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AN EXAMINATION OF THE EFFECT ON ORGANISATIONAL CULTURE OF THE IMPLEMENTATION OF PUBLIC-PRIVATE PARTNERSHIP (PPP) IN IRELAND

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ABSTRACT

This paper is concerned with identifying the organisational issues causing difficulty in the use of PPP and assessing the impact of PPP implementation on the organisational culture in the Irish public and private sectors. The authors address this issue by mapping the PPP process for one project type and comparing this process with that carried out in traditional procurement. Process differences through use of PPP are identified and organisational issues that have potential to impact on PPP success are assessed. Whilst the study undertaken is not extensive, it provides insight for initiators of PPP projects into the organisational issues that must be addressed to ensure project success. The awareness, at the outset of future PPP projects, of potential for difficulty arising from organisational culture issues, will have implications for effective project delivery.

Keywords: Change; Organisational Culture; PPP; PFI.

INTRODUCTION

The objective of this paper is to identify the extent of the organisational difficulties that have been encountered to date as a result of the introduction of Public Private Partnership (PPP). The length of this paper has restricted the examination of such circumstances to a narrow area – namely the introduction of PPP to the provision of new water/wastewater facilities and to the provision of new roads. Organisational culture change is usually difficult to achieve and it is expected that the introduction of PPP has resulted in change to the organisational culture of elements of the public sector where staff must now adopt a business approach to the management of service providers rather than a social approach needed when directly providing the service to the public. It is expected that the private sector companies who have become involved in such partnerships also experience organisational culture change as they must take on board a number of social issues in order to provide a service that will meet the requirements of the public and the conditions laid down by the public sector.

Background

In 1999, the Government of the Republic of Ireland began to promote PPP use as a means to provide public services. In late 1999 the, the Government established the Central PPP unit to promote and support the use of PPP. Since early 2000, a significant emphasis has been placed on PPP with the production of several policy documents, guidelines and support structures. Consequently, the PPP programme is now a significant element of Government policy. This paper confines its deliberations to the Irish PPP market but recognises the strong similarities that are shared with the British PFI market.

METHODOLOGY

The paper compares a traditional project with a PPP project using either the Design, Build, Finance and Operate (DBFO) format or the Design, Build and Operate (DBFO) format, both of which are gaining increased popularity in Ireland. Under such an arrangement, a private sector organisation (PVS) enters contract with a Government Contracting Authority (GCA) to provide and operate a public sector facility over an agreed period. The PVS recovers its investment over the contract period through payments by the GCA for services delivered. The authors follow the project stages as defined in PPP Guidance Notes 1-15 (Department of Environment & Local Government 2000¹⁻¹⁵) and as outlined in Figure 1 below. Each project stage is briefly outlined and is followed by a commentary which identifies:

- The process differences between traditional procurement and PPP;
- The potential difficulties involved in the change from traditional procurement to PPP.

These were then verified through a number of interviews conducted in August 2004 with staff responsible for the placing of PPP contracts in the Irish Water Services Board and with staff from John Sisk & Son Ltd, a large construction contractor currently involved in a number of Irish PPP projects. The paper concludes with a summary of the main issues to be addressed in achieving the required change.

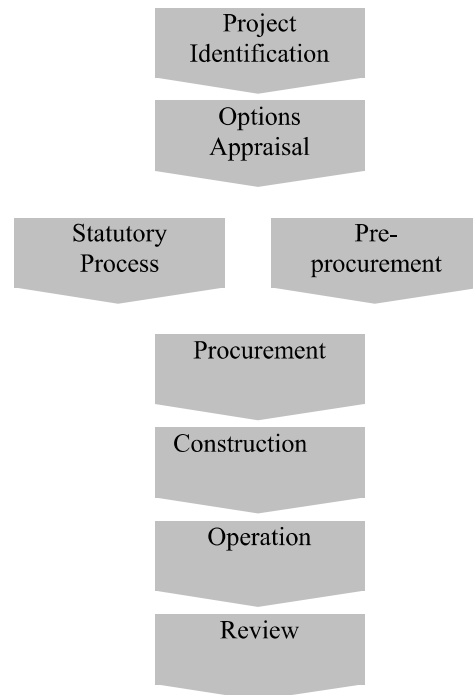


Figure 1. The Project Process (Department of Environment & Local Government, 2000).

EXAMINING THE PROJECT STAGES

From the interviews conducted as part of the preparation of this paper two significant points emerged. Firstly, it became clear that a significant amount of the actual preparation for a PPP is carried out by consultants under the management of the GCA rather than directly by GCA staff. This ensured that the organisational change issues were minimised as the new work was outsourced rather than setting up new sections within the GCA to carry out PPP projects. Secondly, it became clear that, whilst a number of projects have been procured under DBFO and DBO, very few have entered the operation stage. Consequently, all commentary regarding that phase would be speculative at this time and would be drawn from more from knowledge of

such projects in the UK and other countries rather than direct experience of operation of such projects in Ireland. As a result, examination of these stages is not included in this paper.

Figure 1 is an outline comparison of the project stages, each followed by a commentary of the effect of process difference on the CGA and PVS0.

Options Appraisal

Traditional Procurement	PPP	Process difference?	Who is affected?
Contracting Authority employ specialists to prepare: <ul style="list-style-type: none"> - Outline design; - Economic evaluation; - Cost estimate; - Environmental Impact Statement. Site is selected and preliminary reports prepared for Department review.	As Traditional Procurement. In addition the GCA carries out a PPP Assessment, prepares the PPP Assessment Report and applies for approval to proceed with the project as a PPP. On receipt of approval, a Project Board and a Project Manager are appointed. Project Manager outsources preparation of Project Initiation Document to consultant.	Yes Significant reliance on consultants to carry out assessments, GCA staff adopts a more hands-off role.	GCA Staff now manages a consultant to carry out assessment

The purpose of the PPP Assessment is to help the Contracting Authority decide if the project is suitable to PPP and, if so, what form of PPP is most appropriate. The views of the project stakeholders must be considered in the Assessment report. The tasks involved in the Assessment are as follows:

- Examination of the nature of the project and any precedent projects, the outcome of which might influence the project under consideration;
- Assessment of the scope for transferring of risk;
- Evaluation of the urgency of the facility to be provided and the implications of this on the means by which the project proceeds;
- Appraisal of the commercial viability of the project in order to confirm the willingness of the private sector to provide the investment needed.

This work is normally outsourced to consultants by the GCA. Once the PPP Assessment report is completed it is submitted to the appropriate Government department for approval. Where appropriate, approval is given by a Senior Technical Advisor in the Government department and the GCA then continues with the project. From the interviews conducted, the process change in using PPP does not require significant organisational change at this stage.

Statutory process

Like any other project, a PPP project requires planning permission and other statutory consents. The primary difference between the Traditional and PPP routes at this stage is the compilation of the Risk Assessment. The outcome of the Risk Assessment may indicate that some or all of the Statutory Risk continues to be carried by the GCA.

Traditional Procurement	PPP	Process difference?	Who is affected?
GCA processes the following: <ul style="list-style-type: none"> - Project Design; - Compulsory Purchase Orders; - Land Acquisition; - All necessary statutory consents to build. 	GCA carries out a detailed risk identification and assessment exercise to determine the extent to which it is appropriate to transfer risk. In the event that some of the statutory risks are not transferable, these processes are actioned by the GCA.	Yes Detailed Risk Assessment required	GCA involved in risk identification & assessment

In this case, the GCA should not experience a process difference in proceeding with the appropriate functions as normal. However, if the GCA does continue to carry any elements of Statutory Risk, all appropriate consents associated with these elements must be secured prior to the Procurement Stage.

The tasks involved in compiling the Risk Assessment are as follows:

- Mapping of the main activities of the project and identification of the associated risks;
- Preparation of a Risk Allocation matrix;
- Appraisal of each risk;
- Allocation of risk to the appropriate party;

Consultants, following a number of workshops that are conducted with GCA staff, carry out the Risk Assessment. Again, the interviews conducted for this paper revealed no organisational change problems in this stage.

Pre-procurement Stage

Traditional Procurement	PPP	Process difference?	Who is affected?
GCA prepares tendering and contract documentation including: <ul style="list-style-type: none"> - Detailed design; - Specification; - Bill of Quantities; - Form of Contract. 	GCA prepares: <ul style="list-style-type: none"> - Output Specification; - Project Agreement Documentation; - Payment Mechanism Documentation; - Public Sector Benchmark (PSB). <p>On review of the findings of the PSB, the Government Department issues approval to Procurement.</p>	Different criteria to be established and applied.	GCA Staff, Consultant Staff

At this stage PPP shows a significant departure from the Traditional Procurement route. Emphasis moves from the GCA providing a facility to the PPP philosophy of the GCA purchasing a service. Fundamental to this is the production of an Output Specification, within which performance standards and monitoring requirements must be clearly defined in achievable and measurable terms to provide a basis for determining contract performance and payment. This document must incorporate details of the stakeholder requirements and should clearly identify the elements of the Statutory Process to be completed as part of the project. It should contain any further planning details or known constraints that would influence the planning, construction and operation phases of the project. The Project Agreement, which will be a draft document at this stage and will be subject to further negotiation prior to entering into contract, sets out the rights and

obligations of each of the parties to the contract. The Payment Mechanism documentation will show the means by which payments for provision of the service will be processed. The Public Sector Benchmark (PBS) provides an estimate of the cost of the project using the traditional procurement route.

The tasks involved in preparing this documentation are as follows:

- Detailed appraisal of the service to be provided rather than of the construction of the building within which the service will be provided;
- Analysis of the statutory issues that could impact on the project;
- Presentation of a clear account of stakeholder requirements;
- Review of the obligations and rights of each party and consultation with legal advisers in the preparation of the Project Agreement documentation;
- Examination of the commercial issues likely to influence or affect the private sector's costing of the project and incorporation of the outcome of this examination in the production of the Payment Documentation;
- Financial analysis of the project to produce the PSB.

Again, the work involved in this stage is outsourced to consultants with the GCA having a management role in the process. The potential difficulty that may arise at this stage is within the consultant organisation. Such organisations have emerged from existing consulting engineering and project management companies. In the past they would prepare detailed designs and would be primarily concerned with time, quality and cost. Traditional procurement therefore required a long document preparation phase and a short tender evaluation phase. PPP requires a short document preparation phase and a longer tender evaluation phase. PPP also requires the consultants to produce 20-30 year performance criteria, which requires a detailed knowledge of the service to be provided and the means by which it could be provided.

The pre-procurement stage requires change in the GCA as the process is completely different to traditional procurement. However, the change is occurring without significant difficulty as the process is now carried out by consultants managed by the GCA rather than GCA staff actually carrying out the work themselves. In any case, such is the extent of the work involved, many GCAs would not have the resources to carry out the work themselves.

Procurement Stage

At this stage the process differences brought about by the use of PPP begin the impact on the private sector. In PPP, the tendering process changes considerably. For example on a Design, Build, Finance and Operate roads project in Ireland, the GCA will usually provide a specimen design that contains enough detail on which to complete the Statutory Risk stage. This design will be further developed by the PVS0 and an estimate for construction will be prepared. This information is then used in the compilation of the financial models for the whole life cycle operation of the project. In the case of the roads project, financial models take into account the projected traffic flows on the road, the projected income and the risks associated with the project over its life cycle.

The final figure that is submitted to the GCA, will show the income that the PVS0 requires from the project. In Ireland the procurement process for large roads projects is approximately six months. As the financial analysis of the PPP bid typically takes two months this reduces the time previously available for the design and estimating process.

In the case of a number of Irish roads projects, the design, estimating and construction of a PPP project is carried out by a Construction Joint Venture (CJV) company comprising the PPP partners that have direct input to the design, procurement and construction stages. The design and estimating process is usually managed by a Bid Manager assisted by a Design Manager and an Estimating Manager. In some cases these three people can originate from three different company partners, leading to co-ordination issues and the need for awareness of the needs of all the partners concerned.

Traditional Procurement	PPP	Process difference?	Who is affected?
<p>GCA advertises the project:</p> <ul style="list-style-type: none"> - In the Official Journal of the EU (OJEC) (if over €20 in value); - On etenders.ie; - In the media. <p>Construction companies tender for the project. GCA establishes tender evaluation criteria, carries out the tender evaluation and chooses the preferred contractor for the project. PVS0 and GCA enter contract under which the project will be constructed.</p>	<p>GCA advertises the project:</p> <ul style="list-style-type: none"> - In the OJEC; - On etenders.ie; - In the media. <p>Private Sector Organisation (PVS0) responds to the advertisement under the requirements detailed in the output specification. Tendering process may have a number of stages GCA carries out the tender evaluation and chooses the preferred PVS0 for the project. PVS0 and GCA enter contract.</p>	<p>Not significant</p> <p>Considerable difference</p> <p>Significant differences in nature of contract, no significant difference in process</p>	<p>PVS0 staff</p>

The perform at procurement stage in a PPP, the resultant organisational change in the private sector has manifested itself in the creation of PPP divisions in a number of companies. In some companies these divisions become a significant part of the organisation and takes on the task of securing regular income for the company over concession periods of up to 30 years in length. If consultants are to prepare the GCAs adequately for the procurement phase, they must have the ability to produce 20-30 year performance criteria which, in turn, requires a detailed knowledge of the service to be provided and the means by which it could be provided.

Construction Stage

Traditional Procurement	PPP	Process difference?	Who is affected?
<p>GCA has a direct role in supervision of work, measurement of quantity of work completed and certification for the purpose of payment to the constructing contractor. Contractor plans, manages and undertakes the contract works.</p>	<p>Contracting Authority acts in a regulatory role. PVS0 takes on a project management role and the construction work is carried out either by a number of member companies of the consortium as a CJV or by a company that acts as a subcontractor to the consortium.</p>	<p>Requirement to work in a much more “hands-off“ role. In the case of the construction work being carried out by a consortium member, there is a greater emphasis on the life cycle cost of the facility being constructed.</p>	<p>GCA staff</p> <p>Construction staff</p>

At this stage, there is significant change in the role of the GCA, now requiring the adoption of a regulatory role and an obligation to step back from direct involvement in the business of construction. This has caused some difficulty for GCA staff at project level. Consequently, Government Departments give advice and training to staff on their new role and outline the potential risk issues that can emerge if GCA staff attempt to

supervise the construction phase in the manner that would be the norm under traditional procurement (Department of Environment, Heritage and Local Government, 2004).

As the PVSO has responsibility for the operation and maintenance of the completed facility for up to 30 years, process change will result in the planning and management of the construction phase. New contractual relationships must be developed and each of these must be protected with a legal contract. The operator of the facility is brought into the construction team at an early stage and constantly gives significant input that will affect the long-term economic viability of the facility. Construction decisions now potentially affect the financial stake of all of the PVSO members and these organisations will be involved in decision-making on major issues at project level. Interestingly, the contractor involvement in the water/wastewater BDO contracts initially had a contractor in the PVSO. More recent contracts do not, with the contractor reverting to the role of principal subcontractor to the PVSO for the construction phase. This is not the case in the DBFO roads projects where the contractor is an equal partner in the consortium. Whilst only a small number of Irish PPP projects have yet been constructed, this evidence suggests that the PVSOs are beginning to take on common structures for different types of PPP contract.

CONCLUSIONS

This paper has identified areas of change within the project process when PPP is introduced. However the extent to which this change affects staff working in the GCA is reduced through the extensive use of consultants who carry out practically all of the new processes. The GCA staff involved in PPP now carry out a higher level managerial function in that they now manage consultants who project manage the work. In the areas studied for this paper, the GCAs do not appear to have had major difficulty adapting to this change. However, some individual members of GCA staff have difficulty in the process change that occurs at project level. This difficulty has been recognised by the GCAs and training is provided to project staff to reduce such difficulties.

In the private sector, those involved in PPP now require a detailed knowledge of the service to be provided and the means by which it could be provided. They must have the ability to prepare performance criteria that span periods of up to 30 years and must have the necessary financial planning expertise to view a project from an economic perspective over a period of up to 30 years. Two private sector groups are affected by the introduction of PPP, namely the PVSOs and the consultants who work for the GCAs.

The PVSOs experience process change in the procurement and construction stages. These changes involve greater freedom in design, more complex contractual relationships, more involvement of non-construction organisations in the construction decision-making and a greater involvement of the facility operators in the design and construction phases. To date, there is no evidence of significant difficulty in achieving the changes necessary to operate a PPP, as the PVSOs that are emerging show differing structure for different contract types, suggesting that they are adapting to the needs of the market. Further study of developments in this area will be required as the Irish PPP market matures. The consultants who work for the GCAs have also experienced significant change. The means by which these organisations have coped with such change is worthy of further research as it was not addressed in this paper.

This paper confirms that the areas public and private sectors in Ireland studied in this research have risen to the challenges of PPP. However, the deliberations of this paper have been limited to a small area of the Irish PPP market and have not included any analysis of the operation stage of Irish PPPs. The authors recommend that further study be carried out to assess more of the emerging Irish PPP experience, so that lessons can be learned for other countries embarking on new PPP programmes.

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