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Relationship management in the management of PFI/PPP projects in the UK

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Abstract

Private Public Partnerships and the Public Finance Initiative engage private organisations in providing public services through long-term concessions. The paper examines management of these projects concerning the relationships between the primary parties: Special Purpose Vehicle (SPV) and constituent members, and the relationship of the SPV with the client. The objectives are to establish how relationships are managed between private sector organisations within the concession, and between the private organisations and public sector client. The management of relationships is explored through concepts of relational contracting and relationship management. How relationship management links to project management is also explored. Trust and confidence are used as measures of relationship conditions, which are mapped against thirty relationship management dimensions. An evaluation is provided concerning relationship management for PFI/PPP projects, the primary conclusion being that greater strategic and tactical consideration is given to the proactive management of relationships. Adoption will foster collaborative working that goes beyond reactive behavioural adjustment to new procurement conditions, conceptually a shift from *relational contracting* to proactive *relationship management* principles.

Keywords: Concession contracts; Confidence; Private finance initiative; Public private partnership; Relational contracting; Relationship management; Special purpose vehicle; Trust

1. Introduction

The *aim* of this paper is to examine management of the Private Public Partnerships (PPPs) and the forerunner, Private Finance Initiative (PFI) concerning project relationships between the primary parties. PFI/PPP projects involve the engagement of private sector organisations in the provision of public infrastructure and services through concession contracts of up to 40 year's duration. The primary parties are client, concession contractor, called the Special Purpose Vehicle (SPV), and constituent members of the SPV.

The *objectives* are to explore how effectively relations are being conducted in this market, both between the members of the concession contractor, that is the SPV, and between the SPV and the public client. The organisational relationships studied are the amalgam of key managers responsible for managing the projects between the organisations. Trust and confidence are used as concepts for evaluating the condition of relationships, drawn from a framework of trust to secure measures for evaluating relationship strength.

In order to achieve the *aim* and *objectives* the case for the importance of trust and confidence in relationships is made. A definition of trust in the framework is provided and the framework outlined. Relationships are not homogenous, having different characteristics and forms. Therefore, a categorisation of relationships in relation to effective project management is needed. The paper utilises the 30 relationships established by Gummesson [1] within the *relationship marketing* and *management* paradigm.

The paper contributes to an understanding of the importance of relationships in managing projects. There are two

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aspects to this: exploring how relationship management connects to project management, and how relationships are a means to deliver service value and added value in projects generally and PFI/PPP specifically. The paper makes recommendations from the analysis for continuous improvement through the effective management of relationships.

2. The PFI/PPP market

One estimate suggests projects constitute approximately 25% of GDP [2]. Certainly one area in which former public services have been reconstituted as projects for private sector delivery is the PFI/PPP market. The UK government has been a pioneer of this procurement through concession contracts ranging from 10 to 40 years. Such contracts embrace services, including IT and facilities management. Many contracts include build-own-operate-transfer facilities, whereby an SPV takes responsibility for providing and servicing schools, hospitals, prisons and other infrastructure typically for 25–40 year concessions. In return the SPV receives a series of payments, a 'rental', so government is paying for the services out of revenue rather than capital or debt.

This policy began in the UK as the Private Finance Initiative (PFI) in 1992. PFI became a primary means to increase investment without exceeding prescribed borrowing limits imposed by the European Union (EU), and later by the UK Chancellor's "golden economic rule" which only sanctioned increased borrowing for future investment. In 1997, the policy became Public Private Partnerships (PPPs), so that government could contract out the services, yet directly finance the capital expenditure for some projects. Thus, in limited cases, publicly funded PPP capital construction contracts are let and paid for by Government.

'Partnership' requires collaboration, although most risks are transferred to the private sector during the concession contract. Traditional adversity was expected to be ameliorated through the commercial management of risk. Implicitly trust can be expected to be present in a similar way that has been advocated for partnering in the UK [3]. Only specialist public service elements of operation, such as the core teaching and medical services for schools and hospitals, respectively, remain under public sector management. To control quality the public sector moved from input specification as a benchmark for comparing bid prices to a normalised position of procuring services upon performance criteria established in *output specifications*; key performance indicators (KPIs) being used to ensure requirements are met over project life cycles.

The primary relationships are between the public sector client and the SPV members, and the relationships between the SPV members. Secondary relations comprise the central and local level of the public sector client, and their relations with the SPV members. The SPV is 'virtual organisation', the management company comprising of members from the other organisations within the SPV, namely the installation or construction contractor, the operating company responsible for prescribed functional service operations, maintenance and facilities management. There will be a debt and equity financier for most projects, except where government has chosen direct capital financing.

3. Trust

There is growing concern about trust in society, for example philosophically in the work of Baier [7], in professional and civil life [8] and in management [9]. As one commentator states:

> Without trust you can have forgiveness, and even love, but there can be no genuine relationship. The strength of trust will determine the strength of every relationship. [4].

In business relationships, 'forgiveness' can be termed "tolerance" and 'love' termed "caring support". Trust is particularly pertinent in PFI/PPP markets because:

- Government and clients have been advocating non-adversarial ways of working [3,5].
- Trust has specifically been cited as important, although a definition has not been provided [3].
- The long-term nature of concession contracts requires trusting relationship to improve effectiveness of project management directly and efficiencies indirectly [6].

Definitions of trust abound. Aspects may differ but there are some essentials, this paper drawing upon three sources. First, Rousseau et al. posited:

Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another [10].

The psychological emphasis is too specific for projects, thus a generic social definition is adopted:

Trust is a disposition and attitude, giving rise to a belief, concerning the willingness to be vulnerable in relation to another party or circumstance [11].

The following definition is used in the project context:

Trust is a disposition and attitude concerning the willingness to rely upon the actions of or be vulnerable towards another party, under circumstances of contractual and social obligations, with the potential for collaboration. [12]

The framework of trust used here is derived from an extensive literature [11] and a summary overview is provided below:

- Characteristics of trust.
- Components of trust.
- Conditions of trust.
- Levels of trust.