THE ROLE OF INFORMAL RELATIONSHIPS IN STRENGTHENING PARTNERSHIPS BETWEEN PUBLIC AND PRIVATE SECTORS

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The relationships between public and private sectors are considered to be significant contributors to the success of PPP projects. These include both tangible linkages, as through the parties’ contractual agreements and also intangible connections as through informal relationships that develop between the parties. Semi-structured interviews with a senior public sector officer, a private company managing director, and a financier revealed wide differences in views on the role of informal relationships in building partnerships between PPP participants, especially between public and private sector. The public officer insists that informal or personal relationships have little influence on the entire PPP project. On the other hand, the private sector senior manager thinks informal relationships are significant and can even influence the formal selection of the private partner, whether consciously or otherwise (and even without any unethical intentions). The financier has a neutral view on the role of informal relationships, in that he thinks relationships in PPPs are important, but that does not really commit so much in terms of personal or informal relationships. This paper reports on the contribution of informal relationships to the success of infrastructure PPP projects based on an international questionnaire survey that followed the above interviews. It also unearths some potential reasons why different PPP participants from different subsectors/groups presently hold different views on the role and contribution of informal relationships to strengthening PPPs. This in turn leads to suggestions for innovative approaches to reinforcing the formal with informal relationships; rather than merely focusing on the former, e.g. in attempts at fine-tuning contractual and organizational arrangements, while neglecting the potential benefits from informal relationships.

Keywords: Informal Relationship, PPPs, Partnerships, Relationship Building.

INTRODUCTION

Public Private Partnerships (PPPs) have developed over several decades and have been used for infrastructure development worldwide. For example, in Europe, two well known PPP projects are the Channel Tunnel and the Euro Disney. The first PPP project in Hong Kong was the Cross Harbor Tunnel. This was on a BOT basis (which is one form of PPP), and successfully transferred to the Hong Kong SAR Government. In Mainland China, the Shajiao B power plant in Shenzhen city was the first BOT project. There are a few other PPP projects in Hong Kong, for example, the Asia World EXPO conference-exhibition centre, and the planned West Kowloon Culture District, Hospital Authority Projects etc.

PPP is a collaborative venture between public and private sectors; hence close cooperation between public and private sectors is essential for the success of any PPP project. Therefore any PPP project must have an established clarity of common
objectives which will provide specific targets to aim for; and clarity of responsibilities which provide clear risks allocation. These serve as fundamental unifying forces for the collaborative working relationship. The quality of the relationship between public and private sectors must surely be a key contributor to the success of a PPP project.

From three semi-structured interviews—with a senior public sector officer, one private company director, and a financier, we found different participants/sectors hold different views on the role of informal relationships in building partnerships between PPP participants, especially between public and private sector. The public officer believes that informal or personal relationships have little influence on the entire PPP project. However, the director sees informal relationships as important and can also impact upon the selection of the private partner, whether consciously or otherwise and without any unethical motivations or ramifications. The financier has a neutral view on the role of informal relationships, in believing that relationships in PPPs are important, but do not really affect the formal processes or commitments.

The overall aim of this study is to investigate the possible significance and contribution of informal relationships to the success of infrastructure PPP projects based on an international questionnaire survey that was formulated on the basis of findings from the above interviews. This also unveils some potential reasons why different PPP participants from different subsectors/groups presently hold different views on the role and contribution of informal relationship to strengthening PPPs. This paper also presents the relevant findings, also along with suggestions for some innovative approaches to reinforcing the formal with informal relationships.

LITERATURE REVIEW

According to the PPP guideline published by the Efficiency Unit, Hong Kong SAR, a PPP is a contractual arrangement involving the private sector in the delivery of public services. Another definition given by the Ministry of Finance, Singapore identifies PPP as a form of ‘Best Sourcing’ that can be used to engage the private sector to deliver public services, particularly services that require the development of new physical assets. It requires long-term partnering relationships between the public and private sector to deliver services. Many research exercises have been conducted in the area of relationship approaches in construction project management (Pryke and Smyth, 2006), which focus on the relationships between people and firms, and between firms as project actors; and how they operate and can be managed.

Sozen and Kayahan (2001) analyzed correlates of the length of the relationship between main and specialist trade contractors in the construction industry. For PPP projects, selecting the ‘right’ team is considered critical, while building good relationships and working collaboratively with the team is equally important. Kumaraswamy et al. (2007) developed an integrated conceptual framework for teambuilding and initiated the concept of relational contracting for sustainable PPPs, and proposed that relationally integrating larger PPP Teams can help to generate more successful teamworking, joint risk management, sustainable relationships and a longer-term focus; compared with the “classical contracting approaches’ of traditional contracts that usually generate segregated teams, adversarial contracts, a blame culture and a short-term focus; and are in turn blamed for poor performance levels. Julian et al. (2006) have researched into how to manage trust and relationships in PPP,
and pointed out that PPP can increase efficiencies at some micro management levels, but may not be able to establish trust. Gimsey and Lewis (2004) developed a framework which can assess ongoing business viability of the contractor to meet requirements for the term of contract. Some research has also been done on how relationships are managed between private sector organisations within the concession, and between the private organisations and public sector clients. Trust and confidence are used as measures of relationship conditions in these research exercises, and thirty relationship management dimensions have been mapped (Kay et al., 2008; Smyth and Edkins, 2007).

Due to the long life cycle of PPP projects, from 10 to 20 years or even longer, public and private parties have to cooperate and work together to solve problems. The need for understanding both short-term and long-term relationships between public and private sectors, from an organizational, as well as a personal perspective, is a thus clear imperative in structuring and implementing a successful PPP.

**RESEARCH FRAMEWORK**

The findings presented in this paper are part of an on-going research project focusing on developing a relational network model for infrastructure PPP projects. As part of the data collection, three semi-structured interviews were conducted with PPP experts in Hong Kong to elicit general opinions towards relationships among PPP organizations. The interviewees are all senior managers with rich experience in PPP, including an expert from the Hong Kong SAR Government, a director of large private company which has been involved in several PPP projects and an expert from a PPP project financier. They offered some views from different perspectives, which were essential for identifying and developing useful focus area for this research. Based on such focus area, as gleaned from the literature and interviews, a follow-up empirical questionnaire survey was next conducted. This solicited wider views and opinions from international PPP participants in terms of relationships in PPP projects.

**Design of Interview**

The target respondents of the interviews were practitioners with experience in PPP from the public sector, private sector and a consultant company.

Table 1 shows the basic background of these interviewees.

<table>
<thead>
<tr>
<th>No.</th>
<th>Position of Interviewee</th>
<th>Organization of Interviewee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Senior Officer</td>
<td>Relevant Government Department</td>
</tr>
<tr>
<td>2</td>
<td>Director</td>
<td>Large Contractor; and part of a big group</td>
</tr>
<tr>
<td>3</td>
<td>Director</td>
<td>Large Bank</td>
</tr>
</tbody>
</table>

**Design of Questionnaire**

An opinion survey, using an email questionnaire, was designed to identify possible linkages and connections between public and private sectors in infrastructure PPP projects.
Survey participants were sourced from available information listing people or organisations with experience or expressed interests in PPP infrastructure projects. The survey instrument was divided into three parts. The first part comprised background questions about the respondent’s individual and organisational information. The second part dealt with possible ‘linkages’ between public and private sectors in PPP infrastructure projects. The third part investigated potential building blocks and conditions for a successful partnership within PPP infrastructure projects, according to the respondent’s direct experience. This final part of the survey comprised several open ended questions designed to collect the views and opinions on informal relationships from respondents.

RESULTS

A total of six hundred questionnaires were sent out by email to international respondents, and by mail for local respondents. A total of 43 responses were received, of which 39 proved suitable. The overall return rate for the survey is therefore 7%.

The overall findings of this survey are being presented in another paper. However, the findings from the last part of the questionnaire survey, which specifically deals with informal relationships, will be presented in this paper.

Views about the Role of Informal Relationships

As introduced previously in this paper, different sub-sectors have quite different views on the roles of informal relationships. Expanding on the highlights from the semi-structured interviews: the government official perceived relationships in PPP projects as mainly contractual relationships which are very complex between the government and the private consortium; many of them are formal. While informal relationships mainly depend on individual and social contacts of people, to a large extent. He saw them as having little influence on the entire PPP project.

The interviewee from the bank shared the above view of relationships in PPP projects. From a financier’s perspective, he revealed that a bank would prefer to have had an existing relationship with both of the key sponsors in a PPP project, for example, based on previously completed successful deals with the sponsors. Those relationships would be very positive when compared with other bidders. Of course, a bank will carefully evaluate the financing plan of the project as well as the sponsors. But it was said that: ‘we will have a look at the relationships we have with those (sponsors), to see whether these are strong or not.’ The relationship is important but it does not seem to mean so much in terms of personal and informal relationships.

On the contrary, the perspective of private sector was that informal relationships are key to successful partnerships between public and private sector, and also key to success of the private sector. Despite the formal technical and financial selection criteria as in an evaluation matrix, the clients still look at what kind of partner they would be prepared to work with. Informal relationships will thus sometimes influence the formal selection of the partner, whether subconsciously or consciously (even without any elements of corruption involved). The long term relationship is vital and the private sector should keep the client ‘happy’, being responsible to the public in making the required service available, maintaining all contractual obligations, and
trying to share and fulfil the overall client vision that proceeds even beyond contractual obligations.

**Questionnaire Survey Results**

Table 2 shows the different sectors of the survey respondents. Among those 39 survey respondents, government authorities/subsectors account for 21%, private companies (SPV) account for 14%, while respondents from consultant companies and academia account for 40% and 25% respectively. The break-down indicates that comments and opinions in this survey are being expressed from a range of different perspectives.

<table>
<thead>
<tr>
<th>Main role of respondents</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Authority</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Private Company (SPV)</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Consultant Company</td>
<td>11</td>
<td>28</td>
</tr>
<tr>
<td>Legal Advisor</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Academic</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>39</td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Figure 1 shows the years of PPP experience that respondents have. Most of survey respondents have over 6 years PPP experience.

![PPP experience of Survey respondents](image)

**Fig. 1 PPP experience of Survey respondents**

In order to investigate the role and significance of informal relationships, the following questions were asked in the questionnaire survey and elicited responses as summarized below:

*What do you think of the significance of relationships in contributing to the success of PPP business?* (“0” means no importance; “5” means significant importance).

The responses to this question are summarized in Figure 2. Almost all respondents think that informal relationships are important. The average rating is 4.05.
Do you agree that informal relationships will influence (subconsciously or consciously) the formal selection of the private partner?
The responses profile is depicted in Figure 3. 23 respondents (59%) think that informal relationships will influence (subconsciously or consciously) the formal selection of the private partner. 11 respondents (28%) think that informal relationships will not influence the formal selection. 5 respondents (13%) did not answer this question. It is also worth noting that 4 out of 5 respondents from the private sector believe informal relationships will influence the formal selection, while 3 out of 4 respondents from the public sector hold a contrary view.

If yes, what do you think of the role of informal relationships in PPP business?
The following responses were received to this open ended question: Informal relationship is critical for success of PPP projects and better/ should be handled personally, even if it is under a formal relationship framework.

It builds confidence in the working group, and sets the stage for team building and effective communication of shared goals and objectives.

It’s subtle, and shouldn’t influence the selection of the private partner, but, sometimes, it does happen, especially in developing countries.

A key instrument to exchange ideas, before they become formally fixed and avoiding misunderstandings to be created. It assists in getting deals completed and helps them run more smoothly. Also, it can help cement the already existing relationship that one
has with a competent and experienced operator. Like any business, informal relationships add value to any deal, and ultimately make it easier and more efficient.

I believe informal relationships have significant impacts in PPP (at the end the last P stands for Partnership) but I do not see anything specific to it. It is important to develop a partnership that works on a formal and informal basis. Informal relationship will establish degree of trust and openness, which are abilities to shift mind set. It breaks down barriers and enables each party to bring out the best in themselves without fear.

Informal relationship is a fact of life which must be taken into account and dealt with. It is often the informal relationships that work the best, and a poor informal relationship pre contract is an additional risk.

*Could you add any comments or suggestions in terms of the ‘relational aspects’ in PPP projects?*

The following views were elicited from this open ended question:

The relationship needs to be ‘commercial’ rather than regulatory. Given the complexity and size of PPP projects, relationships are critical to managing change, however, issues emerge in generating true relational exchange, for example, the extent to which government is able to adopt risk/reward regimes such as pain share/gain share regimes and accept a non-fixed price.

Formal relationship and communication still showed be the prevailing forces in most scenarios, since PPPs are usually large projects.

An effective PPP project is a function of a combination of not just competence and experience of the operator but other variables highlighted in the survey. Key relationship aspects need to be driven by a common desire to openly communicate issues amongst various stakeholders.

Alliencing has been used where risks/scope are not fully understood at contract with the view of working these through together, this cooperation needs to be further developed in PPPs. Making individual (both public & private) interests in the project clear - communication up-front among the project participants.

On the aspect of relationship in PPP projects I am of the opinion that because no one is ready to take responsibility for failure all the stakeholders are very careful about the extent and open-mindedness of their relations with each other there-by creating an environment where all are watching their back to avoid slipping without much care about the success of the overall project.

**DISCUSSION AND CONCLUDING OBSERVATIONS**

This paper first presents findings from three semi-structured interviews with PPP experts in Hong Kong. These ‘pilot’ interviews indicated that different PPP participants from different subsectors/groups may have developed different views on the role and potential contribution of informal relationships to strengthening PPPs. Relevant findings from a follow-up international survey questionnaire convey that
Informal relationships do have considerable significance in contributing to the success of PPP business. Among all 39 survey respondents, 59% agree that informal relationships will influence (subconsciously or consciously) the formal selection of the private partner, 4 out of 5 (80%) respondents from private sector believe informal relationships will influence the formal selection, while only 1 out of 4 (25%) respondents from public sector hold the same view.

The question arises as to why different PPP participants from different subsectors/groups presently hold different views on the role and contribution of informal relationships to strengthening PPPs. One of the possible reasons should be that public organization and private sector operate in different contexts that generate distinctive constraints on their behaviors and choices. The relative openness of decision making creates greater constraints for public sector executives than for their private sector counterparts (Rainey and Bozeman, 2000). This means the private sector is more flexible than the public sector in the decision making process, e.g. in considering both formal and informal relationship criteria in selecting partners. Informal relationships do exist, but are ‘invisible’, while the public sector is generally subject to more regulation and accountability to a greater number of interest groups. Documenting informal relationships would create problems in this respect; and may thus be ignored/not acknowledged by public sector officials.

Nevertheless, on the whole, informal relationships do appear to have substantial influences on the formal relationships between public and private sectors based on the overall findings of this exercise. While more in-depth study is needed (and in progress), this useful insight seems ignored by many practitioners (even from private sector) in the real practice of PPP projects, or at least has not been taken into account when making relevant formal decisions in the public sector. A ‘relational contracting’ approach has been recommended recently by many researchers for improving construction project management (Jeffries and Reed, 2000; Parker and Hartley, 2003; Kumaraswamy et al., 2007). It is based on the premise that relationships between the parties concerned will be maintained for a long period of time. Furthermore, under such a relational contract, risks and other variables that are neither clearly ‘documentable’ nor verifiable to third parties, can be included in more flexible and viable contractual provisions if they are respected by both parties.

It can be concluded that informal relationships indeed perceived, even if not formally recognized so far, and can have considerable impact on the success of PPP projects. This in turn leads to suggestions for innovative approaches incorporating proactive relationship management initiatives to build and harness these informal relationships in desirable directions. Managing formal and informal relationships together, and maximizing their considerable potential benefits on the project, can then improve the overall PPP project performance.

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