

RELATIONSHIP MANAGEMENT IN A PUBLIC-PRIVATE PARTNERSHIP

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***Abstract.** This paper is based on the author's own research and of other authors, and is an attempt to identify the conditions and the ability of public organizations for public-private cooperation, and suggests ways to improve such a partnership. The role of Intellectual Capital, as well as Relational Capital has been highlighted. For the realization and the co-financing of tasks by both public entities and private partners, an ignorance of concomitance principles constitutes a serious barrier to this public-private cooperation.*

***Keywords:** public-private partnership, relational capital.*

1. Introduction

Public organizations functioning in today's turbulent environment are competing for resources. They can effectively pursue their goals, among others, through cooperation with other organizations. Public-private interaction (Public-Private Partnership – PPP) can be considered as an instrument of cooperation between organizations belonging to different sectors in the delivery of some tasks. Public organizations aim at implementing public interest. The organizations outside the public finance sector aim at obtaining a profit from their economic activities. However, public organizations as well as private organizations function in an economic environment and in the network of mutual dependence.

There are many research issues related to public-private interaction. For example, the impacts of PPP for economic development can be examined. Based on the analysis of research work of other authors, institutional and legal studies, documents published by different

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organizations, an attempt has been taken to analyze whether public organizations are prepared for PPP, taking into account their inter-relations in an economic network.

This article aims to establish the conditions and the ability of public bodies to public-private cooperation from the perspective of theory and practice of management science.

2. Public-Private Partnership and Intellectual Capital

In the available literature, a view is expressed, that the cause of the Inter-organizational cooperation has generated the need for achieving organizational goals in a turbulent environment. B. Gomes-Casseres, J. Child, D. Faulkner, B. Barringer, J. Harrison, JW Selsky, B. Parker note that organizations shall cooperate with each other due to a lack of specific resources [Selsky, Parker, 2005, pp. 851, 859]. J. Android, S. Waddock, JW Selsky, B. Parker note, that organizations cooperate in order to gain a competitive advantage. S. Linder sees public-private cooperation as an instrument of state policy, how to move the risk of public tasks in the conditions of an unbalanced budget on private organizations. Some of the researchers, like D. Osborne, T. Gaebler, note that the idea of Public-Private Partnership fits the concept of new public management [Selsky, Parker, 2005, pp. 851, 859]. Such comments have appeared that apart from outsourcing public tasks, public-private cooperation is a kind of privatization of the State's [Faranak, 2004, p. 89]. PPPs are typically medium to long term arrangements between the public and private sectors whereby some of the service obligations of the public sector are provided by the private sector, with a clear agreement on shared objectives for delivery of public infrastructure and/ or public services¹.

Taking into account a teleological approach, it is the relationship between organizations for the purpose of completing a project that will serve the public. Such cooperation should contribute to a better use of resources [European Commission Directorate General Regional Policy, 2003, pp. 4, 41]. The paradigm for public-private cooperation assumes that the interactions between the actors of this interaction lead to a mutual benefit. Such an assumption seems too optimistic. Firstly, public-private

¹ <http://ppp.worldbank.org/public-private-partnership/overview/what-are-public-private-partnerships> [access: 16.05.2015].

cooperation can be an instrument used for the acquisition of public assets. Secondly, it can be used to build influence among decision makers, resulting in the violation of the rules of fair competition (private entity may deliberately incur some losses at the joint business in order to later win tenders due to "other treatment" by the decision maker).

Public-private interaction can catalyze organizational pathologies in the public sector, described by W. Kieżunas as a relatively permanent disability of organizations, which causes a waste of resources beyond the limits of social tolerance [Ignatowski, Sułkowski, Dobrowolski, 2015, p. 58]. Narrowly, to the above definition, the generalization can be formulated, that the PPP pathology can malfunction in a recognized pattern, representing a brake on the development of competence. This is a situation where there is a disharmony between organizational, sociological, psychological elements. The pathology leads to destructive actions of both individuals and social groups.

The definition of public-private partnership in Poland is defined in Article 1 paragraph 2 of the Act of 19 December 2008 On Public-Private Partnership (Dz. U. of 2009. No. 19, pos. 100, as amended.), Hereinafter referred to in this article – law. The subject of public-private partnership for the joint implementation of the project based on the division of tasks and risks between the public entity and the private partner.

While the division of tasks is obvious, it requires a clarification of the concept of risk, furthermore the Act does not define this. Risk is defined, among others, as a situation in which the availability of various options and associated with each of these potential benefits and costs are only known to a certain estimated probability [Griffin, 2004, p. 285]. Risk is also defined by Z. Dobrowolski as the degree of probability as to how to define the objectives, their implementation and evaluation. Taking into account this definition, it is necessary to focus on this relationship.

The evaluation of the current state and prospects of financial commitment to public and private sector in the development of public-private co-operation in Poland has formed the subject of research conducted by the Foundation Institute for Public - Private Partnership and Business Advisory Law Firm Cieślak and Kordasiewicz. From the survey it shows that one of the main reasons for the low involvement of public organizations in public-private cooperation was a lack of financial resources. It was also pointed at the lack of preparation for such projects,

due to lack of qualifications of employees of public organizations [FIPPP, KDGCiK, 2013, p. 105]. 17% of all surveyed representatives of public organizations stated that they do not have any experience in the tasks in the framework of public-private cooperation (study included 470 subjects, including 320 who do not have any experience with the implementation of tasks in the framework of public-private cooperation) indicated a lack of credibility of private partners, and almost 15% of the absence of any knowledge of such cooperation. Over 25% of respondents feared that the cooperation with private partners in the framework of public-private cooperation will generate suspicions of corruption [FIPPP, KDGCiK, 2013, p. 107]. The research therefore shows that the level of confidence in the management of public organizations to the private organizations was low. The main conclusions that can be drawn from the above analysis is that it is necessary to continuously build the intellectual capital of PPP partners.

The relationship, as well as competencies and values are part of human capital. This human capital, which is directly related to the employees, managers, their skills, experiences, skills and education background is an element of intellectual capital. In addition this capital also includes also the structural capital and client capital, which can also be called the capital of stakeholders. The intellectual capital is the heterogeneous category, but important from the point of view of the organization [Edvinsson, Malone, 2001 Perechuda, Chomiak-Orsa, 2013, p. 306]. Intellectual capital is defined as: 1) the aggregate effect of education as well as experience gained, attitudes towards life, characterizing individual workers [Hudson, 1993, p. 16]; 2) the ability of the organization to adequate allocation of resources caused by the proper exchange of information [Petty, Gauthri, 2000, pp. 155-176, Rastogi, 2003, pp. 227-248]. This capital is conducive to the success in achieving the goals of the organization, and if it is formed from the capital of PPP participants, can be considered as an important factor in the success of the implementation of joint tasks.

In light of the foregoing considerations, relationships are a key component of intellectual capital PPP participants. Relational Capital can be seen as an agglomerate of intellectual property organization, methods, techniques, procedures, data collection, used by organization or as a structure to maintain the interaction of an organization with its

environment [Perechuda, Chomiak-Orsa, 2013, p. 307]. The relational capital is conducive to internal organizational efficiency, but also represents value for its partners as it increases the inter-organizational efficiency. Trust plays an important role in the creation of this capital as it is also the result of such capital. Trust is defined, on the basis of management science, among others, as the ability of stakeholders to cooperate (Zbysław Dobrowolski), an element of social capital (Robert D. Putnam), a strategic resource of organizations (David J. Collis, Cynthia Montgomery). It reduces transaction costs, promotes effective cooperation between people, motivates decisions, promotes the exchange of information, encouraged to participate in transactions [Dobrowolski, 2014, p. 113, Grudzewski, Hejduk, Sankowska, Wańtuchowicz, 2007, p. 29, 31, McAllister 1995, Dasgupta 1998] will facilitate the coordination of organizations [McAllister, 1995, p. 55]. It is necessary to take into account that the PPP from the viewpoint of typology can be considered as the contract networks. Their feature is the spreading of risk and complementarity of professional competence [Boulanger, 1995].

It can therefore identify practical aspects concerning the relationship management within the PPP. Among the many partnership failures flexibility can be listed. The public organization acts in compliance with the Public finance Act as it requires detailed financial planning as well as compliance of other laws and regulations. Meanwhile, the private organizations have a more flexible budget and management through its objectives. Private organizations can plan the realization of a project in the long term. The planning in public organizations is influenced by the political situation. For example, the political composition of the municipal councils affects the decision-making of the executive authority of municipalities. Understanding the capabilities and limitations of PPP partners is crucial for the success of the implementation of joint tasks. A helpful tool in the understanding of these issues is a SWOT analysis, which should be carried out jointly for and by public and private organizations, assuming that they form one common entity – PPP organization. This analysis should also take into account the link of the two partners of the PPP with other entities, belonging to the network of relationships. Identify and analyze the influence of other actors on the course of the PPP is vital to the success of achieving the desired results. There is also no doubt that the joint identifying of opportunities, threats, strengths and weaknesses of

both organizations, as well as the common task – the PPP, promotes the creation of trust between partners as it helps in creating the relational capital.

Interaction between private and public organizations and their surroundings can be included in the model of the triangle interaction. This model indicates that the PPP and the actors of the PPP are influenced by the economic conditions, legal, technological, political and cultural. The effects of such interaction can be the same or different. Public and private organizations work with many stakeholders, customers, competitors, suppliers, and regulators. These entities affect PPP participants and the project itself. In turn, PPP has an effect on the environment.

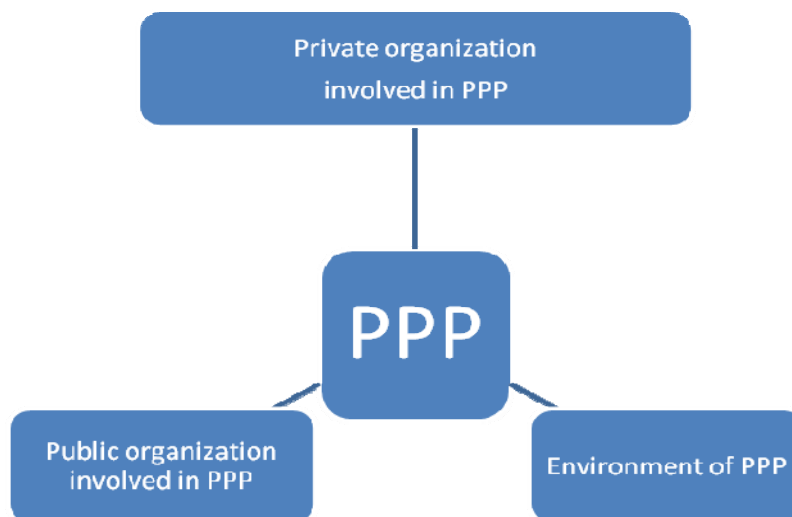


Figure 1. The Model of the PPP Triangle Interaction.

From the point of view of public organizations involved in PPP, the foresight method may be useful. Discussion about the future, in which various organizations participate, can decrease the risk of misunderstanding. The success of PPP depends on the mutual understanding of their respective interests by entities participating in the PPP. This should lead to an increased trust among partners, which is a unique asset, as well as being crucial for a sustainable competitive advantage. The common awareness of the necessity of continuous improvement of the measures undertaken should lead to improved results. PPP's Intellectual Capital model is shown below.

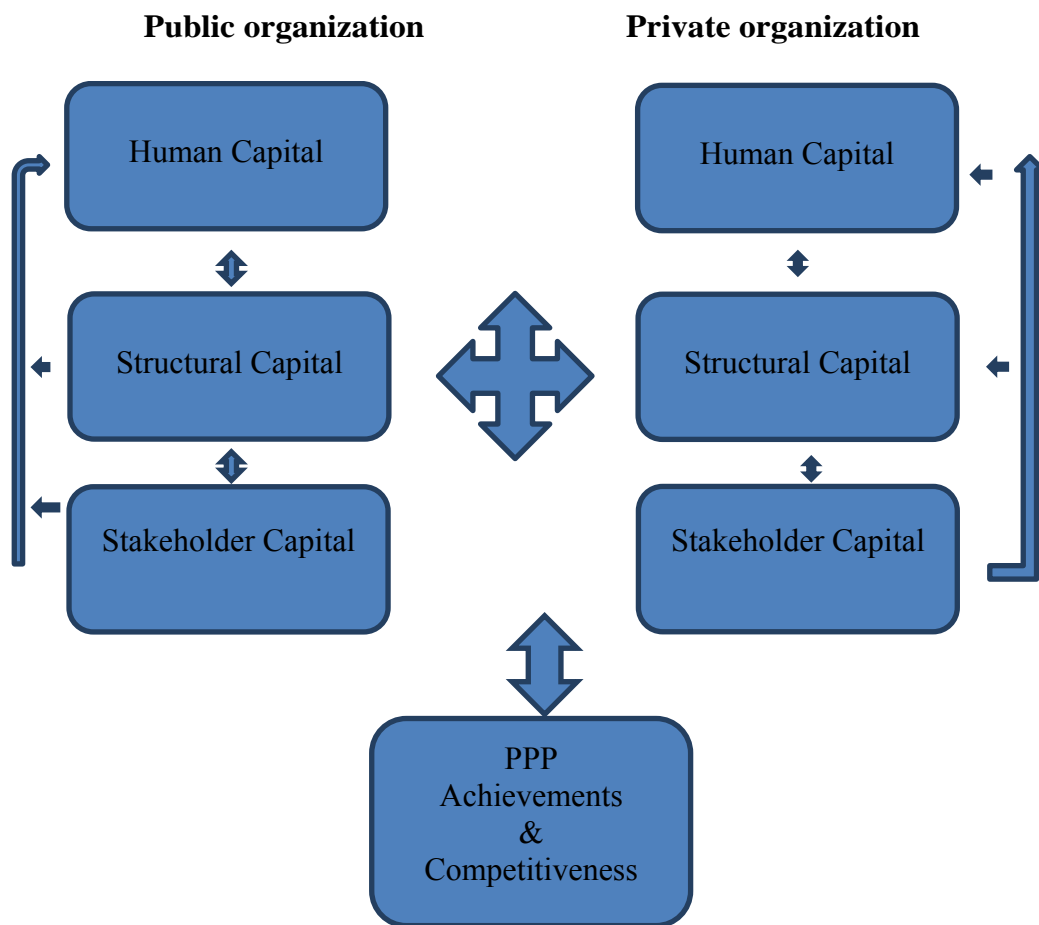


Figure 2. PPP's Shared Intellectual Capital Model.

3. Conclusions

Trust is a significant condition of public-private cooperation. This is facilitated by the negotiation of joint task, common SWOT analysis, which helps in risk sharing. The joint management of knowledge aims to build a shared intellectual capital as this capital helps in achieving competitiveness. Consequently the study of inter-organizational relationships is continually developing. Cognitive vulnerability concerns the role of inter-organizational relationships in PPPs, and relationship management within the PPP. The above considerations are not an attempt to formulate a new paradigm but rather an attempt by the authors to identify the desired direction of change in public-private cooperation.

There should be pointed out that there are also key drivers impeding and obstructing partnership cooperation as follows:

- lack of cooperation and lack of need for inter-sectoral cooperation;
- focus on performing present statutory activities;
- fragmentary actions taken;
- lack of sufficient technical and logistic background;
- lack of qualified personnel;
- relations “contractor – principal” instead of partnership relations;
- involvement in operations as a sub-contractor, not a partner;
- “bureaucratic” approach of public bodies;
- “demanding” attitude of social organizations [Wereda, 2012, pp. 118-119].

In conclusions, given the complex nature of the issue, establishing partnership implies embarking on initiatives intended to specify all activities to be taken in order to ensure a rewarding cooperation between partners. Beginning from the introductory negotiations through selection of partners, analysis of possibilities, identification of problems, exploring the potentials, allocation of assignments to oversight and accomplishment of tasks – to deliver objectives required which lead to social and economic growth of the local community. Pursuant to requirements for drawing up necessary documentation, the launch of the project in the form of PPP demands a relatively long preparatory period. This time should be devoted to intricate specification of details regarding cooperation as in each case of establishing a partnership; a guiding and essential objective is conducting operations for the benefit of local communities. It must be highlighted that PPP comprising a public entity and private partner is charged with securing the interest and promoting growth of the local community [Wereda, Dudzinska-Glaz, 2011, pp. 432-433].

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