Available online at www.sciencedirect.com

ScienceDirect

International Journal of Project Management 33 (2015) 1563 – 1575

International Journal of Project Management

www.elsevier.com/locate/ijproman

The importance of non-financial determinants on public–private partnerships in Europe

J. Mota [a], A.C. Moreira [a,b,*]

[a] *Department of Economics, Management and Industrial Engineering, University of Aveiro, Campus Universitário de Santiago, 3810-193 Aveiro, Portugal*
[b] *GOVCOPP, Portugal*

Received 1 April 2014; received in revised form 3 April 2015; accepted 14 April 2015
Available online 14 May 2015

Abstract

In previous work regarding public–private partnership (PPP) arrangements the theoretical rationales and empirical results have mainly focused on analyzing the importance of quantitative features related to budget constraints deriving from public deficits, the existence of an infrastructure gap and the efficiency hypothesis. Thus, this study aims to identify the underlying determinants behind the proliferation and execution of PPPs, emphasizing the importance that non-financial (such as political, legal and macroeconomic) determinants have in establishing a PPP, as well as the factors that enhance the attractiveness of a country to encourage the private sector through PPPs in the European context.

The results of this study show that the macroeconomic environment – represented by economic freedom, competitiveness and the unemployment rate – is essential for PPPs, as well as the legal system, where regulatory quality and effective rule of law are associated with the effective execution of a PPP. The political environment and previous experience of PPPs are also key factors in making a country more attractive for establishing PPPs.
© 2015 Elsevier Ltd. APM and IPMA. All rights reserved.

Keywords: Public–private partnerships; PPPs; Critical success factors; Attractiveness; Non-financial determinants; Europe

1. Introduction

While the public sector is traditionally seen as being responsible for providing public services, private sector firms have for some time been active in this area. During the 1980s globalization accelerated noticeably, and the OECD countries trended towards a reduction of the role the state has in the economy and society. Accordingly, a process began whereby the state's functions – namely the delivery of public services – were outsourced to the private sector.

Up to this point the state had held a magnanimous and almost omnipresent position in the economy, assuming full responsibility for delivering public services. Now, a paradigm shift occurred, triggered by the need for countries to cut back on their spending levels. In fact, the emergence of *New Public Management* (NPM) was primarily associated with the pressing need to downsize the public sector by delegating responsibilities to the private sector. Therefore, endorsement was given to the private sector intervening in public infrastructure projects and the delivery of related services — areas which the public sector had, up to this point, been exclusively responsible for (Khanom, 2010; Shaoul et al., 2012).

By the beginning of the 1990s there was a proliferation of public private partnerships (PPPs), establishing a new way of delivering services and triggering an entire redefinition of the roles played by the public and private sectors (OECD, 2008). In this context, PPPs asserted themselves as a key strategy in public politics.

The concept of PPP is not consensual. There are multiple models that change from country to country, applied to different sectors of activity, which undoubtedly creates a difficulty in establishing a univocal, unchallenged definition of PPP. As

* Corresponding author.
E-mail address: amoreira@ua.pt (A.C. Moreira).

http://dx.doi.org/10.1016/j.ijproman.2015.04.005
0263-7863/00/© 2015 Elsevier Ltd. APM and IPMA. All rights reserved.

a hybrid concept, PPPs are organizational structures that use resources both from the public and private sectors (Shaoul et al., 2012), whose main goal is to de-bureaucratize the public services and to stimulate private initiative (Dunn-Cavelty and Suter, 2009).

Establishing a consensual definition of PPPs is difficult due mainly to the fact that they are applied to a broad range of models (Santos, 2006). Grimsey and Lewis (2005) also refer to the broad nature of the PPP concept, saying that they fill the space between state projects linked with traditional demand and total privatization which embodies a broad range of applications (Malone, 2005).

Some countries hold that the concept of PPP is only applicable to a concession where the services delivered in the context of that concession are paid by the public sector. However, other countries maintain a less restrictive conception, namely that PPPs include all kinds of outsourcing and joint venture between the public and private sectors (EPEC, 2010a, 2010b, 2011; DLA Piper, 2009).

While it is difficult to provide an undisputed definition of a PPP, the various definitions of the concept in literature display some characteristics which are common to all the aforementioned definitions and approaches. Firstly, there is always some form of cooperation between the state and the private sector (Dunn-Cavelty and Suter, 2009; European Commission, 2004) designed to explore synergies, resources and know-how in a bid to attain common goals, which could not be achieved without the collaboration of the other entity (EIB, 2004; Tang et al., 2010). And secondly, a contractual relationship exists where risk is shared and clearly apportioned to the entities of both parties (IMF, 2006; Shaoul et al., 2012: OECD, 2008, 2008; Sagalyn, 2007), which are established with a long-term view (Maskin and Tirole, 2008; Shaoul, 2011).

The literature on PPPs has recorded a set of factors that led to their popularity and consolidation as an alternative means to enact public sector investment policy for infrastructure construction and maintenance, as well as the provision of public services: the reduction of the infrastructure gap without compromising the tight restrictions on budgeting that countries face (Moreno, 2010); the budget restrictions, not only regarding the deficit (through temporary off-budgeting of expense), but also regarding public debt (enabling the deliverance of infrastructures and services “out of the Balance Sheet”) (Cheung et al., 2009); saving the public sector’s resources, avoiding projects in which the public sector has no previous experience and where its presence would not add any value (Cumming, 2007), enabling the allocation of scarce public resources to areas where no PPP style projects have previously been attempted (Guasch, 2004); and risk sharing, given that the private sector will strive to be more rigorous and strict with the public project (Shen et al., 2006) and the risk of budgetary slippage and delays in the project can be severely reduced (Cruz and Marques, 2011; Li et al., 2005).

Operational and cost-related factors are also important, such as the improvement in project efficacy/efficiency that results from the strict control and management competences provided by the private sector (Grimsey and Lewis, 2002) (given that the main goal of the private sector is profit-making) and a more effective use of financial resources (Engel et al., 2009; Guasch, 2004). A potential improvement in the project quality results from the knowledge and financial capability of the private sector (as a means of circumventing budget restrictions) (Martins et al., 2011), by using data and intellectual property in more productive ways (leading to significant improvements in the quality of public installations and the services provided) (Smyth and Edkins, 2007). Public services can also be provided more satisfactorily by using the competencies, experience, technology and innovation of private firms (Tang et al., 2010). Both total cost and the life cycle of a project can potentially be reduced by aggregating construction and operationalization, making the private entity responsible aware of the need for the operation phase to cover the large investment during the construction phase (Maskin and Tirole, 2008). Economic development depends on building infrastructures and providing inherent public services in areas such as health, water and sanitation (Brinkerhoff and Brinkerhoff, 2011).

The proliferation of PPPs is primarily a reflection of the recognized advantages they bring to the public sector. Despite these considerable advantages, PPPs encompass a set of negative features. The potential problems that can arise mainly affect the public sector. There are potentially higher costs of capital (Vitorino, 2005) and higher transaction costs (Cowen and Parker, 1997), which are proportional to the complexity and length of the partnerships. Efficiency and the quality of service may be negatively affected when the same entity is responsible for building and operating an infrastructure, as the best builder is not necessarily the best partner for operating or delivering the service (Maskin and Tirole, 2008) and contestability and competition become constrained (Brinkerhoff and Brinkerhoff, 2011; Colverson and Perera, 2012). Inflexibility, mostly associated with the contract exploration phase, is a negative aspect for the state (Government, 2005). Future generations may also be affected, as the way the PPP extends over time may considerably increase mandatory expenses and hidden debt. Transparency may also be lost, due to the difficulty in accessing information from the private sector (Colverson and Perera, 2012; Shaoul et al., 2012), and similarly there will be a loss of management control by the public sector during the time in which the service delivery is allocated to the private sector (Abadie and Howcroft, 2004).

In sum, PPPs are seen as a way of promoting added value, not only for the private partner (through the profit obtained) but also for the public partner (by reducing costs) (Martins et al., 2011). Following this perspective, Ng et al. (2012) claim that PPPs create a triple win scenario for the public sector, the private sector and the community.

Even though PPPs have been used extensively and been subject to close scrutiny, the analysis of the impelling factors in the establishment of these accords, in the perspective of both public governance agents and private agents is still very scarce, at least in what pertains to the European context. Therefore, and with the aim of mitigating this gap, the present study was realized with the objective of identifying the determinants in the execution of PPPs in the European context.

Download English Version:

https://daneshyari.com/en/article/275565

Download Persian Version:

https://daneshyari.com/article/275565

Daneshyari.com