



## Accountability and corporate governance of public private partnerships

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### ABSTRACT

Brennan and Solomon (2008) identify six new frontiers in accountability and corporate governance research to stimulate research. This paper contributes to such research by devising a reporting framework and research agenda that relates to Brennan and Solomon's fourth frontier, sectors and context, focusing on the regulated hybrid organisational forms of Public Private Partnerships, which operate at the interface of the public and private sectors.

As the framework shows, these organisations are subject to multiple influences and demands. There is a need for more and different reporting than is the norm under the private sector's decision-useful reporting framework. Although the framework focuses on what Mulgan (2000) describes as the core of accountability, it is not only a financial reporting framework but it also seeks to make concrete Kamuf's (2007) argument that accountability might include accounting through narrative as well as the prevailing numeric evaluation.

The paper stresses the need for information to be accessible to the public, and in particular argues that a stream of information between the public and private sector partners needs to be developed and disseminated to achieve accountability for public money that is increasingly spent in the private sector.

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### 1. Introduction

Brennan and Solomon (2008) identify six new frontiers to corporate governance and accountability research that are extending such research beyond the traditional and primarily quantitative approaches of prior research based predominantly on agency theory. These authors seek thereby to stimulate the development of new approaches, using new theoretical perspectives and methodological approaches that examine new and different accountability mechanisms, sectors or contexts and timeframes.

This paper pursues Brennan and Solomon's fourth frontier of corporate governance and accountability research: sectors and context. They note that accounting and finance research in this area has largely focused on the corporate sector, particularly listed companies, sidelining the direction and control of other types of organisations, particularly the public sector, although they do not identify the interface between the public and private sectors. This paper therefore examines the potential for corporate governance and accountability research in organisations that have been shaped by explicit public policy and regulation as part of New Public Management (NPM) reforms; the 'regulated hybrids' (Miller et al., 2008, p. 85).

Internationally, NPM reforms have sought to reduce the scale and scope of the public sector in various ways. One objective has been to encourage the involvement of the private sector in managing and delivering infrastructure and services,

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previously the exclusive preserve of the public sector. In this context, the PPP has emerged as a hybrid with organisational structures that use resources from previously separate public and private entities. These increasingly popular hybrid forms of organisation are designed for risk sharing and co-production between government and private agents (Skelcher, 2005), and they have reformed and transformed the provision of services. The PPP concept encompasses a wide range of different arrangements or as Hodge and Greve (2007) describe it, at least five families of arrangements, some of which are purely economic arrangements, while others seek to learn new ways of producing and delivering services and sharing risks and rewards (Hodge and Greve, 2005). In this paper, we focus on PPPs that exhibit three key elements.

Firstly, they involve clearly defined projects, the risks and rewards of which are shared between the public and private sectors. That is, usually a long-term relationship between a public sector procurer and multiple private sector companies exists to design and construct infrastructure, maintain it and provide some related services. Compared with traditional modes of procurement, PPPs represent highly complex contractualisations of bundled infrastructure arrangements (Hodge and Greve, 2007), which transform the public sector from provider to purchaser. The public sector and the companies that provide the various contractual services must manage their relationships over the long-term.

Secondly, the projects have decision-making, construction, operation and termination stages during which different types of information are needed for public accountability purposes. Thirdly, a bank or financial institution provides private finance for projects that traditionally have been publicly financed.

This partnership policy transforms the nature of service provision. Whereas previously, the state exercised coordination and steering through hierarchy, bureaucracy and detailed regulation, the PPP 'regulated hybrid' creates governance through networks based on interdependence, negotiation and trust among a number of public and private actors (Bevir, 2004; Sørensen and Torfing, 2005). The aspiration is for a hybridising of expertise, modes of working and modes of delivering services (Miller et al., 2008).

However, one implication of this transformation is that much public expenditure is now outside direct state control. This raises questions about whether the system of public expenditure reporting and disclosure can deliver accountability for public monies and services (Skelcher, 2005), especially in the context of hybrid organisational forms, where there are altered corporate governance and accountability assumptions and arrangements (Hodge and Greve, 2007). In these hybrids, where there is blurring of the boundary between the public and private sectors, private sector corporate governance which is focused on the relationship between a for-profit organisation and its shareholders, has intruded into a well established, although changing, public sector accountability regime. The public sector accountability regime, which recognises multiple stakeholders, has sometimes been categorised into two aspects which we explain further below: an upward accountability through public sector hierarchies and processes to Parliament and a downward accountability to citizens. The research approach in this paper is to explore the problematical interrelationships between downward accountability to citizens and private sector corporate governance within the setting of PPPs.

While accountability may have wide ranging meanings and may be achieved in many different ways, this paper focuses on transparency and the information disclosures that are needed to achieve accountability to citizens, and in particular the role of financial reporting in providing relevant information. While there has been an increased awareness of the role of annual reporting in discharging accountability obligations (Ryan et al., 2002), there is little accounting literature that examines how accountability can be, or is, delivered by means of financial reporting and disclosure in relation to hybrid organisations.

The paper has three research questions. Firstly, from corporate governance and public accountability perspectives what are the significant influences over and demands upon the hybrid organisational structure? Secondly, what is the role of financial reporting and corporate governance disclosure in delivering accountability to citizens within this complex organisational form? Thirdly, what questions does this organisational form raise about corporate governance and accountability for accounting researchers?

In order to answer the first two questions, the paper devises a reporting framework based on relevant literature, which includes the influences over and demands upon these organisations from both the public and private sector traditions. Although, PPPs have been widely adopted internationally using a range of organisational structures, we use a British variant – the Private Finance Initiative (PFI) – as an exemplar of the corporate governance and accountability environment of these 'regulated hybrid' organisational structures. Since Britain's PFI model<sup>1</sup> was one of the earliest forms of PPP, there is now a considerable body of directly relevant PFI literature to draw upon to create our framework.

The framework develops the work of Smith et al. (2006), discussed further below, who argue that corporate governance and accountability are multi-faceted concepts in the public sector, but they draw attention to the democratic deficit exhibited by partnership arrangements in relation to citizens. Although corporate governance is usually explained in terms of directing and controlling entities, in reality it may encompass the way in which various stakeholders interact with one another (Hyndman and McDonnell, 2009). Thus, the framework recognises that reporting by hybrid partnerships must address multiple information needs, if it is to play a role in achieving both the objectives of private sector corporate governance and public sector accountability, especially the downward accountability to citizens. From this framework, the paper draws out

<sup>1</sup> A PFI project is a contractual arrangement between a public authority and a private sector special purpose vehicle (SPV) in which the public sector body depends on the SPV to provide finance and capital for infrastructure, as well as constructing the assets and providing some maintenance and operational services.

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