

Public Private Partnerships: The Good, The Bad and The Ugly

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PPPs – Why the hype?

- **Optimal boundaries of government**
- **Infrastructure depletion and budget constrained governments**
- **Shiny projects – off-balance sheet funding**
- **Value creation and value division**

Panacea or politically expedient posturing?

Research Agenda

- **Limited theoretical or empirical validation of PPP structure**
 - > Mehra (2005)
 - > Hart (2003)
 - > Fitzgerald (2003)
- **Intellectual arbitrage – lessons to be learned from extensive literature on strategic alliances, theory of the firm, incomplete contracting etc.**
- **Joint work with Professor Paul Kerin**
 - > (Public-private boundaries: partnerships and integrated governance, inaugural issue of *Melbourne Review*)

What is a PPP?

- **Many conflicting definitions**
- **Our defn:**
 - > A project specific contractual arrangement between public and private sector parties in which the project's risks and rewards are genuinely shared between the parties on a 'whole-of-project' basis
- **Strategic alliance**
 - > Poor track record amongst private sector parties
 - > PPPs more likely to fail due to weightier governance issues

Governance

- **Harder than corporate governance**
 - > Multiple principals with multiple objectives confounding the incentive alignment problem
- **Transparency and accountability are cornerstones of good governances, but they themselves require appropriate metrics for measurement of performance (inputs, outputs and outcomes).**

Boundaries of the firm: Lessons

- **Coase (1937): Why do firms exist**
- **Arms length trade or internal organisation**
- **Williamson (1985): relationship specific investments**
 - > Hold-up
 - Long-term contractual commitment ex-ante
 - Merge (incomplete contracts)
 - > Transaction costs

Make versus buy

- **Vertical integration and optimal boundaries of the firm**
- **Different modes of organisation**
 - Arms length trade
 - Alliance
 - Mergers and acquisitions

Strategic Alliances

- **Incentives to align the objectives of each partner**
- **Paradox of flexibility value versus value of strategic commitments**
- **Inevitably leads to an incompleteness in alliance arrangements**

Boundaries of government: lessons, analogies and warnings

- **Concentrate on microeconomic efficiency arguments in determining optimal boundaries**
 - What are the most efficient overall technical and agency means to achieve the government's overarching objectives?
- **PPPs are only one of a range of possible delivery options**
 - Public policy makers tend to concentrate on pure public provision or PPPs and ignore the options in between

Optimal Solution: Four key questions

- **Competitive advantage**
 - Does the private sector have a genuine and significant (net) competitive advantage?
- **Risk transfer and performance**
 - Would transferring risk to a private party improve performance?
- **Nature of key risks**
 - Are the key risks 'whole-of-project' or specific/separable?
- **Governance**
 - Can practicable, transparent and efficient bidding and contracting arrangements be defined and executed?

Conclusions

- **The case for private sector involvement in traditionally 'government' domains is strong. The more contentious issue is 'how'?**
- **A lot of rhetoric and vested interests supporting the push for PPPs**
- **Need to look beyond the 'public sector comparator' test, to the fundamentals of incomplete contracts, bundling of risks, relationship-specific investments, agency issues, incentives and efficiency to ascertain the most appropriate way to structure the engagement with the private sector.**