td>
<td></td>
<td></td>
<td>Private - limited</td>
</tr>
<tr>
<td>Metropolitan UK</td>
<td>IT services</td>
<td>£1.2 million</td>
<td>Final stage</td>
<td>Public – little</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Private - extensive</td>
</tr>
<tr>
<td>Rural UK</td>
<td>Leisure services</td>
<td>Not available</td>
<td>Project completed</td>
<td>Public – little</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Private - extensive</td>
</tr>
<tr>
<td>Regional UK</td>
<td>Transport</td>
<td>Over £2 million</td>
<td>Contracts</td>
<td>Public – little</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Private - extensive</td>
</tr>
<tr>
<td>Regional UK</td>
<td>Aged care services</td>
<td>Not available</td>
<td>Project completed</td>
<td>Public – extensive</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Private - none</td>
</tr>
</tbody>
</table>

Data was analysed using the constant comparative method (Strauss & Corbin, 1998; Glaser & Strauss, 1967). This method involves the inductive coding of data with the simultaneous comparison of all events and/or forms of social interaction identified from within the data for similarities, differences and general patterns (Alvesson & Skoldberg, 2000; Goetz & LeCompte, 1984). As a result of this method of data analysis, it has been possible to identify 1) a series of progressive stages that characterise the developmental life of the PPPs studied, as well as, 2) a number of micro-management issues associated with a PPP.

RESEARCH FINDINGS

The findings from this study suggest that PPPs can be conceptualised as evolving through four distinct and sequential stages. What this study labels, 'trawling for a partner', 'sizing up', 'structuring the partnership' and 'rolling'. Each stage is characterised by its own set of micro-managerial issues and the managerial focus of key managers. In addition, findings suggest that key managers often find themselves having to develop and adopt a management style that meets the often unique challenges presented by PPPs.

PPP projects are often characterised by an absence of any single authority figure or traditional hierarchical power structure such as those commonly associated with single organisations and other forms of inter-organisational relationships such as joint ventures and strategic alliances. Devoid of the use of traditional managerial tools associated with power and authority key managers often respond by developing a new management style. This management style involves having to constantly seek the cooperation of managers in partner organisations over which they have no direct authority or control. The main characteristic of this management style is the frequent and strong use of ad hoc and informal agreements and/or psychological contracts between individuals that are based on the presence of
personal bonds. This particular style of management this study has labelled 'managing synergetic momentum' (MSM) and like the four stage model is discussed in detail below.

A Four Stage PPP Model.
In the PPPs examined, the overall managerial efforts of key managers from both the public and private partner organisations are focussed on progressively moving the project through four distinct and sequential stages labelled:

- Trawling for a partner
- Sizing up
- Structuring the partnership
- Rolling.

Trawling for a partner
Trawling for a partner is the first stage in the managerial life of a PPP. This stage involves three phases. The first phase involves a single organisation recognising their need to gain access to some form of resource that will allow it to either, 1) resolve an organisational problem, or, 2) exploit some form of business opportunity. Once this need is accepted within an organisation key managers enter a market and deliberately, as one manager expressed it “trawl for a partner”. This process represents the second phase. Differences in the accountability needs of the public and private sectors determine how each respective sector approach this process. The public sector most often uses open, publicly visible and transparent strategies such as publicly calling for ‘expressions of interest’ in a new PPP project. In contrast, private sector managers often use subtle, less conspicuous and more personal methods such as the use of personal networks of contacts to target specific organisations. The final phase in this stage occurs when there is some form of initial response from a potential partner organisation.

During this stage key managers can be reticent and uncertain of the need to form a PPP, the managerial focus is on ‘do we need a partner and if so who is out there’. Key managers in this study often argued with senior management during this stage. These arguments were based around concern that there was no need to go beyond the boundaries of the organisation and, to quote one respondent, “take in a partner”. This can lead key managers to harbour negative attitudes to the task of trawling for a partner. This attitude can be compounded further when key managers have unflattering and pre-conceived notions of the managerial style and culture of the opposing sector and its managers. For example, a common perception at this stage amongst private sector managers was that the public sector is “easily bureaucratic” and its managers “slow and dithery”. As a result of such views there is often a barrier between key managers from both organisations that can extend the time that this stage takes to conclude. This can be detrimental to the PPP as private sector managers often judge a potential partner at this stage in terms of the time it takes the public sector organisation to act.

Sizing up
Sizing up is the second stage in the evolution of a PPP. It is a stage where organisations and key managers attempt to assess the risks and benefits of a potential PPP project when conducted with a specific partner organisation. That is, managerial attention during this stage is focussed firmly on assessing compatibility. Sizing up involves a formal and informal component. The formal components of this stage involves the financial, political, organisational and other aspects of a PPP project being researched and discussed within a structured meeting environment in terms of risks and benefits. As important as this level of analysis is, key managers simultaneously conduct an equally important analysis on a more personal level.

At the informal level the major concern with key managers is ‘can I work with this manager from the other sector?’ Key managers report a need to feel some level of “chemistry” with managers from a potential partner organisation as they may often be working with these individuals for periods of months and even years. Intuition, personal perceptions and what was commonly referred to as “gut feeling” are the criteria on which key managers judge “chemistry”. In some PPPs studied, if the “chemistry was right” between key managers then aspects of the formal assessment process where
uncertainty existed were often overlooked on the basis, as one private sector manager expressed it, "I have a good feeling about these people, they wouldn't let us down".

Structuring the partnership
Structuring the partnership is the label this study gives to the third evolutionary stage of a PPP. It is a stage in which the attention of key managers' is centred on resolving the question of 'how might the partner organisations work together?' This stage is characterised by the existence of both formal, structured meetings between key managers from the partner organisations as well as numerous informal and casual discussions between individual managers.

Managers often enter early formal discussions between partner organisations focussed on gaining an "upper hand" in an effort to maximise the position of their organisation within the PPP arrangement. However, these managers learn that within a PPP there is no basis on which they can gain leverage. These managers find that, in reality, all the partner organisations are equal as each has some resource the other needs and that organisational based titles and position offer them no greater power than opposing managers in a partnership arrangement. The lesson these managers often learn is that to all extents and purposes a power vacuum exists within PPPs.

In circumstances where managers perceive a power vacuum exists then the importance of informal discussions can escalate. Common to PPPs that progress relatively quickly through this stage is the formation of personal bonds between key managers. A cycle often develops in which personal bonds grow due to what one respondent labelled the "pressure of having to work out an agreement together" as bonds strengthen there is an increase in informal discussions that in turn strengthens personal relationships even further. Informal or "off the record" discussions between key managers during this stage can be critical to the forward movement of a PPP during this stage. In many PPPs studied it is these informal discussions between just two or three key managers that are the most effective means of resolving differences and lead to "win-win" agreements being reached. Personal agreements and understandings arrived at during informal meetings often form the basis for discussion at more formal and structured meetings between partner organisations. Often key managers from partner organisations will work together at this time to ensure personal agreement are ratified and codified by senior managers. That is, key managers can become advocates for a partner organisation within their own organisation breaking down resistance towards partner organisations and individuals.

The signing of a legal agreement between partner organisations acts as a turning point in moving managerial attention to issues associated with the day to day operations of the PPP. This characterises the final stage of the PPP, what this study labels as 'rolling'.

Rolling
Rolling is a stage dominated by key managers actively working together to resolve a variety of managerial challenges. The attention of key managers is centred on keeping the PPP moving forward in a manner that will not threaten the delivery of the synergetic benefits of the partnership.

The task of managing a PPP during this stage is often complicated by three factors. Firstly, it is a stage of ultimate commitment for all partner organisations. Subsequently, key managers are often left in no doubt by senior management that the failure of a PPP during this stage will result in real losses and that the penalty for failure may be the loss of their own position and reputation within an organisation. The second factor is that key managers must often function in an environment where the legal agreement developed in the previous stage does not provide direction and guidance on many managerial issues. Thirdly, the reality of many PPP projects is that they do not normally have a single authority figure capable of arbitrating on differences between the partner organisations and the key managers. The result of these three factors is that key managers can approach the issue of managing a PPP in one of two ways, they can adopt a very formal and bureaucratic approach to resolving issues or they can adopt a much more relaxed and informal approach. The former approach invariably results in a slowing, or in worst case situations repeated stalling, of the project. Slow and stalling is counterproductive to both the interests of the PPP and individual managers. The latter management
style is most effective in ensuring the smooth and forward progress of the PPP project and is discussed in the next section.

Figure 1 presents a summary of the four life stages of a PPP including how managerial focus shifts.

*Figure 1: The Evolutionary Life of a PPP.*

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**The Need for a Distinct Management Style**

As the previous discussion indicates each stage in a PPP presents its own unique management challenges as the focus of key managers’ shifts over the life of a PPP. However, there also exist a number of management challenges that are common across all the evolutionary stages through which a PPP project moves. Together these challenges form a contextual envelope that often determines how individual managers will approach the task of managing a PPP project. The most significant managerial challenges over the life of a PPP that determine how key managers approach the task of managing a PPP project include:

- A realisation that within the PPP environment there exists no hierarchical based power structure. That is, no one individual has control over a PPP. As a result key managers may not be able to follow a management approach based on authority.

- A preoccupation with maintaining time frames. For key managers the cliche ‘time is money’ is often a reality. Managers are often judged by their superiors on the basis of whether a PPP project is maintaining pre-determined time schedules.

The impact of these challenges is that managers may need to adopt and change the approach to management they use within their own organisation. In successful PPPs, that is, those that maintain time frames and deliver on synergetic benefits, key managers adopt a management style that constantly seeks and obtains the cooperation of key managers from partner organisations.

The general social process of adopting, and adapting to, a range of cooperative management strategies that are capable of maintaining the forward momentum of a PPP this study labels as ‘managing synergetic momentum’ (MSM). MSM is a distinct form of micro-management that best fits the managerial needs of a PPP at the level of key managers. MSM can provide a means of continuously
addressing the issues of maintaining time schedules whilst managing within a power vacuum and facilitates the achievement of the synergetic benefits of a PPP project.

MSM is essentially a social process as it involves interaction between key managers from the partner organisations in a PPP. Its fundamental basis is the early establishment and continual growth of emotional bonds between individual managers over the life of a PPP project. The aspects of these emotional bonds that are of most importance are often the presence of mutual trust, commitment and respect. Where emotional bonds exist that are based on a mixture of these three components there is frequently increased cooperation between individual managers as well as a decrease in opportunistic behaviour by individuals. In an environment of cooperation key managers may be confident enough to de-bureaucratise the process of managing a PPP project. That is, they resort to the use of informal, unwritten agreements and psychological contracts between individuals rather than through more formal or bureaucratic committee like structures. In this study an informal management approach was considered by respondents as important in ensuring the continual forward momentum of a PPP and in overcoming the issue of a power vacuum.

In PPP projects where either; personal bonds are not established and/or key managers are unwilling or incapable of changing and adopting their management style then managers are likely to adopt a formal management approach. This approach is the opposite of MSM and often involves the establishment of a pseudo power structure in the form of a committee(s) that take on the role of ultimate power figure within the PPP. Invariably when key managers attempt to manage using this approach there is a slowing of forward momentum in the PPP, individuals become alienated and cooperation between individuals becomes difficult. PPP projects in which this style of management is dominant often fail to achieve their goals.

CONCLUSION

The findings in this study relate only to the substantive area of inquiry, that is, to the ten PPPs examined. In addition, the contextual nature of the PPPs themselves and the one tier of government involved limit the findings of this study. However, despite these limitations, the consistency in the findings across the ten PPPs suggests that PPP projects are likely to move through four distinct and sequential stages. Each stage representing a change in the focus of key managers and the presentation of different sets of management challenges.

This study’s findings also suggest that throughout the life of a PPP key managers face a set of overarching management challenges. The two critical management issues that are of most concern to key managers throughout a PPP are:

- How to manage a project where there is no traditional hierarchical power structure?
- How to keep a project moving forward and adhering to pre-determined time schedules?

The impact of these two continual challenges are that key managers often find themselves having to adopt a style of management that is different from what they use in their own organisations. This different management style is based on the social process of having to constantly seek the cooperation of key managers from partner organisations. This study labels this management approach as “managing synergetic momentum” (MSM). This distinct management style is characterised by the frequent use of informal agreements that in turn are based on the existence of strong personal bonds. The three critical components of these emotional bonds are the presence of mutual trust, commitment and respect. The presence of strong emotional bonds allows for the resolution of problems and differences between organisations and key managers through the use of psychological contracts. These contracts in turn are based on an unmodified belief that key managers will, as one manager expressed it, “always do the right thing”. In contrast, in PPP projects where no such emotional bonds exist and/or key managers are reluctant or unwilling to change their management style the approach to resolving management issues is through the use of formal and bureaucratic means. This approach often slows and stalls the forward progress of a PPP project.
The existing PPP literature could benefit from further research into the micro-management of PPPs. It may be of value to examine further the sequential progress of PPPs and the developmental processes associated with the emergence of emotional bonds in different contexts to those in this study. For example, the development of emotional bonds may be more problematic in cross-cultural PPPs. That is, those involving public and private sector organisations from different countries. Yet another area of additional research could involve the examination of power vacuums and the gaining of cooperation between individuals in different circumstances and contexts. An example of such a situation would include those between public organisations and community groups. Recent research in this area (e.g., Jones, 2002; 2002a) would suggest managers of these types of cooperative inter-sectoral relationships also need to learn new and different methods of managing.

REFERENCES