



Goal achievement with trusting partnerships at the tactical level

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A B S T R A C T

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Recent Thredbo Conferences have begun to explore the importance of the relationship between public transport service purchaser and provider in the development of successful public transport services. However, practical examples to test the trusting partnership model are rare. Bus service planning and delivery in Melbourne, Australia, has pioneered the trusting partnership approach, from agreement about desirable service standards and requisite operator qualifications (at the Tactical level) to detailed service delivery contracts. New negotiated performance-based metropolitan bus contracts commenced in January 2009, embodying principles discussed in previous Thredbo Conferences. This paper reports on the Tactical planning process that agreed service standards and the subsequent contract negotiation process, reflecting a trusting partnership between purchaser and provider, while remaining transparent and accountable and maintaining performance pressure on the provider. It shows how patronage growth rates have increased dramatically and identifies areas where further enhancements should be explored in the contracting area.

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1. Introduction

An emerging focus of the Thredbo Conference series has been the way theory and practice evolve and inform each other in the contracting of public transport service provision. An important development over the past four Conferences has been the focus on the theory and practice of negotiated performance-based contracts (NPBCs), particularly as an alternative to competitive tendering, as a means to award the right to provide service (see, for example, Hensher & Houghton, 2005, Hensher & Stanley, 2003, Hensher & Stanley 2009, Stanley et al., 2007, Yvrande-Billon, 2007).

A common rationale for NPBCs is to deal with the inevitable uncertainty that creates difficulty for *ex ante* contract specification and tender bidding, by adopting an awarding mechanism that can be adaptive and sustain performance pressure during the course of the contract. To this extent, NPBCs reflect alliance contracting as used in such areas as building and construction and infrastructure Public Private Partnerships more broadly.

The evidence that savings from competitive tendering (CT) diminish beyond first round tenders has further encouraged this search for alternative awarding mechanisms that can sustain performance pressure (Wallis & Hensher, 2005). Hensher and Houghton (2005) and Hensher and Stanley (2008) outline many of the merits of NPBCs as compared to contracts that are let by CT. These, and other, Thredbo papers stress the importance of CT as a fall-back mechanism in the event that service providers operating

under NPBCs do not measure up adequately against their key performance indicators. Using a transaction costs framework, Yvrande-Billon (2007) outlines some of the difficulties facing CT that have helped foster an interest in NPBCs and also points to some French experiences of operator opportunism.

A further important rationale seen by some proponents of NPBCs is the belief that this contract form is most likely to support a *trusting partnership* between purchaser and provider and that, given scarce skills on both sides, such a relationship is more likely to maximise goal achievement through service provision than an awarding mechanism based on CT (Stanley, Betts, & Lucas, 2007). Case studies are needed to explore this belief.

This paper examines the evolution of debate at the Thredbo Conference Series about trusting partnerships for the development and delivery of public transport services and describes how the approach has been pursued in Melbourne bus system/service planning and contracting. In Section 2 it summarises some details of the Tactical system planning for Melbourne bus services and the subsequent route bus service contracts which have been implemented, both specifically framed from this trusting partnership perspective. Section 3 places this issue within the contextual framework provided by Williamson's (1985) discussion on contracting forms. Section 4 outlines patronage growth experience on Melbourne's buses, arguing that there is a link between accelerated patronage growth and the strong trusting relationship between purchaser and provider. Section 5 presents some suggestions for ways to enhance the relationship while maintaining performance pressure, accountability and transparency.

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2. The evolving focus on trusting partnerships at Thredbo conferences

The concept of a trusting partnership between purchaser and provider of public transport services has developed through a number of Thredbo conferences, initially linked with efforts to frame effective NPBCs and, more recently, in response to frustrations with the implementation of CT.

Hensher and Stanley (2003) argued that NPBCs align contract specification with the intended policy outcomes from service provision and that they will help to foster a co-operative partnership, with trust seen as being central to a successful partnership. The Theme A Workshop at Thredbo 8 in Brazil in 2003 devoted time to NPBCs and saw trust as integral to their effectiveness, concluding that "... any system of PBCs should be linked to an outcome-based integrated system in which all players throughout the STO framework participate as trusting partners" (Hensher & Houghton, 2005, p. 39).¹ That workshop saw trust as also being important irrespective of whether contracts are competitively tendered or negotiated. Some participants, the present author included, however, argued that trust was critical to effective negotiated contracts, whereas the business environment of competitive tendering suggests that trust is unlikely to be readily given, because of a service provider's desire to protect intellectual property that creates competitive advantage and a purchaser's tendency to play purchasers off against each other.

The focus on partnerships and trust increased considerably at Thredbo 9 in 2005, with the subject having its own workshop, entitled *Creating and Maintaining Trusting Partnerships*. The workshop report (Stanley, 2007) concluded that, without trust, a partnership was simply a commercial relationship. Workshop participants:

... saw the value of a partnership (built on trust) as being that it is expected to deliver better results at the Strategic or policy goal (outcome) level and at all contributory output levels (Stanley 2007, p. 424).

Stanley et al. (2007), in a paper jointly authored by senior bus service purchaser and provider representatives from Melbourne, emphasised the important role of trusting partnerships at the Tactical level in helping to build a system view that is widely supported and framed to maximise the prospects for long term goal achievement for government (the purchaser), service providers and users. That paper illustrated how Melbourne, Australia, was developing such an approach, with the intention that the next round of metropolitan bus contracts (due in late 2008) would be framed to implement preceding agreed Tactical level outcomes. The paper outlined key requirements for a successful trusting partnership: common objectives tied to public policy purposes; shared governance; written agreements on governance and financing; and trust. Trust, in turn, was seen to be encouraged by: confidence in a partner's capacity to deliver; demonstrated good faith in making and keeping arrangements; agreed governance arrangements; and accountability/transparency arrangements that demonstrate trust to a wider audience and help to guard against the possibility of regulatory capture.

Duncan (2007), also involved in the Melbourne bus contract negotiations as a government adviser, further underlined the importance of shared goals and introduced the important concept of "principled behaviour" for governing relationships between partners. He emphasised the need to commence an open and principled dialogue prior to contract negotiations, replacing

occasional, unstructured administrative contacts by regular, structured and interactive meetings and workshops, to properly lay out the foundations for a trusting partnership.

Duncan saw the principled approach as an important part of dealing with contractual uncertainty. He defined its key characteristics as openness/transparency, procedural fairness, good faith, shared governance principles and processes, sharing of values, recognition of the legitimate rights and interests of all parties, mutual respect, focusing on the issues, separating people from the problem, jointly seeking solutions which provide mutual gain and measuring performance or outcomes against objectively determined criteria. These ideas reflect some of the management literature on how relational embeddedness can create trust and transparency among organisations, which increases learning performance and reduces costs of mitigating opportunistic behaviour (Philippen & van der Knaap, 2007).

Longva and Osland (2007) also address the matter of trust, in the context of changing organisational forms in Norwegian public transport. Norway has been undergoing a change from negotiated contracts with long standing private operators to competitively tendered contracts. Their focus was on building or re-building a trust relationship to reduce the risks of opportunism highlighted by Williamson (1985) (see section 3 below). They note that trusting relationships can make contracting feasible even under incomplete contracts, "as fully trustworthy parties could promise to behave responsibly and in good faith when unanticipated events occur" (Longva & Osland, 2007, p. 490), a message repeating Duncan's focus on the role of principled behaviour.

Longva and Osland draw the useful distinction between "thick trust" and "thin trust". Thick trust refers to complex intertwined relationships covering many aspects of social life and thin trust to more limited contractual relationships (as in a competitive tendering environment). They characterise the pre-tendering relationship between authorities and operators in Norway as thick trust relationships, where they note the roles of personal relations between the parties at the local level (e.g. based on regular and also informal meetings) and of control of budget and accounting based on information from the companies. They describe the pre-tendering situation as being presumed to be based on (Longva & Osland, 2007, p. 493):

common norms related to providing good public services, the transparency of company's accounting and that the profit of the company was to be limited.

They see thick trust as important for longer term contracts and question the transactions costs involved in trying to build thick trust under a competitively tendered environment. In the Norwegian context, this can be seen as an argument favouring continuation of the negotiated contract, subject to controls on accountability and costs. In Williamson's (1985) language, they see trust (or social capital) as a distinct form of relations-specific investment.

Van de Velde, Veeneman, and Schipholt (2008), in reviewing Dutch experience with public transport contracting, commented on a system in flux, especially with respect to the performance of the Tactical or system planning function. Van de Velde and colleagues interviewed a number of Dutch authorities and operators and concluded (Van de Velde et al., 2008 p. 1161):

One main point comes out of the opinions of the experts cited in this paper: a very clear call for more "relational contracting". The experts stressed the need to agree on the process rather than to attempt writing down complete contracts... Relational contracting is about trust and partnerships, it is more demanding for the contracting parties and one has to remember that trust is the result of repeated experience.

¹ In the STO framework, "S" refers to the strategic or policy stage, "T" to the tactical or system design stage and "O" to the operational stage (Van de Velde, 1999).

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