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ADDRESSING THE CHALLENGES THAT ARE EMERGING IN THE CONTINUED INCREASE IN PPP USE IN THE REPUBLIC OF IRELAND

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The Irish Government's Public-Private Partnership (PPP) programme of pilot projects is now reaching its conclusion and PPP has become established as a key element in the strategy for provision of public sector facilities. Compiled through a literature review as part of a PhD level research project, this paper examines organisational culture differences between the public and private sectors and assesses the potential affect of these differences on the future development of the Irish PPP programme. By relating organisational culture differences to the emerging challenges relating to risk, value and innovation, it is evident that the lack of a partnering environment is the primary reason why the challenges have not been met to date. The findings show that the public and private sectors must work closer together in the future if they are to meet these challenges and maximise the benefits of PPP.

Key Words: PPP, PFI, Public Sector, Private Sector, Partnering.

INTRODUCTION

In 1999, the Irish Government launched the National Development Plan as a means to rebuild Ireland's infrastructure following decades of under investment. Alongside this plan, a pilot programme Public Private Partnerships (PPP) was introduced with the purpose of developing an alternative to state funding of public facilities. PPP projects were carried out in a variety of sectors including transport, waste water, education and housing. Many of these projects have now reached the operational phase. Mistakes were made, lessons have been learned and the Irish government is now moving to the next stage of the implementation of the PPP programme. This paper this paper examines organisational culture differences between the public and private sectors and assesses the potential affect of these differences on the future development of the Irish PPP programme. Through a literature review, the challenges that have emerged for the government relating specifically to risk, value and innovation are examined in the context of the organisational culture differences. The reasons for the continued existence of these challenges are explored and a strategy for meeting the challenges is proposed.

THE PUBLIC SECTOR

The public sector is the part of the economy that is under the ultimate control of the state. It comprises a number of groups and individuals who are employed by the state to control the services provided by the state to the citizens of the state. In giving these groups the authority to act on behalf of the state, clear rules must be defined to ensure that the authority is exercised effectively and efficiently for the common good. This is the reason that the public sector concentrates on "rules not deals" as highlighted by

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Gallimore et al (1997). As a result, when a new system of work is imposed, the public sector will develop a new series of rules by which the new system will operate. Such systems must ensure that there is a means by which the accountability of those operating the system can be assessed, that there is a mechanism whereby the value of the public investment can be reviewed and that the rights of the citizens are protected. Invariably, as a new system is introduced, the rules will continue to be developed and refined until they reach a workable equilibrium. The introduction of the Irish Government's regulations on PPP is a good example development and refinement of a new set of rules to permit the public sector to become involved in PPP. However, whilst the public sector now has its rules in place, PPP is a partnership with the private sector and it appears that the private sector has difficulty with some of the rules (O'Rourke 2003).

THE PRIVATE SECTOR

The individuals and groups that work in the private sector are accountable to their own organisations and to the laws of the state. Their accountability amounts to ensuring that their organisation remains competitive in the marketplace and that the return to the stakeholders of the organisation is maximised. There is no requirement for accountability for the common good and no other public accountability except in the case where negligence results in the law of the land being broken. Consequently, the rules of operation within the private sector are generated within the private sector organisation.

Unlike the public sector, organisations in the private sector exist in an environment where they compete with each other for survival and are constantly looking for a competitive edge (Sabatine 1999). Where it is necessary for two or more private sector organisations to cooperate in order to achieve a common aim, these organisations will jointly work out the rules that will govern the behaviour of each organisation. Where such cooperation is necessary on an ongoing basis, partnerships can develop, again with agreed specific rules of operation. Where industry wide issues require the involvement of a large number of organisations, trade associations are formed with the original members deciding on the initial rules. New members may join, provided they agree to abide by the rules. Furthermore, a mechanism will exist within such an association whereby the rules can be changed to allow the members to maximise opportunities that develop in the business environment.

In the private sector, therefore, rules of operation can be defined as a means of establishing the parameters of a business relationship that will benefit all parties in the relationship. In the public sector, the rules of operation can be defined as a means of protecting the state and those who act on behalf of the state. This is a fundamental cultural difference between the two sectors.

CULTURE AT INDIVIDUAL LEVEL

In a time when financial rewards in the private sector are at an all time high, there are many thousands of people who prefer to work in the public sector. These people hold an enormous range of positions ranging alphabetically from architects to zoologists. They include professionals in the fields of education, health care, infractructural development and law. Many of these people are employed in administrative and clerical positions. Together, all of these people operate the systems that provide the citizens of the state with the public services that are required if the state is to continue

to grow and develop as a modern economy. Hebson, Grimshaw and Marchington, (2003), citing Pratchett and Wingfield (1996), identify Accountability, Public Interest, Bureaucratic Behaviour, Motivation and Loyalty as the five principles associated with the public sector ethos. Using these principles as a framework, Table 1 below summarises the differences between employment in the public and private sectors at an individual level.

Table 1. Differences between employment in the public and private sectors

Principles	**Public Sector**	**Private Sector**
Accountability	Committed to implementing public policy – accountable to the head of the relevant public body	Committed to achieving output targets set by the organisation
Public Interest	Concerned with the public good and with the needs of individual people	Confined to that required by law
Bureaucratic Behaviour	Implement the rules in an impartial and objective manner	Concerned with results, will try to get agreement to change the rules if they are preventing achievement of target output
Motivation	Primarily intrinsic	Both extrinsic and intrinsic
Loyalty	Complex set of loyalties to department, institution, the wider community	Loyalties goals of the organisation and to personal goals

Accountability

Through study of health workers who transferred to the private sector as a result of PFI provision, Hebson, Grimshaw and Marchington, (2003) concluded that public sector workers are driven primarily by a concern for working in the public interest. In contrast, they suggest that private sector workers are driven primarily by output and profit targets set by their organisations and that this is resulting in a decrease in quality in service under PPP.

Public Interest

In researching the civic attitudes and behaviours of individuals, Brewer (2003) found that public servants are more altruistic and civic minded than other people and that they are more likely to be motivated by a strong desire to perform public, community and social service. Brewer further states that these findings show the attitudes likely to be displayed by those who are suited to working in the public sector rather than attitudes that are developed result of these people working in the public sector.

Bureaucratic Behaviour

Gallimore et al (1997) best summed up the difference between the public and private sectors by stating that public sector workers were concerned with “rules not deals” whilst private sector workers were concerned with “deals not rules”.

Motivation

In examining the differences public and private sector motivation, Houston (2000) set out to ascertain what it is that motivate public sector workers. Houston found that public sector workers place less importance on higher pay and more value on the actual work they do than do private sector workers. Houston also found that public sector workers place a higher value on opportunities for promotion and job security than private sector workers. Houston concludes that applying motivational schemes,

derived in the private sector, as an incentive to achieve change in the public sector, will not necessarily achieve the required results as workers from the different sectors are motivated by different factors. This view confirms earlier research in this area by Kellough and Lu (1993) and Ingraham (1993).

In order to appreciate the importance of organisational culture difference, it is necessary to analyse a variety of issues and establish the effect that such difference may have on defining the challenges posed in the development of a more effective PPP process. Issues such as transfer of risk, achievement of value and introduction of innovative solutions are constantly quoted as primary reasons for introducing PPP. As this paper is concerned with the further development of the Irish PPP programme, this will now also be addressed in the context of differing organisational cultures.

RISK

What is happening now?

At under the current adversarial system, the Contracting Authority (CA) in a PPP decides which risks it intends to carry and which it wants to transfer. Whilst best practice suggests that a risk should rest with the party best able to carry it, Irish private sector organisations (PSO) involved in PPP believe that the amount of risk the CAs try to transfer is excessive (O'Rourke, 2003). Consequently, contractors place a high price on acceptance of such risk. The option for the CA is to either carry the risk or pay dearly for transferring it. There is no mechanism at present for jointly working to reduce risk.

What outcome is ideally required?

Ideally, a mechanism should be developed whereby the PSO and the CA work together to identify and reduce each type of risk that could affect the project (Mawji 2004). An extensive amount of research exists into the identification of types of risk and the relevant literature has been referred to in the previous section. The work of (Akbiyikli and Eaton 2005) is particularly relevant in relation to proposing a model that could be applied to the risk identification process.

What can be done to meet the challenge?

The CA and the PSO must be brought together with the aim of reduction of overall project risk. Once the risks are identified, both parties must work together on establishing the root causes of each risk, the measures to be adopted to reduce the risk, the procedures for ongoing monitoring of the risk and the PSO's costs of controlling the transferred risk. This could then become a standard procedure across all PPPs and be incorporated into the negotiation phase of the procurement stage.

What cultural issues must be addressed?

The current adversarial system exists as a result of several years of operating in such an environment under traditional procurement. For the public sector, the move towards jointly working with the private sector on reducing risk would initially be approached cautiously. The danger of exposing the state to further risk would be a genuine fear for the public sector and this process would therefore require very careful introduction. However, the rewards of risk reduction to the public sector are significant and this would be a motivational factor. The private sector must resist the temptation to make short-term gains in this process and should concentrate on the opportunity to reduce its long-term financing costs as a result of lower long-term risk.

Both public and private sector works should be jointly briefed on the types and causes of project risk.

VALUE

What is happening now?

Whilst the price agreed by the CA when entering into a PPP will be benchmarked against traditional costs, the only current incentive to the bidder to reduce the bid price is to ensure that the bid is not rejected. This is a game of chance, where the bidder will try to achieve the highest possible price whilst ensuring that it is low enough to be accepted. This is the same philosophy that is used in traditional competitive tendering. Due to the adversarial nature of the contract relationship, there is no attempt by the partnership as a whole to work together in order to achieve real value for money.

What outcome is ideally required?

Ideally, both the CA and the PSO would work together to seek out and implement measures that would significantly increase value for money.

What can be done to meet the challenge?

The PSO must be given an incentive to increase value for money. Currently, profits are usually calculated as a percentage of the bid price. In choosing the preferred PSO, the CA could insist on open book tendering where the PSO's profit is stated as a sum of money rather than a percentage of the bid price. A mechanism for distributing subsequent savings in project costs can be established thereby encouraging the PSO to use innovative cost reduction methods. The PSO's profit figure would be at risk if the project costs were to rise above the agreed rates but would be significantly increased if substantial savings were made on the CA target price.

What cultural issues must be addressed?

The use of open book tendering is a significant move away from current methods where the CA is trying to get the work done at the lowest cost whilst the PSO is trying to maximise its profit through carrying out the work. Culturally, both parties must move from their own positions and adopt the joint goal of minimising the cost to the state whilst maximising the potential for the PSO to achieve a reasonable profit. The use of Early Contractor Involvement (ECI) has shown that the public and private sectors can begin to change and use such methods. However, ECI is being used in the roads programme where strong working relationships have developed through the existence of a developing deal flow and a series of high profile projects that have been completed inside time and budget targets. Such a positive working environment does not yet exist in the general PPP market. Consequently, trust must be developed whereby the CA can feel confident in releasing the target price into the public domain and the PSO can be confident in divulging the open book construction cost and the profit figure.

This is an issue that was central to the introduction of the Project Information Procurement System (PIPS) pioneered by Kashiwagi and Byfield (2002). PIPS sought to concentrate on the project outcome rather than the specification. This was found to significantly reduce the input required by the client during design and construction as the contractor set an initial guide price for meeting the outcomes and was then judged on the extent to which the outcome was met. Payment was made on the achievement

of the outcomes rather than the volume of work done. The price quoted for the work was only used as a part of the mechanism for calculation of future payments and the success of the contractor in meeting the outcomes became the criteria for establishing the level of payment rather than the initial price quoted. Tests on the use of PIPS to date show a 98% customer satisfaction rating, no contractor generated change orders and all projects to date finished within the contract time Sullivan, Egbu and Kashiwagi, 2005). In promoting a system based on open book tendering, concentration on the outcomes – already an accepted part of the PPP system – and showing how this has been used successfully elsewhere will begin the process of addressing the cultural issues.

INNOVATION

What is happening now?

Hurst and Reeves (2004) examination of the Output Specification prepared by the Department of Education & Science (DOES) for the Grouped Schools PPP Project concluded that there was little, if any, room allowed for innovation. Similar issues are highlighted in Irish roads PPP projects where an Environmental Impact Statement (EIS) is required at the Statutory Process stage. As an EIS in Ireland requires a full design, there is little scope for design innovation by the PSO who joins the project at the Procurement stage.

What outcome is ideally required?

Ideally, the potential of the PSO to produce innovative solutions should maximised both in the design and construction phases.

What can be done to meet the challenge?

The consequence of providing very detailed specifications is that the facility produced must be judged on the technical descriptions provided in the specification. Such a specification defines the minimum acceptable technical standard for the facility that is to be provided. However, by stating the required outcome in performance terms, for example, the suitability of the learning environment rather than the standard DOES guidelines for space, heat and light, the PSO is given much more freedom to innovate. Development of this type of output specification will require the DOES to concentrate on the actual use of the building rather than standard guidelines and will require the PVSO to learn more about the requirements of educators prior to the design phase. It is this requirement of getting the builder to concentrate on the outcomes that is identified as one of the main factors of success of PIPS (Kashiwagi and Savicky, 2003). This is also the thrust of Murray's (2005) argument that PPP and Performance Based Building agendas should to be addressed simultaneously.

What cultural issues must be addressed?

Each government department has been the authority that specified and approved the construction of new public facilities for decades. Moving to a system whereby the CA would not guide the PSO with a technical specification would require a change in mindset for the public sector. The potential for the PSO to "get it wrong" in the view of the public sector would constitute a considerable political risk and the system would require some means by which it could transfer the risk. As all contractors rely on the client – through the Architect – for some element of technical direction, a move to being paid for provision of a school building through an output performance

specification would be a considerable change. To gain confidence in working to an output performance specification, the rules and regulations of such a system must be established and many of the issues earlier referred to under bid cost reduction must be revisited. Prior to that, both parties must be convinced of the need for and advantages of any new system.

ADDRESSING THE CHALLENGES

From the examination of the effect of organisational culture on the issues of risk, value and innovation, it is evident that a true partnership environment must be developed if the challenges to PPP are to be addressed.

Developing a true partnership environment

A wide variety of literature exists on this topic suggesting that a partnership consists of a number of levels. The authors suggest that a true partnership consists of three levels as shown in Figure 1.

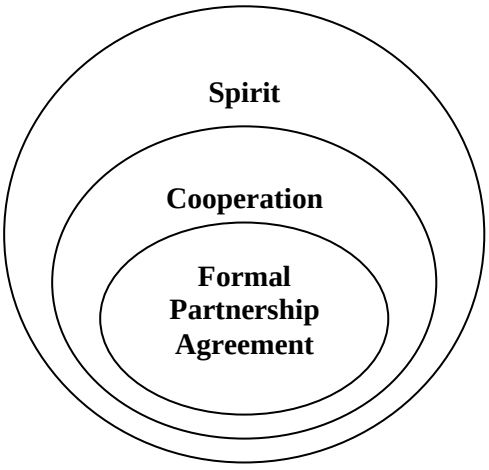

Figure 1. The Levels of Partnership

The "Spirit" level represents the willingness of each partner to examine means by which a common approach can be found to resolving an issue. At this level, there must be a common understanding of the issue to be resolved and a willingness to work together to solve the issue. Once the Spirit level has been achieved, the partners can enter the "Cooperation" level and set about cooperating to resolve the issue. This would involve setting of joint goals and deciding on the means by which the resolution of the issue would be approached. The "Formal Partnership Agreement" level is the point whereby a legally binding agreement is drawn up and entered into by the partners.

What is happening now?

The effectiveness of the operation of the partnership at each level is therefore dependent on the degree to which the partners have first worked through the preceding outer level. From the literature reviewed, it is apparent that the emphasis has been placed on the Formal Partnership Agreement level with much less emphasis being placed on the preceding levels. Consequently, there is no evidence of agreement on common project aims, of cooperation to identify and reduce project risk or of trying to maximise value as a team. As the sectors have worked for decades under adversarial contracts, it is not surprising that such a spirit of partnership and level of

cooperation does not exist. In addition all evidence of training that is being provided shows each sector trying to protect its own position rather than work in partnership.

What outcome is ideally required?

The ultimate aim of a PPP is to produce a facility that will accommodate or provide a public service for a period of 25 years whilst achieving best value for the taxpayer. To achieve this aim, it will be necessary to fully understand the needs of the users of the service. It will also be necessary for the public at large to be aware of the limits that the public sector can go in order to meet these needs.

What can be done to meet the challenge?

It will be necessary for the CA to spend some time in gaining the necessary understanding of the needs of the eventual users and in briefing the users on the limits to which it can go to meet these needs. Once PPP has been identified as a potential route, a PPP Assessment should be carried out to confirm whether or not PPP is to be the preferred method of procurement. On completion of this exercise, the DOES must place all available information in the public domain and invite prospective PSOs to join in the development of the initial level of "Spirit" in the partnership. A mechanism for this process already exists at present in the public briefings that the CA conducts in order to establish market interest in the project. However, greater emphasis should be given at this stage on the needs of the service users and how the PSO must work with the CA to meet those needs with the finance available. Other tasks required of the CA at this stage would be the preparation of standard Project Agreement Documentation, Payment Mechanism documentation and the Tender Evaluation Procedures. At the end of the partnership Spirit building stage, PSOs would be invited to tender for the project. This brings forward the procurement process and changes the timing of the stage of the PPP to that shown in Figure 2.

Figure 2. Proposed Staging of PPP Tasks

What cultural issues must be addressed?

Making these changes raises a number of cultural issues. Firstly, it would require the CA to become more open and to move away from the detailed procedures that have been put in place to manage PPP. It has been established that public sector workers develop rules to protect the state and its employees. Consequently, it would be

unrealistic to expect the CA to work without rules. Secondly, the individual public sector employees have nothing to gain from further change. In the PPP pilot programme, most CAs have already gone through the process of running a pilot project that has been scrutinised by the Comptroller and Auditor General, for example the report into the Grouped Schools Project (2004). Consequently, they may not want to try yet another new way to procure a public facility, especially if this would result in further detailed scrutiny. Public sector workers are generally motivated through the perceived value of the work that they do, and for the security and the opportunities for advancement that their employment provides. A further pilot project that could go wrong provides nothing obvious to motivate public sector employees. Thirdly, the new system would require the CA staff to build up further knowledge of the specific needs of the service users. This would require further training for staff.

To resolve these three issues, the CA staff would need to be convinced that the new system would provide more protection for the state and to public sector employees than earlier PPPs. They would need to be convinced of the potential of such a system for producing a better response to the needs of the school users at a reduced cost. In short, use of the new system would have to address the issues that promote motivation in public sector workers.

From the point of view of the private sector, the new system contains a number of elements that organisations are already proposing such as earlier involvement in the project process and an ability to gain appropriate reward for the use of innovation (O'Rourke, 2003). As the procurement stage takes place earlier in the process, the bidding cost would be substantially reduced. For individual private sector workers, it is important that the needs of the service users would be fully understood and that a clear reward system would be in place for addressing these needs.

CONCLUSION

This paper has set out to show the link between organisational culture and difficulties that arise in the development of a PPP programme. It has been shown that organisational culture has a direct effect on the key issues of risk transfer, achievement of value and the introduction of innovation. Rather than advocate change in organisational culture, this paper proposes concentration on the environment of partnership. By building strong partnerships through greater understanding of each other's organisational culture, the development of common goals and strategies can lead to a more efficient and effective use of PPP.

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