PAPER PROPOSAL

Title:

The Role of Public Capabilities and Institutional Determinants in Public-Private Partnerships: A Cross-Country Examination

Abstract:

Among the variety of alternatives of organizing economic activity, public-private partnerships (PPP) stand apart as a relatively new and underexplored phenomenon. Embodying long-term collaborative relationships between private and public actors to deliver public goods or services, these arrangements differ from traditional forms of organization. They involve cooperation between two distinct types of organizational actors and overlapping economic as well as political markets. By proposing an innovative empirical research study, focused on public-private organizational choices, financing and partnership structure in the case of large infrastructures, we aim to shed an important light on both the public capabilities and institutional determinants to explain the governance structure of PPP, and the characteristics of the public involvement We use a sample of 889 PPP projects extracted from the Thomson Reuters and World bank databases, covering 60 countries and 14 different industries from 1992 to 2012, in a cross-country and cross-industry analysis.

Historically, Federal, State and local governments throughout the world have had to deal with the central question of how to provide common goods and public services. Direct public intervention and full-fledged privatization are usually seen as opposing responses to new societal demands. However, in the past few decades it is possible to observe public authorities and private entrepreneurs acting in a joint fashion in the execution of public services. The observation of the international practices reveals different models of public-private collaboration. In general, governments share property and decision rights with private actors, while keeping ownership over key assets and residual control rights of specific functions, thus giving rise to the so-called Public-Private Partnerships (PPP).

The interaction between public officers and private actors is not conflict free and may vary according to the institutional setting. In some countries, government may behave opportunistically through actions that expropriate firms' investments, thus leading to underinvestment from the private side and renegotiation costs (Guasch, Laffont, & Straub, 2008) (Spiller, 1998). On the other hand, in other contexts, private agents may prefer to invest in cost reductions at the expense of quality improvements, especially when quality dimensions are difficult to observe, measure and enforce (Hart, Shleifer, & Vishny, 1997).

Furthermore, governments must to deal with the development of distinctive capabilities necessary to manage public-private interactions and enable value creation (Mahoney, McGahan, & Pitelis, 2009),, at the same time dealing with the issue of how value is appropriated (Kivleniece, & Quelin, 2012). The evolution of government capabilities in PPP is aligned with the existing industries and technologies patterns available in the country (Klein et al 2010). However, public capabilities seem to be not enough to foster public-private agreements if private actors behave opportunistically and if they are not able to engage in collaborative arrangements with government entities (Cabral, Lazzarini, & Azevedo, 2013). Therefore, public capabilities and institutional determinants are likely to interact and shape peculiar aspects of PPP in a cross-country perspective, based on industry characteristics. In this vein, several questions placed in the boundaries between international management, strategic management, and public administration may arise. What explains the differences in PPP in different countries? Which factors stimulate a more proactive participation of governments in the existing PPP throughout the world? What constrains the private involvement in public-private agreements? What is the role of public and private capabilities in the design and functioning of the PPP contract and in the PPP outcomes?

Moreover, there are plenty of alternatives to fund public-private projects: equity investments, debt finance from public or commercial banks, direct investments from government budget or private companies, and so on. This is why the financing (type of financial institutions, type and level of debt, balance between public and private funds, and so on) is an important determinant of the strategies developed by each partner. A given PPP contract may combine these several funding possibilities and the resulting governance structure may shape the future performance of PPP contracts. In the present proposal, we focus on the first phase: the financing decision. Concisely, we aim to understand the key determinants able to explain the type of public involvement in interaction with financing characteristics and industry features. How do the financing and capabilities-based public determinants interplay to shape a specific PPP?

We first propose a theoretical framework based on the combination of the public-private capabilities literature (Klein, Mahoney, McGahan, & Pitelis, 2010; Mahoney, et al., 2009) and public-private governance (Cabral, et al., 2013; Kivleniece & Quelin, 2012) in an international management perspective. In the past decades, a large literature on the relationship between local institutions and entry modes in foreign markets has evolved with significant contributions to international management and strategic management domains (Kogut & Singh, 1988; Meyer, Estrin, Bhaumik, & Peng, 2009). On the one hand, institutional voids may foster new business opportunities to private entrepreneurs who are able to fill the existing regulatory, finance and technical gaps (Khanna, Palepu, & Sinha, 2005). On the other hand, the country-level institutional voids may hamper private investments in large projects such as infrastructures or utilities (Henisz, 2002). Under these circumstances local characteristics including natural resources, existing infrastructure, and public authorities capabilities are likely to display an intricate interplay. Complex interactions between local institutions and local capabilities will determine the way public-private interactions will evolve, and explain the type of PPP. For instance, accumulated country-and industry-level capabilities, such as domestic financial market, human capital, and professional bureaucrats in local governments may affect external investments, which in turn may demand less (or more) public intervention in PPP projects.

Based on these elements we derive a set of testable propositions about the interactions of public capabilities, institutional characteristics and industry effects at the country level and the financing choices of PPP.

P1: The lower the quality of domestic (or local) institutions, the more is the public participation in PPP funding.

P2: The higher is the quality of local institutions, the higher the likelihood of local governments (municipality) funding in PPP.

P3: The lower the quality of domestic finance institutions, the higher is the international finance participation in PPP funding.

P4: The lower the quality of domestic regulatory institutions, the lower is the international finance participation in PPP funding.

P5: The higher is the public capabilities in terms of fostering efficient bureaucracy, the stronger the local institutions, the lower is the government participation in PPP funding.

P6: The more already developed infrastructure are, the higher the level of education is, the lower is the public participation in PPP funding.

P7: The longer public experience in PPP is, the lower is the public participation in PPP funding.

We analyze the financing and organizational choices of PPP in an international management perspective by using the following datasets. We had access to the PFI Database from Thomson Reuters, covering 889 PPP projects in 60 countries and 14 different industries from 1992 to 2012, in a cross-country and cross-industry standpoint. We also collected data on country´s characteristics from the *World Bank Development Indicators* Database.

Our unit of analysis is the PPP contract and our dependent variables, measuring the financing choices in PPP projects, are the percentage of public involvement (equity, guarantees, safeguards…), and the different levels of public participation (local, state/province or country/Federal level). Our major independent variables cover project characteristics (amount, type of PPP project, financial details, and so on), institutional variables (measures of political risk, quality of the institutions, level of corruption, easiness to do business, and so on), existing public capabilities depending on the sector or activity targeted by the PPP (transport infrastructure, spending on education, spending in …telecommunication systems, and so on). We also add several other country- and firm-level controls.

The overall statistical analysis is still under progress work and preliminary results will be obtained in few weeks. However, given to the sample size and the country and industry contexts we cover, we anticipate interesting results on between industries with or without network infrastructures, the involvement of international finance institutions, especially in PPP related to infrastructures and utilities, and the dominant role played by some well recognized international providers ready to collaborate with some local actors.

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