



Strategic governance for modeling institutional framework of public–private partnerships



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ABSTRACT

After the global financial crisis (GFC) in 2008, government agencies were eager to attract private capital to develop large-scale infrastructures and stimulate national economies. This study investigated the major role public–private partnerships (PPPs) played in stimulus plans and the challenges faced when promoting PPPs in response to the 2008 GFC. In Taiwan, practices for PPP institutional frameworks (IFs) have been established to improve the current strategy that policy makers can follow. This paper proposes specific tools and measures as well as a novel strategic governance model comprising 4 stages in a closed-loop process that is based on experiences in Taiwan and constructed to facilitate stakeholder management. The model can be used to identify key stakeholders and their needs, address key stakeholders' needs, and evaluate the performance of proposed solutions. The findings of this study can be used by governments that intend to enhance IFs and systematically attract private investment in infrastructure projects; economic downsizing and other adverse consequences of GFCs can thus be avoided. In addition, those who intend to participate in PPP projects in Taiwan can benefit from understanding the PPP strategy introduced in this paper.

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Introduction

Governments play an essential role in national economic development by managing macroeconomic affairs. However, excessive or deficient demand caused by economic overheating or recession may adversely affect human welfare (Sloman & Sutcliffe, 2004). During recessions similar to the 2008 global financial crisis (GFC), the fiscal policy for investing capital in public works is often applied worldwide to increase jobs.

Recently, adopting public–private partnerships (PPP) to counterbalance economy-related problems caused by budgetary deficit and efficiency-related problems attributable to value for money (Chan, Lam, Chan, Cheung, & Ke, 2009; Ke, Wang, Chan, & Lam, 2010) has become a global trend in financing public works (Aldrete, Bujanda, & Valdez, 2012; Anastasopoulos, Islam, Volovski, Powell, & Labi, 2011; Stainback & Donahue, 2005; Tserng, Russell, Hsu, & Lin, 2012). PPPs are crucial to financing infrastructure projects (Yuan, Skibniewski, Li, & Jin, 2010; Yuan, Skibniewski, Li, & Zheng, 2010). For example, the average annual

PPP construction accounts for approximately 10% of the total infrastructure investments in the United Kingdom, Australia, Korea, and Taiwan (Tserng et al., 2012). KPMG (2007) investigated PPPs in the United Kingdom, Australia, and Singapore, and noted that the adoption of PPPs might increase in Southeast Asia and China.

However, not all implemented PPP projects are effective. For example, the Bangkok Second Stage Expressway System project and the Bangkok Don Muang toll way in Thailand (Tam, 1999) failed because of unmanageable risks, such as distrust between public and private parties, disagreement regarding toll increments, and policy changes. Numerous PPP projects in Southeast Asia were unfruitful during the 1997 finance crisis (ESCAP, 2012); PPP practice in Southeast Asia accounted for only 40% of the infrastructure investment in the private sector because of inadequate preinvestment research, a lack of feasibility studies and competitive tendering, inaccurate estimates of demand, and inadequate project completion.

Because of the importance of PPPs, enhancing the PPP institutional framework (IF) by establishing appropriate capacities, institutional settings, and regulatory frameworks can facilitate using the PPP model and enhancing post crisis benefits. A PPP IF is the structure of a PPP agency or unit. Farrugia, Reynolds, and Orr

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(2008) explained that a PPP agency is an organization (within or connected to the government) that provides services related exclusively to PPPs and other governmental bodies, including municipalities, counties, line ministries, federal agencies, departments, special districts, and port authorities (Farrugia et al., 2008).

Problem statement

Strategies or measures adopted by governments to facilitate PPPs are recorded in official reports; however, the formulation process of these strategies and measures has seldom been addressed. Because the policy-making process is poorly documented, information that can enable governments to avoid knowledge management mistakes is not shared among policy makers worldwide. Surveys regarding PPP promotion strategies employed by governments have suggested that policy makers must consider country or state differences when considering how to create an IF that will promote PPP projects (Dutz, Harris, Dhingra, & Shugart, 2006; Farrugia et al., 2008; Tserng et al., 2012; World Bank, 2007).

However, no standard practices or governance designs currently exist, except for those tailored to the structures, practices, and objectives of individual governments. Therefore, developing appropriate strategies is a major challenge for new governments because few studies have documented the methodologies used by governments to plan strategic frameworks and effective measures.

The 2008 GFC motivated governments to engage in PPPs and enhance existing PPP promotional strategies. However, the credit market crash caused conflict among PPP activities (Izaguirre, 2009; Kappeler & Nemoz, 2010). Two recent studies (Carrillo, Robinson, Foale, Anumba, & Bouchlaghem, 2008; Chan, Lam, Chan, Cheung, & Ke, 2010b) reported that difficulties in obtaining financial partners, which were exacerbated by the 2008 GFC, hinder PPP formation. In addition, the recession severely affected expected revenue; for example, in Spain, traffic levels declined much faster than did the gross domestic product, causing toll highway concessionaires to become bankrupt (Vassallo, Ortega, & de los Angeles Baeza, 2012). Although policy makers frequently provide for PPPs in stimulus plans to minimize the national budget deficit, they must create an appealing PPP IF to attract private investment in times of economic distress. Thus, knowledge management can be applied at the policy-making level within governments. Governance practices that improve the processes used to formulate PPP IFs should be integrated and disseminated systematically.

The percentage of PPP-related publications in construction journals increased from 2.94% in 1998 to 5.18% in 2008 (Ke, Wang, Chan, & Cheung, 2009), indicating a worldwide PPP trend. However, most studies have focused on individual project-level issues, such as risk management, contractual arrangements, procurement, and financial packages (Ke et al., 2009; Ke et al., 2010; Tang, Shen, & Cheng, 2010). For instance, the fuzzy simulation model proposed by Thomas Ng, Xie, Skitmore, and Cheung (2007) can be used to determine an appropriate concession period. Sharma, Cui, Chen, and Lindly (2010) presented a structured approach to determine the equity level required for an effective PPP project. A step-by-step method based on the concept of contingent liabilities and option pricing techniques was proposed by Aldrete et al. (2012) to evaluate public sector revenue risk exposure in transportation PPP projects. Chou, Ping Tserng, Lin, and Yeh (2012) analyzed the critical success factors for high-speed rail PPP projects and the level of risk allocation preferred by the public and private sectors in the Taiwanese context. Hwang, Zhao, and Gay (2013) examined critical success factors, critical risk factors, and preferred risk allocation for PPP projects in Singapore (Hwang et al., 2013).

In addition, several scholars have explored the critical success and failure factors of PPP projects by conducting case studies or

questionnaire surveys (Abdul-Aziz & Abdul-Rashid, 2006; Chan, Lam, Chan, Cheung, & Ke, 2010a; Gibbons, Mattei, & McGuigan, 2010; Hwang et al., 2013; Mahalingam, 2010; Zhang, 2005). However, analyses of governmental measures designed to reinvigorate PPPs from an IF level in response to the 2008 GFC or similar challenges are rare and typically focus only on project-level evaluation (Burger, Tyson, Karpowicz, & Coelho, 2009; Mahalingam, 2010; Zhao, Zuo, Zillante, & Wang, 2010). A meta-analysis indicated that few systematic analyses of PPP-IF-related public policy concerns have been conducted and that lessons learned have not been compiled; analysis results must be integrated into a strategic framework that can be used by PPP-project stakeholders, particularly during a GFC. Therefore, the current study provided information overlooked by previous studies that can serve as a reference for policy makers.

Research objective, method, and value

The objective of this study was to develop generic and systematic PPP policy guidelines that policy makers can use to establish and continually improve a PPP IF. During implementation, policy makers can formulate unique PPP-enabling strategies and measures when a GFC arises, tailoring them to the specific context systematically rather than intuitively.

The ongoing enhancement of the PPP IF in Taiwan is illustrative for the following reasons. First, the techniques, tools, and processes used by the Taiwanese government to propose measures to reinvigorate PPPs, even those used after the 2008 GFC, are publicly available and well documented (Public Construction Commission [PCC], 2009a, 2009b, 2010a, 2010b, 2011b). Second, the PPP IF has been enhanced because of the strong rebound from the GFC that Taiwan achieved by implementing PPPs. The total value of PPP projects in 2010 was New Taiwan Dollar (NTD) 224.1 billion (PCC, 2010a), a historical high that represents a solid recovery from the low of NTD 16.3 billion during the 2008 GFC.

In this study, we first comprehensively reviewed public documents and press releases issued by the Taiwanese government regarding the PPP IF and then conducted face-to-face interviews with the government executives and staff responsible for promoting PPP projects to the public and private sectors. In addition, reviews of international PPP practices were analyzed.

Because policy makers must consider country or state differences when drafting strategies or measures that facilitate PPPs, the formulation process adopted by countries that have efficiently implemented PPP strategies and measures are more valuable to governments than the promotion strategies or measures. For governments experienced in PPP participation, the formulation process is valuable because these governments are under pressure to continually improve the PPP IF when contending with adverse economic situations.

Research scope and limitation

This study focused on the formulation processes used to establish user-friendly PPP IF guidelines. The PPP IF comprises formal and informal rules, policies, regulations, organizations, public awareness, and the socioeconomic context. Effective government institutions can manage and assess risks, establish a solid reputation as a safe business partner, and reduce political and regulatory risk for private partners (Burger et al., 2009). For example, empirical findings (Chan, Yeung, Yu, Wang, & Ke, 2011; Xu et al., 2010) have indicated that a major risk factor for PPP projects in China is government intervention. Lack of governmental support has drawn criticism by contractors in Singapore (Hwang et al., 2013). An improved PPP IF can mitigate such risks.

To promote the systematic use of PPPs, many countries (states) have established centralized organizations, national PPP units

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