Managing Public Private Partnerships in Infrastructure Projects: A Collaborative Governance Model

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ABSTRACT

In recent years, Public Private Partnerships (PPPs) have been a preferred approach to build large infrastructure projects in Australia and overseas. Although PPP arrangements are still being used as a means to develop large infrastructure projects, the adoption of this new management approach has come under severe criticism and has raised concerns whether long term infrastructure projects offer better governance and increase public value. This paper focuses on the operational and governance aspects of PPPs and argues that PPPs require a collaborative governance structure with a better configured relationship architecture where non-market elements such as mutual trust, risks and knowledge sharing between participating partners and, more importantly, stakeholders are involved through a collaborative governance model.

Key Words: Public Private Partnership, Governance, Contract, Collaboration, infrastructure projects.

INTRODUCTION

In recent decades, PPPs have increasingly been used as a popular procurement policy in building large infrastructure projects in Australia and internationally. Over the same period, the role and scope of governments for providing public services in an effective and efficient way have come under severe criticism (Pessoa, 2008). The failure of traditional public management approaches to service delivery was identified as one of the reasons. Since then, the search for alternatives and efficient means of providing better services have emerged as new challenges for governments (Watson, 2003b). The focus of New Public Management (NPM) was to refocus the public management approach towards delivery of services (Hofmeister & Borchert, 2004) through private sector partnerships. The main emphasis was on firms, markets and contract management, and, more importantly, the introduction of new public service delivery systems focusing on greater attention to increasing efficiency (Christensen & Laegreid, 2007; Warner & Hefetz, 2008). But little attention was paid to fundamental aspects of governance such as transparency, accountability and citizen engagement in the management of public service delivery. Thus PPPs, as a new form of governance ((Teisman & Klijn, 2002), emerged as a public management approach that is different from privatization ((Alam, Teicher, & Van Gramberg, 2006).
The purpose of this paper is to examine Melbourne’s Eastlink project, using the PPP as an analytical lens to identify the factors that helped to build a collaborative governance model under the government’s policy framework, *Partnerships Victoria*. This paper examines how partnership initiatives have been designed and managed to increase efficiency at the micro-management level through mutual trust and respect between partners. The paper also discusses how PPP as a governance model has provided the means of establishing an ongoing control and accountability regime. Community participation in policy formulation and implementation has been analysed as an important factor in developing a collaborative governance model.

The first section of this paper briefly reviews the literature to discuss the trends of PPPs overseas and in Australia. The second section presents the case study of EastLink, a PPP project under the government’s policy framework, *Partnerships Victoria*. The third section discusses how PPPs can be an instrument in addressing key governance issues such as transparency, accountability and community involvement in the management of large infrastructure projects where public sector organisations have a resource and capability deficit.

**METHODOLOGY**

We conducted an in-depth qualitative study of EastLink Project, the largest infrastructure PPP project in Victoria, Australia. The case is considered important and timely because Australian PPP models have attracted considerable attention and to date there is no empirical study on EastLink in the PPP literature. Data were gathered through face to face interviews using semi-structured questions during the period of September 2009 to February 2010. A total of 26 interviewees were selected from key stakeholders and participating parties such as senior policy makers from the Victorian Department of Treasury and Finance, project managers from ConnectEast (the main concessionaire); Thiess John Holland (the design and construction company) and SEITA (South Eastern Integrated Transport Authority; a government authority created for facilitating EastLink project), local council officials and community groups. The selection of the participants was made to get a wide range of opinions about the effectiveness of PPP as a collaborative governance model used in the implementation of the
EastLink project. This was done to assess the extent of interactions, nature of coordination and types of engagement to identify the unique features of this collaborative endeavour.

**Literature Review**

The 1970s saw a shift towards NPM away from the traditional public management approach due to significant attention being paid to the measurement of individual and organisational results (Bovaird & Loffler, 2003). This was influenced by cuts in government growth and spending, moves towards privatisation and adoption of a market-based approach, and improvements in information technology and the delivery of public services (Hood, 1991). While NPM enabled governments to rationalise public services and focus on outcomes, these reforms were not without weaknesses (Bovaird & Loffler, 2003). These weaknesses led to a further reform movement during the 1990s which focused on public value rather than on outcomes and rationalisation. These public value reforms needed public sector organisations to orchestrate ‘a coherent conversation’ to figure out how to deliver and measure public value (Moore, 1995). This was not attainable without private sector collaboration. PPPs have thus emerged as a dominant approach aiming at improving transparency and accountability mechanisms, stressing the importance of creating public value and promoting public governance in general (O'Flynn, 2007; Osborne, 2006). The call for ‘good governance’ as a core responsibility of government has made collaboration an imperative.

PPPs have emerged in the literature as a management tool for modernizing traditional public management approaches (Sedjari, 2004). This new management tool provides the operational details and organizational processes for altering traditional governance in fundamental ways (Linder, 1999). These include providing better services in an efficient, cheapest way through greater access to market skills and expertise, followed by improved quality of services and accountability (Joyner, 2007). More recently, however, the focus has been rather on public value and governance as a response to the criticisms of NPM. Hodge and Greve (2010) have described PPPs as governance arrangements under a ‘PPP family’, where the focus has been on institutional cooperation, long term infrastructure
contracts, public policy networks, civil society and community development, and urban renewal and ‘downtown’ economic development.

The extant literature reveals that PPPs have many features in common, irrespective of their type and nature. PPPs, for example, allow public enterprises to adopt new organisational forms to establish different types of long-term contractual relationships with the private sector (Bovaird, 2004; Carroll & Steane, 2000), to share risks and benefits between the public and the private sector (Hodge, 2005), to increase efficiency in the management of public sector (Regeczi, 2005; Watson, 2003a; Zadek, 2008; Zarco-Jasso, 2005), and to provide assets and services which would previously have been the sole responsibility of the public sector (Hurst & Reeves, 2004). While NPM emphasized market values that focused on transaction costs, PPPs are aligned with an increased focus on networks, partnerships and collaboration within the market framework. This trend of PPPs reveals that public sector management lacks the institutional and managerial capabilities on its own to address the complexities and challenges of governance that public sector organisations are increasingly facing today in a highly marketised environment. This is not to argue that PPPs do not have shortcomings: lack of disclosure of information and transparency of PPP arrangements, cost overruns (in the case of the Southern Cross Re-development Project in Victoria, Australia, for example), and other governance problems (Hodge, 2005; Marrewijk, Clegg, Pitsis & Veenswijk, 2008; Watson, 2003a) have raised concerns about this new approach.

The literature on PPPs has highlighted a growing tendency by governments to pursue collaborative efforts, but there has also been much pressure on governments to provide better services. A broad body of thought has presented collaboration between public and private sectors entities as an important process of partnership (Huxham, (2002) Klijn and Koppenjan (2000) in Bryson, Crosby, & Stone, 2006; Ysa, 2007). Another school of thought has recognised the importance of ‘collaborative governance’ through partnerships between different actors in order to make this partnership meaningful by promoting transparency and accountability (Hall & Kennedy, 2008; Johnston & Gudergan, 2007; Mohr, 2004; Perotti & Bortolotti, 2007; Teisman & Keith, 2002; Teisman & Klijn,
This collaborative governance, as argued by Ansell and Gash, is ‘a governing arrangement where one or more public agencies directly or indirectly engage non-state stakeholders in a collective decision making process that is formal, consensus oriented and deliberative and that aims to make or implement public policy or manage public programs or assets’ (Ansell & Gash, 2008:545). This definition broadly encompasses three key elements: first, it is an arrangement between the public and the private sectors where they take decisions jointly; second, this arrangement is based on mutual understanding and common goals; and third, the purpose of this involvement is to provide public services or assets. The collaborative governance structure thus lowers transaction costs, enhances cooperation, increases information sharing and facilitates dispute resolution (Larkin, 1994).

This survey of the literature clearly signifies the recent trends of PPPs towards collaboration between the public and the private sectors in which both parties benefit from additional resources, sharing ideas, knowledge and finance that they bring to the successful completion of any project (Greasley, Watson, & Patel, 2008). Although, organisational boundaries between the public and private sectors have become fluid due to the emergence of PPPs (Van, 1999), and have led to the development of collaboration between the two parties (Ysa, 2007), this relationship has now been turning from a blurred to a more identifiable and manageable working relationship. Governments’ dependency on markets has taken on a new dimension from dependency to collaboration through PPPs. O’Flynn (2007) considers that these public values reforms will focus on redefining how we think about the state, its purpose, ways of functioning, operating and managing’. O’Flynn further considers that the reforms are looking to move away from the narrow market approach versus government failure which was dominant in the NPM era.

**PPPs in Australia**

The context of public management reforms has been changing overseas and in Australia. At this stage of reform initiatives, the general understanding of the emergence of PPPs is that they can be used as a means of financing large-scale infrastructure projects in transportation, such as for rail systems, highways, subways, tunnels, telecommunications etc., where these major infrastructure projects
involve substantial investment from the private sector (Brown, 2007; Maskin & Tirole, 2008; Newberry & Pallot, 2003). The nature of PPP uptake in Australia, especially in Victoria, seems to follow a similar track. Melbourne’s CityLink toll road, EastLink, the Re-development of Southern Cross Station, the Royal Melbourne, the Royal Women’s and the Royal Children’s Hospital are such examples of PPP infrastructure projects, or, in other words, long-term infrastructure contract-type PPPs (Hodge & Greve, 2010).

PPP concepts were pioneered by the UK (through the Public Finance Initiative or PFI), the USA and Canada, followed by Australia and New Zealand. Australia adopted the UK model and modified it to suit, and since then has been quite aggressive in developing and pursuing PPP projects. Australia has established itself as a global leader in the financing, construction and operation of infrastructure through PPPs, despite some failures in Victoria and other states (see English, 2005; English, 2004; Watson, 2003a). While successful in attracting private finance for infrastructure and other service sectors, the issue of stakeholders’ involvement in policy formulation and decision-making, and, more importantly, building trust among the clients and the providers have been given little attention as an important non-market element for developing a sustainable PPP model. This leads to a lack of citizen trust in infrastructure development through PPPs (Johnston, 2010). In theory, large PPP infrastructure projects are supposed to provide benefits for the community and the government, as well as to create a sustainable business for the private sector. However, recent examples of PPPs in Australia have revealed significant governance problems in large PPP infrastructure contracts (Hodge, 2004; Johnston, 2010; Johnston & Gudergan, 2007), where issues of accountability and transparency and, more importantly, citizen involvement have been neglected.

The intention of this paper is not to argue whether the arrangements between the state and the private sector for large infrastructure projects are PPPs or not, though this phraseology is questioned by many in the context of long-term infrastructure projects (Hodge & Greve, 2010; Johnston, 2010; Wettenhall, 2007). We argue that the nexus between the state and the market has significantly changed through long-term contractual arrangements. State dependency on the market has taken on a new
configuration from dependency to collaboration where both parties collaborate to achieve common
goals. The necessity of partnerships is thus a prerequisite for a long-term contractual agreement. The
Victorian PPP model in this specific case, EastLink, offers an opportunity to explain how a
collaborative governance model can be achieved through partnerships and the participation of
important stakeholders, including citizens.

**The Case: EastLink**

EastLink is the largest infrastructure project ever constructed in Victoria, at a cost of $2.5 billion. As
one of the largest PPP projects under the *Partnerships Victoria* policy, it sets a new bench-mark for
delivering major infrastructure projects under PPPs. In 2004, after a highly competitive bid process,
ConnectEast (the main concessionaire) was awarded the contract to design, build, own and operate
EastLink for 39 years (SEITA, 2008). Thiess John Holland (TJH) was contracted by ConnectEast to
design and construct EastLink. TJH is a large construction company that has constructed major road
projects in Australia.

The Victorian government established the Southern and Eastern Integrated Transport Authority
(SEITA) as a single purpose entity for the EastLink project. The purpose was to provide necessary
administrative and regulatory support for the project. One of the key benefits of this type of single-
purpose authority was not only to provide proper administration of the project, but also to encourage a
higher level of confidence within the private sector that they were dealing with a body that was
created with expertise from both the public and the private sectors to provide necessary support to the
project. SEITA had four separate units – engineering, planning, legal and commercial and
communications – each with experienced managers to facilitate the project. The uniqueness of the
PPP contract in Victoria is that, unlike other states in Australia, an Independent Reviewer (IR) was
also jointly appointed by SIETA and ConnectEast to provide the necessary assurance that the project
design and construction has met the specified standards set out in the concession deed. There were
regular monthly meetings in accordance with the contract to ensure the progress of the project.
EastLink supposed to be an un-toll road. However, at a later stage, the state government of Victoria changed its policy. This created community outrage and controversy about the toll decision. Thus, both the public and private parties had to take numerous steps to convince community members and users of the project’s benefits. ConnectEast designed and implemented a comprehensive plan for fostering community involvement and provided feedback throughout the construction and operation phases. Under this plan, they regularly consulted with the community, developing links with councils, local members of the parliament, environmental groups and other important stakeholders. The project management team put all necessary information in the public domain to ensure transparency. During the construction phase, a number of consultative groups, comprising both the public and the private sector, were established to provide regular and up-to-date information to the community about progress on the delivery of the project and to obtain community feedback. Unlike other such PPP infrastructure projects in Australia, the EastLink concession deed clearly outlined a series of key performance indicators (KPIs) that ensured a level of quality service delivery and established an accountability regime for the whole concession period. EastLink was completed on budget and five months ahead of schedule. It opened to traffic on 29 June 2008 (Partnerships Victoria, 2009).

DISCUSSION

Sharing Knowledge and Information

As revealed from the literature, governments have generally recognised the necessity of collaboration between actors to ensure that they share resources to solve challenges or create opportunities that neither can address individually (Selin & Chavez, 1995: 260, in Greasley, Watson & Patel, 2008). The EastLink project, however, has demonstrated that the challenges can successfully be addressed through information sharing and establishing trust between participating parties and the key stakeholders for their common benefit. This collaboration requires an architectural relationship to share knowledge and information through effective participation of the key stakeholders. Exchange of project-related information and sharing knowledge is the key to the collaborative management model. The PPP as a collaborative management model represents the sharing of knowledge and information.
among stakeholders in a way that reduces risks associated with the project (Carlile, 2002; Weber & Khademian, 2008). Information and knowledge sharing among the key stakeholders of EastLink demonstrates that the collaborative management arrangement developed by EastLink team was very effective. They had regular monthly meetings between partners in accordance with the contract. Apart from this, there were extensive weekly and monthly informal meetings involving key project managers. As part of its coordinated feedback meetings and a live-line contact, EastLink project team members introduced a culture of ‘coffee’ meetings every Monday morning throughout the construction period for all key stakeholders. This informal meeting built a strong relationship between them and helped solve many issues before these were placed on a formal agenda. Although the construction company (TJH) had no contractual relationship with the state, TJH was also invited to the meetings so that they could understand both the concessionaire’s and the state’s expectation. It built an informal relationship between the participating parties. Expressing positive attitudes towards the successful implementation of the project, one of the senior public officials stated:

_They had meetings with us whenever they wanted them. On legal-commercial issues, on engineering issues, on urban design, probity, anything, they could meet with us._

This tripartite relationship and sharing of information helped the project complete on time and within budget. Sharing of information and understanding at formal and informal meetings promoted a relationship of mutual trust that created an intangible value network between the partners, which in turn helped successful completion of the project. Cross-sectoral knowledge sharing can help develop new knowledge, flesh out solutions to daily problems, enhance learning across the network and build trust and aid in learning from one another’s successes—and mistakes (O’Flynn, 2007). SEITA and the major private parties had people with working experience in both public and private sector organisations and in similar projects such as CityLink. They pooled together accumulated knowledge by hiring people from public and private sector with prior experience in PPPs and shared it between parties, which assisted timely project completion. Such transfer of knowledge from one PPP project to another increased the managerial capabilities of public managers and sharing information between major parties created a culture of working together with less bureaucratic procedural formalism and
more outcome-focused negotiation and consultation, which significantly increased efficiency at the implementation level. A new type of government-business enterprise culture evolved out of this partnership.

**Regulatory support**

Though SEITA was established to facilitate and manage the project, the concessionaire, ConnectEast, thinks their role was not like that of a ‘watchdog’; rather, they were positive in responding to any issues, which created a mutual respect and trust between parties: the private consortia greatly appreciated the creation of this single purpose entity which helped reduce bureaucratic complexities, saved time and ensured faster decision making on issues raised during the construction phase. One of the senior project managers of ConnectEast indicated:

*We would have [had] to seek approval from 200 separate government units if SEITA did not exist. SEITA was not a typical government bureaucracy; rather they had a commercial attitude as well. In relation to support [what] SEITA had provided was outstanding.*

This collaborative approach between parties created the groundwork for solidifying trustworthy relationships between parties. The EastLink experience reveals that mutual trust between participating parties synthesised collaborative efforts, which lowered transaction costs, enhanced co-operation, increased information sharing, facilitated dispute resolution and reduced the amount of formal relationship and harmful conflict between partners (*Interview with a project manager*).

**Transparency and accountability**

Previous studies on PPPs overseas (Acar, Guo, & Yang, 2008; Demirag, Dubnick, & Khadaroo., 2004) and in Australia (Hodge, 2004; Hodge & Coghill, 2007) have revealed the difficulties in ensuring transparency and accountability due to a lack of clear hierarchical relationships between actors. Understandably, the traditional public accountability mechanisms are unlikely to apply in PPP arrangements where hierarchical relationships between major parties are absent. We agree with the notion of accountability in PPP arrangements put forward by Forrer, Kee, Newcomer and Boyer (2010), who agree that these arrangements have changed the dynamics of accountability by engaging private parties in decision making, devising monitoring principles, agreeing to institute an
independent body and crafting an implementable KPI regime; these were the drivers for implementing
public services in phases. However, we strongly believe that a PPP requires alternative ways of
accountability mechanisms through establishing an enforceable performance measurement system.
One such example was the introduction of KPIs into the EastLink contractual agreement, which
ensured maintenance of the quality of services and established an accountability regime throughout
the project’s duration.

Community Engagement

Key stakeholder participation at the implementation stage and in building trust between clients and
providers is important for developing a sustainable governance model. However, this has been a
challenging issue for greater stakeholder engagement in the decision making and implementing
process when a PPP is being established (Alam & Kabir, 2010). The situation with this PPP case
suggests that the enormous scale of construction completed on time has been supported by a sustained
communication effort to keep the community and other stakeholders informed about as well as
involved in various consultation stages. EastLink project teams took special measures to increase
community involvement. Through consultation, the project consultation group (PCG) devised
operational strategies, arranging 48 meetings with community groups, they consulted with nine
municipal councils, Melbourne Water (an Authority) and the Transport Users Associations and
business communities in neighbourhood suburbs. The PCG took initiatives to directly engage 40,000
people through various displays and shopping centre-based discussion forums addressing their
concerns. These initiatives helped to create a sense of awareness among community groups about the
long-term benefits of this project. The noise reduction issues, creek management, local traffic
movement, benefits to small businesses and employment opportunities in the suburban areas were the
issues that the PCG successfully communicated to 500 key stakeholders. As a part of a campaign,
180,000 letterbox drops were conducted directly to households in affected areas to provide advance
notice of construction activities. Hundreds of one-on-one meetings were held with residents over 39
months during the construction period. The PCG distributed 600,000 leaflets in the area. Thus, both
parties had taken massive initiatives to involve different stakeholders, as one of the interviewees pointed out:

_You could deliver any project ahead of time and on budget by completely disregarding the community and just barrelling through, but that wouldn’t necessarily be seen as a success, because you’ve antagonised and created a whole range of disaffected people, whereas we managed to do both, we managed to deliver the project ahead of schedule, but we actually also managed to generate a whole lot of community enthusiasm and support for the project._ (Senior Manager, ConnectEast).

The engagement regime has thus gained recognition as an important participatory approach that leads to more accountable and transparent management system. The EastLink project revealed that this was not just a contractual agreement between the state and the private parties; rather it was an ongoing relationship for the whole contractual period. SEITA and ConnectEast use the KPIs as the basis of their ongoing relationship in the post-completion period, ensuring accountability and quality of services. Commenting on the ongoing relationship with the community and other stakeholders, one of the participants said:

_At the moment our community engagement consists of semi-regular meetings with local councils in our corridor. So we stay in touch with those people, we stay in touch with local chambers of commerce, we go to quite a number of events up and down the corridor, just to pick up on any issues and factors that are floating around. And we have quite a lot of one-on-one contact with people with specific issues and concern raised about the noise being generated by truck engine brakes as they came down into the tunnel. And so we had a number of meetings with groups of residents up around the tunnels._

The collaborative partnership that the EastLink project team developed through a well-devised governance framework and KPIs clearly signifies that the extent of relationship between the stakeholders and the private party was a key driving factor for establishing a collaborative management process. This demonstrates that a new pattern of relationship has evolved based on mutual trust and respect between participating partners and key stakeholders aiming to achieve a common goal.

**CONCLUSION**

Our research findings reveal that mutual trust and respect between participating actors, sharing of knowledge and information between major players and, most importantly, citizen engagement in the
management of the project build a strong relational architecture between key stakeholders. This relationship created an intangible value network amongst the partners that helped the project team to establish a monitoring and quality control regime during the pre and post construction period. The key policy partners and project implementers clearly cited the importance of this value network, which created an architecture of a collaborative governance model. While the EastLink case study clearly emphasises the importance of the economic benefits of PPPs in providing timely delivery of such a large infrastructure on budget, this paper argues that non-market issues need to be taken into account in public service provisions. The EastLink project suggests that PPPs can facilitate a policy and institutional infrastructure for a ‘collaborative governance’ model. It is contended here that it is possible, indeed desirable, to develop a model of collaborative governance through PPPs.
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