Case Report

Public-Private Partnership as an Instrument for Stimulating Public Sector Innovation, as Exemplified by Projects Implemented in the Health Sector in Poland

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Abstract: The subject of the article is an analysis of public-private partnership as an instrument affecting the development of innovation in the public sector. The analysis was based on two PPP projects implemented in the health care sector in Poland and it was preceded by a discussion of the concept of innovation and PPP. The article focuses on the analysis of PPP elements that may have an indirect or direct impact on stimulating innovation in the area of public sector activities. As a result of the analysis, it should be clearly stated that PPP should be inherently associated with perceiving innovation as a process of changes aimed at increasing efficiency. The use of PPP by the public sector may, among other things, enable wider access to a specific public service for the general public, improve the quality of services provided, or increase access to know-how in the area of modern technological solutions. It seems that there will be a gradual shift in the public sector’s perception of PPP, from a mere instrument enabling the implementation of public tasks to an instrument enabling changes in the public management model. This, in turn, should lead to a change in the entire public administration, so that it will be better equipped to face the challenges of modern times, and this certainly will not be possible without the innovativeness of the actions undertaken and the solutions applied.

Keywords: Public-Private Partnership, Innovations, Efficiency, Health Sector

1. Introduction

1.1. The Concept of Innovation

Innovation is the subject of analysis of many scientific disciplines that define this concept in various ways [9, 13]. Innovativeness, meaning a continuous and uninterrupted process aimed at transformation and evolution, is often treated as an instrument of market development [7, 39]. In this sense, innovation will be a factor preventing stagnation. Innovativeness can also be treated as a mechanism guaranteeing the maintenance of market positions by individual entities operating in a competitive environment [25]. In this context, it is impossible not to refer to an innovative theory of J. Schumpeter, who treated an entrepreneur as the one who innovates in search of extraordinary profits, thus destroying the balance on the market. Innovations in this sense are all changes to the production, technology and organization processes [17, 29]. For Schumpeter, innovations are a factor influencing economic growth and market development through the changes introduced.

Innovations can also be treated as an instrument enabling the introduction of something new to the market, meaning that has not existed before or has been used in a different way. It can be either a new product, new technology, a new process organization or a new idea. It is true that the literature on the subject indicates that such an interpretation of innovation may lead to the occurrence of imitations, counterfeits of things, processes and technologies already existing on the market [28].
It seems, however, that focus on innovation will generally lead to development; yet, illegal actions on part of some entrepreneurs cannot be ruled out [10]. Surely not all novelties will be regarded as innovation, as an element stimulating development is necessary for a new product or method to be called an innovation [41]. The literature also emphasizes that what is an innovation for some will not be an innovation for others. The environment and specific conditions under which a given entity operates are also important for recognition of specific actions or modifications as innovative [27].

A review of the literature indicates some characteristics of innovations. First of all, it is a process aimed at changing the existing conditions. Knowledge is the basis for this change, while the change itself is associated with some uncertainty as for the result of the innovative activity. It is difficult to predict what the effects of the innovative activity might be, whether the actions taken will lead to the successful development of a new product or a new technology and how much time and resources will be spent on implementing them [42].

Only a positive change which will generate an added value for the entity is considered an innovation. The concept of innovation is treated differently in terms of public sector activities and differently in terms of the private sector [30]. Most research and theories related to innovativeness referred to enterprises operating in the private sector, hence the different treatment of the concept. As for the change process itself, it is the same in both private and public sectors. There will be other motives and goals of the actions taken to generate changes that may be considered as innovations, though. A private entity will always be focused on achieving a maximum profit by reducing the costs of the business, therefore an increase in efficiency will always be accompanied by the necessary restructuring of the enterprise. In addition, a private entity may achieve its commercial goal while maintaining current prices or even lowering their level, thanks to an increase in productivity, wholesale purchasing opportunities or an introduction of innovative solutions in the field of technology or business management, an efficient organization of human resources or an improvement in sales mechanisms.

In turn, a public entity is focused mainly on the execution of public tasks in a way that allows for satisfying social needs. Therefore, in the public sector, mere organizational, managerial or strategic changes may be considered an innovation.

As I indicated above, innovations are not only a phenomenon related to technological processes, but may concern the social or organizational sphere as well. For the purpose of this study, the concept of innovation will be understood quite broadly, not only as individual actions but also as a certain organized process of actions aimed at improving the functioning of the organization.

1.2. The Concept of PPP

In the traditional way of implementing a specific public service procurement, chances of obtaining innovative solutions are relatively low, as the public sector is not willing to bear a greater risk associated with the use of instruments that allow for the selection of contractors offering innovative solutions. That is why the public sector needs private sector assistance in providing public services to the public.

In the literature on the subject, the concept of public-private partnership (PPP) has evolved in various directions, depending on the elements regarded as vital by an author. And so, Kernaghan defines PPP from the point of view of the division of power, claiming that PPP is a relationship involving an exchange of energy, work, support and information between the partners, aimed at achieving common goals [20]. Fourie and Burger define PPP as joint ventures between public and private partners, which is based on the values and specialization of each partner, and the essential element is the transfer of risk to the partner who can best manage the given risk, in order to best provide public services for citizens [5, 11]. PPP in the literature is also referred to as a framework for defining mutual cooperation between the state and private business on a particular undertaking located in the public sphere [14] but w the view of G. W. Hanns, partnership is a form of long-term cooperation between public institutions and providers of private services, identifying access to private resources as the primary reason for the existence of this cooperation. However, this author emphasized the special role of the private sector, especially related to its competences to implement specific partner projects [15]. A similar view of the essence of the partnership is presented by E. H. Klijn and G. R. Teisman, in whose opinions it is a legal instrument on the basis of which two or more organizations, each focused on achieving their own goals, aim to conclude an agreement defining a common goal to be achieved. They define partnership as a long-term cooperation between the private and public sectors, through which both parties develop products and provide services, and in which costs, risks and profits are shared [21]. There are also views that partnership is a special organizational and legal form, and not as a host of legal relationships based on a mutual agreement between autonomous partners [1]. An interesting view, for our considerations, was presented by Genevois, who defines PPP as a model of cooperation aimed at development, in which private and public sector entities complement their skills and resources in order to achieve development goals [12]. Other authors approach PPP similarly, treating it as a kind of tool providing conditions for the accomplishment of public tasks in the most optimal way [6].

On the other hand, there were also views that PPP is not a golden means solving problems of the public sector [4]. PPP is in principle a complex process aimed at accomplishing a specific public task in cooperation between the public sector and the private sector. The essence of this cooperation will be the following: proper preparation of the public partner, defining public needs, proper identification and allocation of risks, development of a strategy for financial support of the investment; all these so as to ensure a successful selection of the private partner.

As it can be seen, cooperation between the public and private sectors is a central element of PPP. Nevertheless, the nature of this cooperation has evolved due to the changing
interests of both states and the private sector. Currently, with PPP projects, we cannot concentrate only on the provision of a public service, since if we focused only on this element itself, not taking into account all the infrastructure necessary for its accomplishment, such a cooperation would not make sense, as in order to be able to accomplish certain public tasks due diligence must be exercised at the stage of building the necessary infrastructure for accomplishment of public tasks. Thus, PPP will mean cooperation between public and private entities as part of a legal relationship established to build or modernize an appropriate infrastructure, as well as to accomplish the required public tasks [31]. This way, PPP is not an instrument that allows the purchase of assets for accomplishment of public tasks, but an instrument enabling direct purchase of public services on specific conditions and in a defined environment of their provision. This feature is a key factor for the success of the entire transaction based on this model. The model whose main success factor is the division of a venture risk in such a way as to provide benefits to the public entity and an appropriate level of profit to the private entity. An inherent quality of PPP projects is that they are implemented in order to provide better public services to society. It is not the assets on the basis of which the services will be provided that are a value in themselves, but the quality of services that are provided to the public that should be of concern in the projects implemented in the PPP model.

2. PPP as an Instrument Stimulating Innovation as Exemplified by the Experience in the Implementation of Projects in the Health Care Sector in Poland

At this point, I would like to analyze whether PPP can affect the innovation of providing public services.

I selected for analysis two pilot projects implemented in the PPP model in the health care sector in Poland. These will show the impact of PPP on the innovation of public services provision by the public sector. The literature on the subject directly links innovation with public-private partnership [43]. However, it does not systematize or indicate the direct relationship between the use of PPP and innovation, and how the use of PPP affects innovation in the area of public services [18]. Interestingly, the PPP development strategies formulated in various countries refer directly to the role and importance of innovation in the development of the public sector [33].

It is true that some literature on the subject claims that a mere use of PPP that leads to gains by the private sector will already be an innovation [8, 24, 34]. However, it is difficult to agree with such a position without a thorough analysis of the entire project along with the benefits to the public side. Not all PPP projects will end favourably for both parties of such cooperation. Very often PPP is perceived as an instrument by means of which the efficiency and productivity of specific activities is increased [44]. It is also perceived as an innovative method enabling changes in the organization and functioning of the public sector [14, 32]. This perception of cross-sector PPP cooperation results from the fact that such cooperation can only be established if it brings specific benefits compared to the accomplishment of the public task by traditional methods. Thus, an important factor determining the use of PPP should be the actual value of a given project in terms of the period of cooperation between partners, which consists not only of financial but also socio-economic, operational and quality elements related to the public service provided [32]. Thus, even pre-implementation analyses in PPP projects increase the possibility of achieving value for money (VfM) in such projects [36].

For example, setting goals to be achieved in a PPP venture such as:

(a) enabling access to the appropriate quality of health services by improving the quality of treatment and patient satisfaction;
(b) achieving economic and financial efficiency in the treatment of patients;
(c) completing the task as quickly as possible as well as a radical improvement in the situation;
(d) inclusion of potential liabilities resulting from necessary investments outside the balance sheet of the public finance sector;
(e) maximization of the VfM benefit ratio;
(f) knowing how to transfer in the field of modern technical and organizational solutions in the construction and operation of hospitals, and then implementation of these solutions during the project, already stimulates innovation in the public sector [36].

Can such an action mean that PPP affects the innovation of public sector activities?

The implementation of an undertaking in the PPP model seems to motivate both sides to obtain the best economic effect through the most effective provision of public services in order to achieve added value, consisting primarily in increasing public benefit in a given sphere. For example, in the project "Construction of a Poviat Hospital in Zywiec", a new one-stop-shop (everything under one roof) comprehensive care center will be a novelty. Thanks to this method, a large part of the medical examination, health assessment, treatment and discharge will be carried out with a minimum number of steps or even during one visit. It increases the quality of health care services offered by the hospital while maintaining the current valuation of these services. In turn, the project "building a new maternal hospital in Poznań", based on the assumption optimization of operating costs optimization, maintained the appropriate quality level of the infrastructure throughout the entire hospital operation period. In the above-mentioned project, the private partner was required to use renewable energy sources (heat pumps, liquid solar collectors), which in the relatively long-term perspective of the investment may result in the return of the investment outlays and savings in the operating costs of the hospital.

Therefore, the use of PPP in the public sector should not always focus only on benefits that have a financial value. The
profitability of the project implementation in the PPP model should not always be perceived as a cheaper way of providing services to the public as sometimes higher expenditure may result in a better quality of service. Thus, as can be seen, the profitability of the investment in this model can be considered as a balance between the quality of the service received and the price that will ultimately be borne by the public entity or the end user of the service. Benefits of the implementation of an undertaking in the PPP model may also be related to non-financial elements such as faster access to a specific category of services, higher quality of services, innovativeness of the service provided or a higher technological level of the service provided (e.g. telecommunications and Internet services provided through optical fibers are far superior over other forms of data transfer). Thanks to a comprehensive approach to the implementation of investments in Żywiec, a range of modern medical services available within the public health care system was obtained. The services available to patients will include, among others, computer tomography and magnetic resonance. Also, many specialist services will be expanded, and new clinics will be created. Thus, public access to new categories of health services will be significantly increased. Thanks to the launch of a rescue unit with a helicopter landing pad, the speed of access of patients to these services will also increase. In turn, in the project of building a new maternal hospital in Poznań, actions were taken to agree on and plan convenient transport means to ensure access to the hospital. Benefits for the public sector may also be related to the reduction of total investment costs or greater public satisfaction resulting from faster and easier access to high-tech services. In the maternal hospital in Poznań project it was necessary to introduce and use by the private partner was required to use innovative technologies that would combine a certain quality of services with high economic efficiency of the project [36].

In the USA, South America, Africa, New Zealand, Asia and many EU countries, the cost of the implementation of the project is the decisive factor in the PPP suitability assessment [3]. In the case of the analyzed Polish projects, the project costs are important, but other non-financial aspects, such as the innovativeness of the proposed solutions, are equally important. As our experience shows, projects undertaken mainly in order to obtain financing by a private partner are most common. The public sector with limited budgetary resources is interested in choosing a private partner in the PPP concession model, in which the private party will bear the greater part of the economic risk during cooperation [23]. It should be noted that the analysis of the financial issues of the PPP value alone may distort a comprehensive assessment of the suitability of the PPP model in a given case. A simple assessment of the benefits resulting from the savings obtained will not always correspond to the real benefits. The savings achieved at the stage of the investment implementation can be quickly lost during the exploitation phase. An analysis of the suitability of the PPP model should also take into account elements such as PPP performance, implementation time, adequacy of the adopted assumptions and schedules [35].

The benefits can therefore take various forms, ranging from financial ones through creation of new jobs, and ending with gaining new knowledge and developing the existing skills of both parties. The added value resulting from the synergy of cooperation between the two sectors, consisting in the possibility of developing products and services thanks to the integration of various parts of cooperating sectors, which would not be possible otherwise, is of particular importance. The PPP project will only be successful if both sides strive to achieve their goals. Establishing a partnership focused on the respective goals will result in the need to learn about the strengths and weaknesses of both partners, and in particular their nature and specificity of activities, and this will make partners open up to a possibility of introducing positive changes in their functioning. [4]

As shown above, the use of PPP may have a real impact on the development and improvement of the process of providing public services to citizens, and this can be qualified as innovation in the area of public services.

Well-structured PPP projects, where the quality of the service provided and not the cost of the undertaking is what counts, necessarily enforces the use of innovative technologies by the private sector. This is dictated primarily by the fact that such projects are long-term ones, and the remuneration for the private partner is most often related to the quality of the service provided or its availability. Such factors themselves force private partners to take a more innovative approach to the technological solutions of the constructed assets on the basis of which the services will be provided. For example, the private partner will be more willing to consider the possibility of using innovative solutions in the construction of the motorway, if the payments they receive will be significantly limited payments, when access to the motorway by end users is limited for some reason (repairs, maintenance, etc.). In comparison with the tradition model, in projects implemented in the partner model, there is a much greater possibility of introducing innovative solutions, especially aimed at reducing costs and at the same time improving the quality of services. However, without awareness of the public side as to the goals that it wants to achieve in the implementation of public tasks, it will not be possible to fully use the possibilities offered by PPP. In addition, use of PPP in the implementation of specific public projects should not always be referred directly to the process of accomplishing a public task. Such reference is always the simplest reference, but it does not always take into account benefits resulting, among others, from unique know-how, modern technologies or the ability to manage a given type of enterprise. For example, in the project of building a maternal hospital in Poznań, one of the assumptions regarding the benefits of quality of services was that the public entity will focus on its main activity, which is the treatment of patients, and the private entity will undertake the tasks related to designing and the construction of the planned hospital infrastructure and its subsequent management [36].

The implementation of innovative technologies or management methods in the area of public sector functioning will in itself be an innovation. Involvement of the private
sector in implementation of public services may contribute to changes to the approach to the provision of these services, and thus may change the attitude of society to public authorities [16]. As a result of cooperation, the public sector gets the opportunity to improve business processes related to the provision of public services thanks to the support and knowledge of managers in the private sector, which in turn may affect the volume of costs incurred in specific tasks, the reduction of which will affect the fees borne by the public in connection with access to public services. Such an approach to projects by the private sector may result in reconstruction of public service management processes in the structures of the public sector itself, which, of course, can have only one effect, namely streamlining public service provision processes for local communities. In addition, the experience of both sectors can affect the improvement of work culture and improvement of management processes in institutions dealing directly with the implementation of public tasks for the benefit of the whole society. Despite the cost reduction in PPP projects, there is always an investment in people who remain in the given organizational structure and their development, which in the future will improve the quality of work, and thus affect the efficiency of the entire public sector. Many authors see the difficulties of changing the way of thinking that prevails among people managing the public and private sectors as the greatest difficulty in establishing intersectoral cooperation [22]. Differences in thinking and differences of goals result in a necessity to deal with completely different approaches of people on both sides. Thus, the most difficult thing will be to reconcile these differences, habits and stereotypes typical of the private and public sectors. J. Jacobs describes an area managed by public and private authorities as two separate domains that are much more different than similar. The public side focuses more on preserving the status quo, avoiding free competition and market rules in its operation, using a hierarchical structure and authoritative powers. The private side is based on free market principles, competitiveness and focus on achieving the set goal [19]. Another difference is that the private side focuses on the client viewed from the perspective of the market and the assumed profit, while the public side focuses on tasks that must be implemented, often forgetting about the man on whom public sector activities should concentrate [40]. The introduction of management principles and techniques appropriate for the private sector to the public sector is an added value of cooperation that increases the efficiency of the public sector. In turn, for the private sector, the ability of the public sector to initiate changes in the existing legal regulations aimed at breaking existing monopolies and encouraging market liberalization will be a particularly important element encouraging mutual cooperation. The practical result of such activities will often be an introduction of competition in the areas covered by the monopoly of the public sector [14].

3. Conclusion

In this article, a short analysis of the impact of PPP on innovation in the public sector has been carried out. There is no clear evidence or research into the impact of PPP on innovation in the public sector, which is why the essence and main elements characterizing PPP were analyzed using the example of two pilot projects implemented in the health sector. It can be clearly stated that perceiving innovation as a process of changes aimed at increasing efficiency should be inherently associated with PPP. In this perspective, PPP can be a catalyst for innovative changes in the area of public services, not only in the health sector. Thanks to PPP, often current and urgent needs of society are met, public entities indirectly improve their functioning mechanisms, and in addition, the public sector strengthens its political legitimacy. It is thanks to the use of PPP in the implementation of public tasks that the public sector can:

(a) enable access to a specific public service for the public
(b) focus on the quality of services provided
(c) efficiently spend public funds
(d) manage the risk of the venture more effectively
(e) gain access to know-how in the field of modern technological solutions
(f) improve management methods

For all this to be possible, it is also important to properly prepare the public sector for the skillful use of PPP in the process of implementing public tasks. Only the unambiguous definition of needs and expectations of this sector will enable effective public services to be targeted at finding innovative solutions. Also the very fact that under the conditions of limitations of a different nature (usually budgetary) the public service becomes available to the public is the added value resulting from intersectoral cooperation. It seems that there will be a gradual change in the way the public sector perceives PPP, not only as an instrument enabling the implementation of public tasks, but also as an instrument enabling changes to the public management model. As a result, this will lead to a change in the entire public administration, so that it would more efficiently face the challenges of modern times, and this certainly will not be possible without the innovativeness of the applied activities and the solutions used.

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