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PUBLIC PRIVATE PARTNERSHIP: CHALLENGES FOR BUSINESS

Public-private partnerships (PPPs) between a government agency and private-sector company can be used to finance, build and operate projects, such as public transportation networks, parks and convention centers. Financing a project through a public-private partnership can allow a project to be completed sooner or make it a possibility in the first place.

Public-private partnerships have contract periods of 25 to 30 years or longer. Financing comes partly from the private sector but requires payments from the public sector and/or users over the project's lifetime. The private partner participates in designing, completing, implementing and funding the project, while the public partner focuses on defining and monitoring compliance with the objectives. Risks are distributed between the public and private partners according to the ability of each to assess, control and cope with them.

Although public works and services may be paid for through a fee from the public authority's revenue budget, such as with hospital projects, concessions may involve the right to direct users' payments, as with toll highways. In cases such as shadow tolls for highways, payments are based on actual usage of the service. In cases involving wastewater treatment, payment is made with fees collected from users.

Private-sector technology and innovation help provide better public services through improved operational efficiency. The public sector provides incentives for the private sector to deliver projects on time and within budget. In addition, creating economic diversification makes the country more competitive in facilitating its infrastructure base and boosting associated construction, equipment, support services and other businesses. Physical infrastructure such as roads or railways involve construction risks. If the product is not delivered on time, exceeds cost estimates or has technical defects, the private partner typically bears the burden.

The private partner faces availability risk if it cannot provide the service promised. For example, the company may not meet safety or other relevant quality standards when running a prison, hospital or school.

Demand risk occurs when there are fewer users than expected for the service or infrastructure, such as toll roads, bridges or tunnels. If the public partner agreed to pay a minimum fee no matter the demand, that partner bears the risk.

Due to limited funding and increasing constraints, many government agencies are looking into different models of public-private partnership as a means of maintaining updated infrastructures without having to make large investments. These type of projects can be very useful, but their costs must be closely controlled to make them cost-effective solutions.

PPPs are considered by many to be the future of infrastructure projects because they offer solutions to problems of financing, job completion, and investing in large projects without sacrificing government finances. There are many different types of public-private partnerships to fit various construction, operation, ownership, and revenue-generating scenarios.

Governments and businesses enter public-private partnerships (PPPs) to achieve better outcomes, but successful partnerships are not easily accomplished. Because businesses' expectations about PPP outcomes affect how and whether they participate as partners, managing PPPs effectively requires knowing not just what governments lose or gain, but also the value businesses receive. This article demonstrates how structural, collaborative, and participant factors associated with both public and private partners affect business value in PPPs. Based on a mixed-methods approach, this study tests four hypotheses on how PPPs influence value creation for businesses. The findings show that PPP experience, trust, and size have significant effects on business value. However, they only increase certain types of value, depending on the presence and performance of other factors. Moreover, the results show that businesses gain more intangible values, such as network development and knowledge, than revenue.