PPP's as Temporary Project Organizations

Dr. Thomas Grisham[1] and Parthasarathy Srinivasan[2]
[1] Grisham Consulting Inc., St. Petersburg College USA, UIU Hong Kong.
tgrisham@tampabay.rr.com. USA
[2] Director (Technical & Projects), SRM Energy Pvt. Ltd., Spice Energy.
psrini2510@yahoo.com. India

Abstract
Serving the community is the domain of public entities, making a profit is the raison d'être for a private entity. There can, of course, also be non-government agencies, and not-for-profit agencies that have aspects of both public and private. Many public private partnerships (PPP) involve long-term relationships that blend the strengths, and weaknesses, of the so-called "players" or entities. PPP's must address the sociological, environmental, governance, and financial considerations for the project. They must also address the risk, and often must assemble globalized teams to deliver the product.

This paper will explore the use of a temporary project organization (TPO) concept in creating the required culture, processes, and structures to build and lead the PPP. It will also provide ideas on the appropriate types of contracting strategies for PPP's to improve the chances of success.

Keywords
PPP, TPO, Cross-cultural leadership, strategic project management

Introduction
Structuring and leading PPP's can be a serious challenge for a variety of reasons. First, the organizations will likely have quite different capabilities, and appetites for risk (Grisham and Srinivasan 2008). No single organization could undertake the project, so the temporary project organization (*TPO*) would have to be formed to merge the abilities of each organization. For information on TPO's see: Mintzberg (1983); Toffler (1997); Grisham and Srinivasan (2007); Winter et al. (2006); DeFillipi and Arthur (1998); Grabher (2004); Brown and Duguid (1996); Turner and Mueller (2003); Jensen et al. (2006); Hastings (1995).

Second, the *strategy* and *time horizon* of the organizations that are participating can be quite different: the government agency charged with public welfare, the NGO charged with the transparent efficient use of donor money, the private firm charged with making return on investment for its shareholders, and banks with the need to carefully price and assess risks. Even two private firms may have completely different attitudes regarding their charge. Some may consider corporate social responsibility (CSR) as required behavior, others may think only of profits as a goal. The *time horizon* of the organizations will be different: government agencies wanting a long-term horizon, NGO's wanting to maintain their reputation long-term, and private firms and banks needing to provide a short-term return on investment and/or cash flow. In this case the dilemma is to synchronize the clocks of each organization. The government agency may have a short-term budgetary restriction (bonds for example), and a long-term need to have the project meet the pro forma criteria. The same could be said of the NGO's. Private firms could also have a mix of very short-term goals (meeting quarterly metrics), and the need to enhance their long-term reputation.

Third, the organizations may have *restrictions* on how they enter into a PPP: government agencies are often prohibited from negotiating contracts to avoid graft and corruption, NGO's often can only enter into negotiated arrangements, and private firms and banks may have corporate restrictions of projects that exceed a certain size.

This paper will suggest some ideas on how to build these issues into a PPP agreement by approaching a PPP as a TPO.

Temporary Project Organization (TPO)

The largest two international project management groups both recognize program management as a professional activity. Both the Project Management Institute (PMI), and International Project Management Association (IPMA), offer credentials in program management. Each has a slightly different definition but the general idea is the same: a program is a group of related projects managed as such. The PMI (PMBOK 2008) and IPMA (IPMA 2006) guidelines describe in great detail how to manage a project, not a program.

Imagine we have a project in South Africa to construct a new toll road - the TPO is shown in Figure 1. The shareholder/customer is a financial consortium lead by an investment group in London, with a bank in both London and Dubai. The government of South Africa has agreed to guarantee the loan in return for a share of the project.

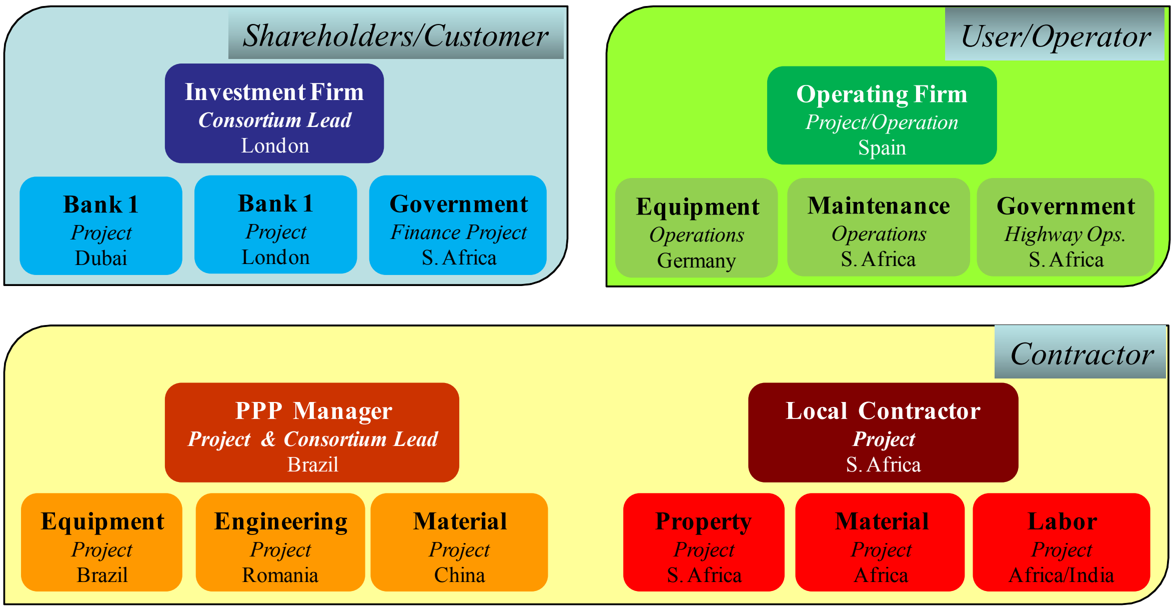

Figure 1 - Temporary Project Organization (TPO)

The user/operator will be a toll road operations firm based in Spain, with equipment maintenance and upgrades to computer systems by a German firm, maintenance of the highway and facilities by a South African firm, and oversight by the South African government highway department. The TPO manager, and consortium lead is an international engineering and construction firm from Brazil, the design work is being done in Romania, and the materials will be procured in China. The consortium partner is a South African firm who will do the property acquisition, using another South African firm, some of the construction using labor from Africa and India, and of some material procurement from Africa.

The IPMA and PMBOK consider that box represents a project. So from those perspectives the entire project would be a program with the lead firm being the program manager. Figure 1 also represents a TPO, whose chief operating officer is the lead manager for the Brazilian firm. Think of the TPO, or program, as being a single multinational entity, created to do this one project. The reason for the connection to program management is that the IPMA and PMI have promulgated standards for international projects that provide a foundation for processes in managing such an undertaking. To lead a successful TPO however, there are far more requirements and skills required of the lead manager.

Each of the firms listed will have its own corporate culture, developed within a societal culture. Each individual will have a personal culture constructed from his/her family, village, peers, society, and experience. The TPO will also have a culture. The TPO culture will either be inculcated by the lead manager, or it will evolve. We know, from experience, that the path to more frequent success is found through leadership, not ad hoc evolution. To imbue a culture in a TPO requires what we call cross-cultural leadership intelligence, or XLQ (Grisham 2005) - you can find the details of the XLQ model at www.thomasgrisham.com. The hub of the model (a wheel) is trust, with the lubricant being the ability to manage conflict. The spokes of the wheel are communication, empathy, power, and transformation, and the rim of the wheel cultural intelligence.

The primary goal for a lead manager is to create a TPO culture that is built on a foundation of trust, and a deep respect and knowledge of the other organizations. Leading a TPO is very similar to leading an international business. It requires a lead manager that is capable of bringing empathy, transformation, power, communication, and conflict management skills to each of the following challenges. Others have pointed to the need for strategic project management (Green 2005) and intrapreneurship (Saetre 2001) in general. We argue that both of these skills and cross-cultural leadership intelligence (XLQ) must be combined and extended to a new level when undertaking PPP's.

Strategy and Time Horizon

Shareholder/customer - Using our example, the strategy of the South African government shareholder/customer might be to provide more efficient transportation, with resulting improvements in productivity and quality of life for its citizens. It is likely that the government has turned to a privatization approach because of a lack of resources, or perhaps a desire to tap into private expertise. Their goals might be no tax increases, minimize public inconvenience, and enhance the political capital of the ruling government. The shareholder/customer would have a long-term perspective over the life of the highway (perhaps 30 years). The lead manager will need to recognize and manage this potential conflict within the government.

The strategy of the other shareholders/customers (banks and investment firm) would be to make a profit. While they would also have a goal of creating a happy South African government, to use them as a reference for other development projects, they must not sustain a loss. The reputation of the shareholders/customer would likely only be defined by the initial portion of the project, and not necessarily connected to the operations. The profitability of the project however will be realized during operations, or the revenue side of the ledger. Changes in political administrations could result in more pressure to build more roads and decrease the revenue stream, or worse could result re-nationalization of the asset, like in Zimbabwe. The banks and investment firm would likely have a medium term perspective through the end of the pro forma (perhaps 15 years). The lead manager needs to understand the political trajectory and anticipate such concerns from the shareholder/customer.

User/Operator - The South African government user/operator may not be favorably disposed toward an outside firm creating an asset that they will have to maintain, and be blamed for if the highway is not durable – increased maintenance costs possibly leading to increased taxes. Their strategy might be to avoid or diminish the probability that they will have to confront a hostile public at some time in the future as a result. So it is possible the government would have a long-term time horizon (perhaps 30 years). The German and South African firms in the user/operator value chain (we prefer the term value chain rather than supply chain) would have profit and reputation goals, but their scope would be far smaller. Their strategy would be more towards a short-term profit goal (perhaps 5 years).

Contractor - The contractors, would also strive for a profit on the project, and would definitely want to maintain their reputation in the international market place. However, unlike the investors, these firms would be equally concerned about operations and the construction of the highway. Their concern would be a long-term one with emphasis on the earlier years (perhaps 30 years). A similar set of profit goals would likely be the case for the German, South African, Romanian, and Chinese firms. These firms and their value chains would probably not be as concerned about reputation, and would likely be focused on the short-term profits (perhaps 5 years).

Contracting Strategy

Figure 2 provides a graphical view of contracting strategies available for consideration.

Fixed price (FP) adversarial contracts are those that are competitively bid with customers dictating the terms and conditions, and those that have a fixed lump sum price. Cost reimbursable (CR) adversarial contracts are those where the costs are reimbursed plus some profit and overhead. The FP and CR contracts can vary widely on terms and conditions, but a detailed discussion of these is well beyond the scope of this paper. The quasi-adversarial and quasi-collaborative options depend upon the contract hierarchy, as shown in Figure 3.

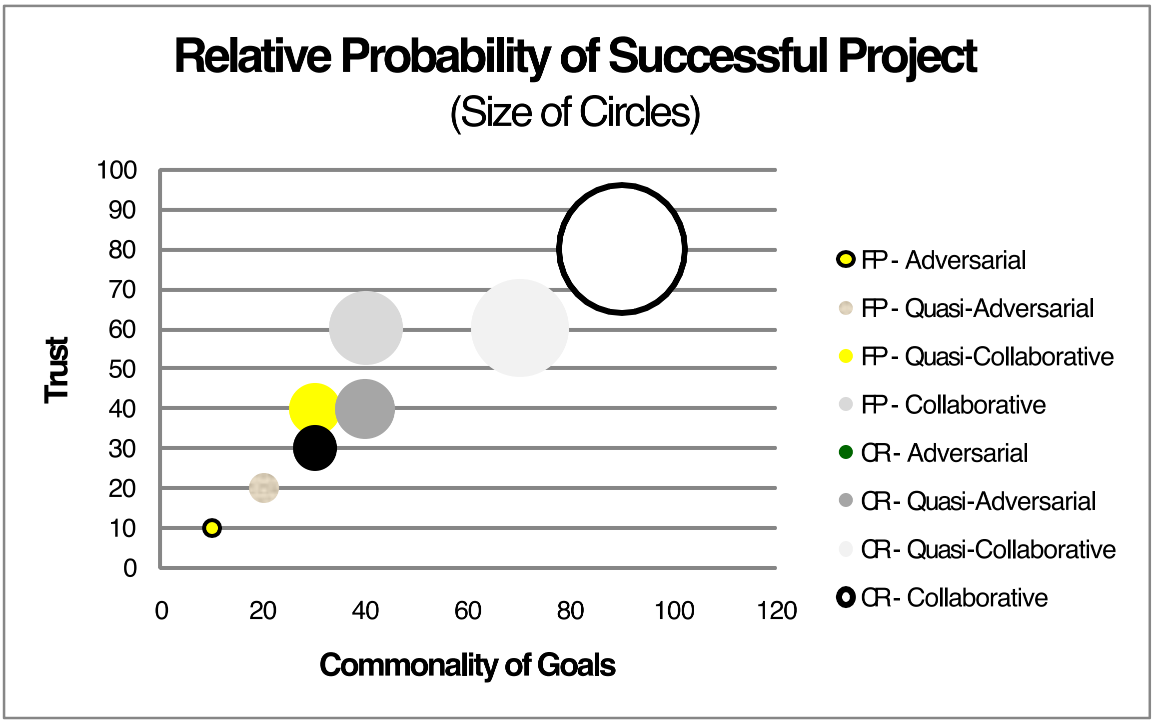

Figure 2 - PPP Contracting Strategies (FP = Fixed Price and CR = Cost Reimbursable)

We strongly favor the use of CR - collaborative structures for a few basic reasons. The first is that it requires all of the members of the TPO to negotiate prior to signing an agreement, and this enables people the time to get to know one another, and permits the lead to start the process of building trust without the day-to-day pressures of running a project. It also facilitates buy-in on such items as risk, time, cost, communication, quality, and procurement. Each organization gets to add their opinions and value into the discussions that will designs the TPO's culture and processes – to use a metaphor you choose your wedding partner. The opposite approach is the adversarial one, where your wedding partner is chosen by someone else, and you do not meet them until the signing ceremony. In our South African example, one can well imagine the outcome by choosing an adversarial approach.

Figure 2 and Figure 3 are excerpted from a book currently being written by the lead author that is due to be published in 2009 titled "Leading International Projects."

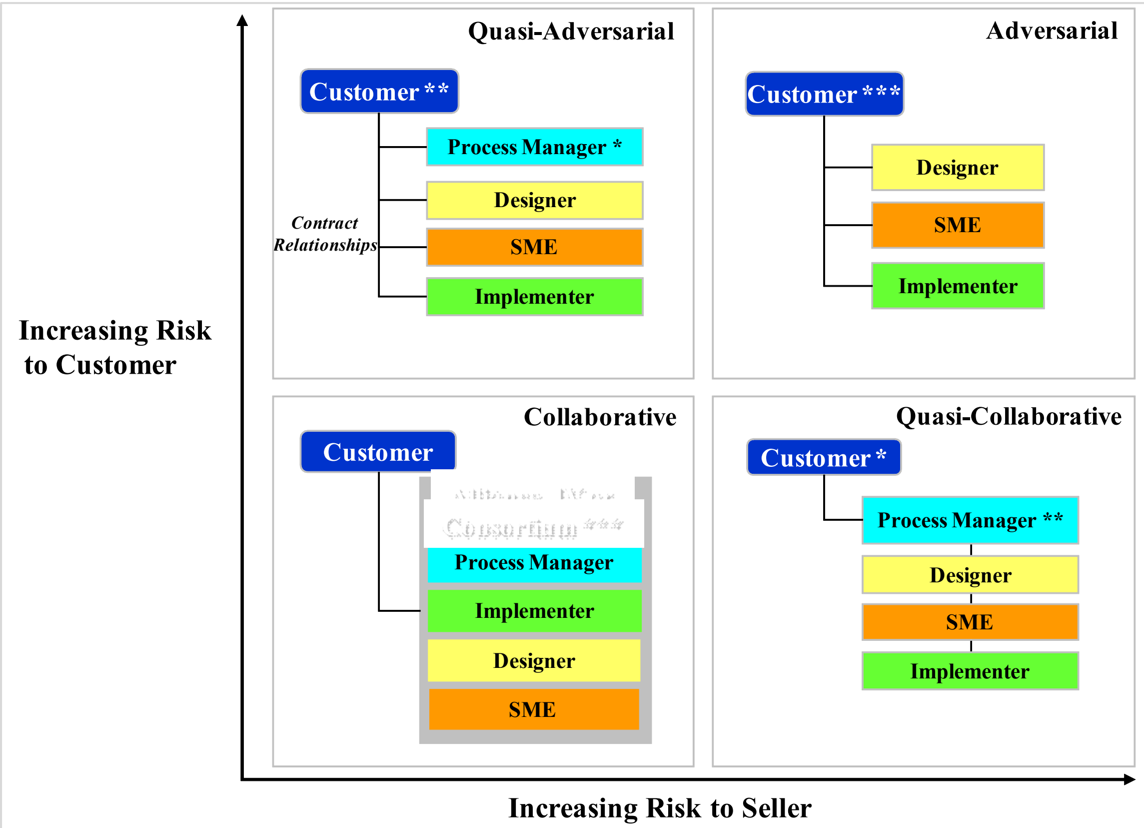

Figure 3 - Contract Structures

Restrictions

For the private organizations shown in Figure 1, negotiations will be a viable option. For the public organizations this may or may not be an option. Currently South African law requires open competitive public bidding is the standard, and negotiated contract processes are possible, but by no means certain. The financial firms may have similar transparency issues in today's markets. With the failure of the rating firms to properly assess risk, governmental agencies are crying for more regulation, and banks are looking for ways to better determine the riskiness of their portfolios. More transparency means less latitude in negotiations. That is not to imply that under-the-table negotiations are recommended, quite the contrary. It means that transparency is demanded, but at the right time to the right audience. What we mean is that governmental agencies and banks may insist upon regular disclosure of meetings. This would not be conducive to open discussions because anything said or discussed could become a matter of public record.

We are absolutely in favor of full transparency, but we are not in favor of making a transcript of every discussion for publication on the front page of the Wall Street Journal. Competitive advantage, proprietary information, emotional entreaties, and brainstorming need to occur, at least for creativity sake, in a protected environment. When decisions are taken those should be made public, and if there is a genuine need for knowledge of the detailed creative discussions, there are courts and legal proceedings that can be utilized for those with a genuine right so see the details. For PPP's this is a serious concern. In many countries, especially those with "sunshine laws," all such negotiations are a matter of public record. In such venues, we recommend that the PPP engage the legal system initially to describe the nature of the creative discussions, and determine if there is a legal way to keep these as proprietary. It is a very fine balance indeed, but one that must be struck if the unfettered exchange of ideas is to occur. It will likely also be necessary for all participants to sign a confidentiality document before engaging in the negotiations.

Another serious challenge is that of knowledge, and its value. If the Brazilian firm has developed the knowledge on how to maximize profits by utilizing an algorithm that they have developed, they may not want to share this with the customer/owner as it would give them an advantage on future projects. In this case initial trust may be insufficient to enable the parties to evolve the best pro forma for the project. If so a confidentiality agreement would help. But this same concept percolates down to means-and-methods, procurement practices, local knowledge, political knowledge, and much more. If the recipient of knowledge can be trusted not to abuse it, knowledge is likely flow between the parties. If trust does not exist, knowledge will not flow; if knowledge does not flow the TPO will be dysfunctional.

So the first challenge is to find a way to negotiate the agreement for the PPP rather than relying on a competitive public bidding format (Grisham and Walker 2005). The second challenge is to build trust, through cross-cultural leadership intelligence and/or through the use of confidentiality agreements. The lead for the PPP can make a very large contribution to the success of a project by showing the way, setting the standard, and imbuing a culture of trust in the PPP organizations. The third challenge is that the lead manager MUST have a broad view of the project, the organizations, and the challenges. We prefer those who have practiced strategic and entrepreneurial project management, for they know the processes and they have the skills, both intra-organizational and inter-organizational.

Conclusion

PPP's involving multi cultural organizations from different parts of the world is fast becoming a reality especially in large investment infrastructure projects. These have social requirements (mostly government participation in some way or the other), at the same time by virtue of the huge investments needed private participation is also a must. With divergent work culture approaches and also the return on investment (ROI) expectations of the two entities it would seem that such projects are doomed for failure. However the success to such project management lies in forging a unified TPO culture which takes care of the varied interests and cultural spread of the participants. The TPO should address the ROI needs of private participants without diluting the socio economic obligations of the public entities.

As clearly brought out in the paper this is only possible if the stakeholders understand or at least have an empathetic attitude to understand each other's culture (both at organization as well as at personnel/team level) and provide necessary accommodations to bring about a significantly high level of trust. By the same token effective communication and transparent functioning (to the extent possible without compromising key organizational interests) especially in the sensitive areas of contract and quality management will go a long way in ensuring appropriate unified TPO culture which the first and vital step to success in these projects. Adequate attention by the leadership/ management to understand the interpretations of these factors in the respective cultural backdrop of the different organizations is essential to bring about some sort of unification to the TPO functioning. To sum up the leadership (both the lead organization as an entity as also the respective leadership of each of the participants) should be culturally and mentally mature to be able to start and progress the relationship on an empathetic platform of trust.

References

Brown, J. S. and P. Duguid (1996). Organizational learning and communities of practice: towards a unified view of working, learning, and innovation. Organizational Learning. M. D. Cohen and L. S. Sproull. Thousand Oaks, CA, Sage.

DeFillipi, R. J. and M. B. Arthur (1998). "Paradox in Project-Based Enterprise: The Case of Film Mmaking." California Management Review **40**(2): 125-139.

Grabher, G. (2004). "Cool Projects, Boring Institutions: Temporary Collaboration in Social Context." Regional Studies **36**(3): 205.

Green, S. (2005). Strategic Project Management. Cork, Ireland, University College.

Grisham, T. (2005). Cross-Cultural Leadership Thesis Preparation. Unpublished. Melbourne, Australia, RMIT University.

Grisham, T. and P. Srinivasan (2007). Designing Communications on International Projects. CIB World Building Congress, Cape Town South Africa.

Grisham, T. and P. Srinivasan (2008). "Temporary Project Cultures." International Journal of Human Resources Development and Management (IJHRDM) **8**(3): 271.

Grisham, T. and D. H. T. Walker (2005). Communities of Practice: Techniques for the International Construction Industry. 1st International Conference on Information and Knowledge Management, Lisbon, Portugal, CIB.

Hastings, C. (1995). "Building the culture of organizational networking: Managing projects in the new organization." International Journal of Project Management **13**(4): 259-263.

IPMA (2006). ICB-IPMA Competence Baseline, Version 3.0. Nijkerk, Netherlands, International Project Management Association.

Jensen, C., S. Johansson, et al. (2006). "Project relationships - A model for analyzing interactional uncertainty." International Journal of Project Management **24**(1): 4-12.

Mintzberg, H. (1983). Structure in fives: designing effective organizations. Englewood Cliffs, NJ, Prentice-Hall.

PMBOK (2008). A Guide to the Project Management Body of Knowledge, 4th Edition. Newtown Square, PA, Project Management Institute.

Saetre, A. S. (2001). Intrapraneurship - an exploratory study of select Norwegian industries. Department of Industrial Exonomics and Technology Management NTNU Trondheim, Norwegian Research council.

Toffler, A. (1997). Future Shock. New York, Bantam Books.

Turner, J. R. and R. Mueller (2003). "On the nature of the project as a temporary organization." International Journal of Project Management **21**(1): 1.

Winter, M., C. Smith, et al. (2006). "Directions for future research in project management: The main findings of a UK government-funded research network." International Journal of Project Management **24**: 638-649.