**Analyzing the network in Public-Private Partnerships in relation with the sociological and economic views**

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1. **Introduction**

**The 1990’s has seen the establishment of Public –Private Partnerships as a new key tool for implementing public policies ranging from social to economic policies (Osborne). Traditionally, Governments by themselves found finances, built infrastructures (roads, school etc) and provided services (health care, transportation). In providing such services, they faced various problems ranging from their budget deficit to the increase of the populations’ needs. Aware of their financial limits and the increase of the demand, they involved themselves more and more in partnership. In countries like United Kingdom, PPPs are a cornerstone of the developing stakeholder society of the new labor government and an essential tool to implement significant social policies such as the regeneration of urban areas and the struggle to combat youth unemployment (Falconer and Ross 1998).**

**In Hungary, PPPs are being seen as a means through which both to restructure the provisions of public services to meet social needs and to develop a civil society in the aftermath of the communists regions (Osborne and Kaposvari 1997, 1998).**

**Now, the PPPs are part of the New Public Management and used as a tool of management and governance. Why a concept is barely mentioned two decades ago now attracting such interest? Many researches explored the field and mostly they are oriented to the financial aspect relating to the risks and profits only very few oriented their investigations in the type of organization the PPPs are indeed. The relationships between the actors are very often overlooked. Consequently, the purpose of this paper is to address the network of relations that occurs in PPPs. First the paper will review the concepts of Network form and PPPs based on the sociological and economical views. Second, some aspects of the network in the PPPs such as its purposes, actors and advantages will be analyzed. And third, the study will identify difficulties and gaps and then suggest better alternatives.**

**3. The concept of network**

**Some researchers have explored the network forms of organization (Powell, Granovetter ). They are opposed to the economists’ view considering only markets and hierarchies.**

**Sociologists argue that the network has its own logic and has nothing to do with pure markets and hierarchies. The relations between actors are based on trust and are more enduring. The type of relation is described in the sociological definition of network. The network form of organization is any collection of actors (N superior or equal two) that pursue repeated, enduring exchange relations with one another and, at the same time, lack a legitimate organizational authority to arbitrate and resolve disputes that may arise during the exchange (Podolny Karen).**

**The economic view, on the contrary, considers the network as alternatives to pure markets and pure hierarchies (Williamson).**

**In this part, we will present the network through sociological and economist views.**

**4 The Sociological View**

**The sociological view is opposed to the economic view of organization that considers only two forms of organizations the market and the hierarchy (Joel M.Podolny and Karen L.Page). The network form of organization when considered as a form of governance it can be distinctly characterized (Podolny). The absence of authority to arbitrate disputes results from the trust underlying the relations between partners.**

**4.1 The purpose of network**

**In attempting to understand why organizations prefer networking. Two answers seem to be common: the social purpose and economic one. In involving into joint venture or strategic alliance, organizations seek to gain status and legitimacy. And their partner responds to their needs. The alliance between a firm and a church or governments is a practice that firms resort to in order to get more legitimacy.**

**The economic reason consists in creating economic performance by resolving the resource dependency.**

**4.2 The actors in the network**

**According to the definition of network by sociologists, any organization composed of more than two actors and which have enduring exchanging relation with one another is a network. From the definition, one can understand that any firm, organization and individual can be concerned. The actors involved in the network have the possibility to choose the type of relations they want with their partners. The relationships range from joint ventures to outsourcing agreements and relational contracts. According to Podolny and Karen, the definition of a network form of organization includes a wide array of joint ventures, strategic alliances, business groups, franchises, research consortia, relational contracts and outsourcing agreements.**

**The actors in the network are tied with relationship based on trust. Conflicts between them are solved by negotiation.**

**The spirit of “good will” as pointed by Ronald Dore (1983) underlies the relationships. The central elements of a good will are a commitment to use voice rather than exit (cf. Hirschman 1970) to resolve disputes and a higher level of trust between parties. The relations –based trust can lead to the absence of contractual guarantees. And Granovetter mentions the moral community as a distinctive feature of groups. He points to the high level of trust and obligation among members of the group. However, two economic actors who wish to enter into an enduring relation and lack a legitimate authority to resolve the dispute may enter into a long term contract in order to place restrictions on the opportunistic behavior (Podolny and Karen).**

**4.3 Advantages of network in sociological view**

**Sociologists argue that the network form of organization has a number of distinct efficiency advantages not possessed by pure markets or pure hierarchies, and because of these efficiency advantages, network forms are quite prevalent (Bradach&Eccles1989). This view is supported by (Powell 1990) who argues that network forms of organization cannot be considered hybrids of markets or hierarchies; rather, network forms of organization represented a unique alternative possessing its own logic. Network forms foster learning, represent a mechanism for attainment of status or legitimacy, provide a variety of economic benefits, facilitate management of resource dependency and provide considerable autonomy for employees.**

**Bradach and Podolny both acknowledge the advantages that occur in the network form of organization is different to the market and hierarchy organization. The network form of organization according to them provides new competencies, knowledge and economic benefits. It is important not to overlook the direct economic benefit of this form in terms of cost and quality (podolny). Williamson (1991) lays conditions under which network forms of organization lower transactions costs. The functions of the network forms of organizations range from learning to economic benefits. Through the network form of organization one can ensure the capacity building and can encourage innovation and facilitate the transfer of information between two nodes. Hamel (1991) is perhaps the most explicit in examining how inter firm collaboration provide participating firms with opportunities to internalize one another skill. Other functionalities occurred by the network form of organization one can point to legitimation and status. Beaum & Olivier (1992) finds that a tie to a legitimate institutional actor, such as church or governmental entity has a positive effect on the life chance of organization. As an example Podolny and Philips (1996) find that the higher the status of a bank’s management partners in underwriting syndicates at time t, the greater its status growth between t and t+1. This enhanced status according to Podolny in turn, has positive economic advantages for the organization. Some authors have emphasized the ethic principle guiding the economic exchange in network forms of organization. While sociologists (Granovetta, Powell) consider the network as an organization with its own logic, economists like Williamson the leading figure of the transaction cost perspective considers it as the combination of pure markets and pure hierarchies.**

**3.2 Economical view**

**Williamson (1991) argued that network is the hybrid forms combining elements of markets and hierarchies. Here it is important to understand what the term markets and hierarchies mean? (Erik-Hans Klijn and Geert R.Teisman) attempt to make the distinction between markets and hierarchies and argue that markets are forms of organizations in which, individual, autonomous parties achieve equilibrium through pricing mechanism and hierarchy gives the appearance of coordination in which command, control and legislation are important. Erik Hans and Geert join the view of Williamson about the dichotomy of markets and hierarchies. And Erik and Geert call their relationships a network society.**

**The two worlds are different and their goals are opposed. Markets seek profit by producing private product whereas hierarchies seek equity by producing collective products. In markets economic actions are about calculation according to the performativists’s view. Calculation comes before network relations.**

**Purpose of network in economic view**

**One thing is common in both sociological and economical views that are the purpose of the alliance or joint-venture between markets and hierarchies seeks to lower transaction costs, resolve resources dependency and be performing. The economic action is based on calculation. When a firm decides to involve in alliance the purpose is to make profit by acting on the transaction costs. The question is whether firms or business groups are ready to drop down their profits in engaging in network?**

**Advantages of network in economical view.**

**The reliance of organizations on network is a determinant of a competitive success. Firms seek to resolve the resources dependency and make profit. Economic views emphasize the transaction cost and transaction agency which are the main concerns for economists because they are determinant for the economic performance of organizations. Both sociological and economic view recognize that the network provide advantages such as reduction of resources dependency, legitimacy, status and economic benefits. However sociologists oppose the economic view about lower transaction a reliance on trust between the partners rather than**

**Contractual provision as the primary basis on which transaction costs are reduced.**

**2. The concept of PPPs**

**The PPPs have been over the last two decades a system of governance. Countries like the U.S and the Great Britain were the first to resort to it. PPPs present different features and characteristics. The various definitions emphasize each the features and specificities that might have PPPs.**

**( Harding 1990) defines the PPPs as any action which relies on the agreement of actors in the public and private sectors and which contributes in the way to improving the urban economy and the quality of life.**

**Campbell (2001) attempts to emphasize the purpose of ppps to design, build and maintain infrastructures. He suggests a definition of PPPs focusing on financial arrangement that is “a PPP project involves the design, construction, financing and maintenance and in some cases operation of public infrastructure or a public facility by the private sector under a long contract. The definitions show that there might be as many PPPs as possible and that range from economic to social PPPs. The question that needs to be asked is why PPPs?**

**2.1 The purpose of PPPs**

**The need for establishing a partnership between public and private sector results from the option of the public sector to transfer the design and the implementation of public policies to the private sector. This new public management is due to the incapacity of governments to fulfill the public needs of the people. Governments realize that they need funds, expertise and efficiency of the private sector for provision of services and building infrastructures.**

**PPPs are used for many reasons and can range from services provisions to building infrastructures.**

**. The purpose that comes out of the definition is for economic development and welfare.**

**Governments opt for partnership arrangement to build infrastructures such as roads schools. Therefore, they need private funds to achieve the projects.” For infrastructure ppps the Building Operate Transfer is most common (BOT).**

**All the PPPs have one purpose that is to improve the quality of life of the citizens. However the field of application can be different. Ppps can be oriented to services provisions (water supply) or infrastructures building (Toll road).**

**2.2 Who are involved?**

**The term partnership is expressive enough to mean that there is more than one actor engaged in the arrangement. However, most of the definitions emphasize the public and private partners ignoring the others actors such as the group of people the non- profit organization and the financial institutions.**

**The definition from Commonwealth states of Massachusetts (CMS) involves other actors in the partnership and show the wide scope of ppp. According to CSM a partnership is collaboration among business, non profit organization and government in which risks and skills are shared in project that benefits each partner as well as the community (Stratton 1989). This definition broadens the scope and the contributions of the partnership.**

**The actors involved in the partnership have different interests but are bound to be together because neither of them can fulfill the assignment alone. As reported by Adelokundo Lucas, a chief factor encouraging for public-private partnership is that neither side can achieve its special goals alone; collaboration is unavoidable. In the same vein Ronald W. McQuaid said it in other words “the sum is greater than the parts”.**

**Mostly, in PPPs; some partners are more central and powerful than others and according to MichaelR.Reich Partnership involved both ‘big P’Partners who assume core responsible for the joint enterprise, and a ‘little p’partners whose participation is necessary for successful implementation. Bennett and Mc Coshan (1993) support the idea and argue that partnerships between agents may be unequal as it may be more important for one partner than the other(s) or one partner can coerce or mandate the others (e.g. through providing or with-holding finance). In the case of PPPs the public party and the private party are the main actors and the power is shared between them. Many actors can be involved in partnership such as group of people, non-profit organizations, private sectors, governments.**

**2.3 The advantages of PPPs**

**PPPs have a lot of advantages that range from experience sharing to economic development. Erik outlined the advantages of the ppps through resources availability, effectiveness and efficiency and legitimacy. Through PPPs government workers learn a lot from the expertise of the private sector because of the flow of information channeled through the partnership. They resolve the resource dependency and share the risks. (Kotler et al.1993) emphasize the positive external perception created by the partnership when promoting a city or an area. PPPs also build trust between that break down the stereotypical views of partners towards one another. In fact, I doubt about trust between partners. The contract binding the partners is a proof that neither the public partner nor the private partner are ready to engage without guaranty.**

**Analysis**

**The given definitions of PPPs and Network have at least mentioned terms differently but indeed their meaning remain the same. Rather than network, definitions of PPPs use the term partnership. Further both network theorists and public private theorists use the term alliance, cooperation, and coalition of interest and agreement in defining the two concepts. However, the structure of the organization in the partnership seems more précised and more formal. In the PPPs the actors are identified precisely but the majors actors are governments and private sectors and they are partners whereas in the network form of organizations they are nodes. Nodes and partners are two terms referring to the same thing. The Network Form depicts the commercial ties underlying the transactions between the actors or nodes. The actions take place within a market where each node part seeks to get better outcome. The actors are firms, organizations exchanging between them. The term partnership has never been used in the NF despite the possibility of partnership between firms and governments. And the question to be asked is why the network theorists hardly talk about partnership between government and firms? Are the relations between governments and private sectors commercial or not?**

**In the PPPs the partnership can be established for providing services (transportation, water supply), for building infrastructures (toll road, schools), for funding (funding policy projects). All the definitions emphasize the PPPs as a tool of financial, development arrangement and fail to point to the commercial transaction between the partners. What is the private partner seeking in a partnership with a public partner? The private sector is not a philanthropic. Its objectives are to make profit. In the exchange its interests are preserved. Williamson helps understand easily when dealing with the transaction costs that refer to costs associated with exchanges of goods or services and incurred in overcoming markets imperfections. (Wikipedia). Before participating in a partnership the private partner mobilizes its expertise. This fact is depicted by the performativists that view economic action as a result of calculative process involving the specific technologies and aircrafts that actors employ (Neil Fligstein and Luke Dauter).**

**Williamson, Erik and Geert emphasize the relations between markets and hierarchies rather than public partner and private partner.**

**The context of the changes in U.S regulatory environment helps understand the two concepts. Those changes facilitate the ability of U.S firms to engage in cooperative activities with their market competitors (Neil Fligstein and Luke Dauter). The phenomenon led to the Privatization in 1980.**

**Consequently one thing is clear that the network for the network theorists and privatization or PPPs later for PPPs theorists started in the 1980’s. Whatever the concept,( network, partnership) whoever the actors ( partners, nodes), many advantages exist in network or partnership. They present the same advantages. As well in PPPs as in NF, actors seek lower transaction costs, facilitate the management of resources dependency acquire knowledge and competencies.**

**PPPs and NF share some features. The relationships are characterized by longer term commitment for PPPs and enduring exchange for NFO. The notion of risk is mentioned both by the two organizations. But the difference between the two is that within the NF, trust is the guiding principle and there is absence of authority to arbitrate disputes and conflicts. In the PPPs there is legal contract binding the two partners. The PPPs seem more formal.**

**Suggestions**

**5. Conclusion**

**The network established in the PPPs seeks to resolve resources dependency, provide good quality of services and to implement public policies. The same purpose is shared by any organization like market. In the PPPs, actors have not the same power and this idea is supported by Erik Hans and Geert talking about “bigP” and “littlep”. Therefore the distribution of power is not equitable. And the actors like population are not well involved or if they are involved it’s to give legitimacy or for political reasons.**

**In partnership, actors like non-profit organization; agencies for development; civil societies can be involved despite the extent of their participation; hence the need for adjusting the definition of PPPs.**

**PPPs are a governance system that combines opposing elements trying to cooperate. Indeed all the characteristics of markets are present in the partnership. The private partnership never renounces to its interests. The economic action is based on calculation. Private partners calculate before engaging in partnership.**

**The features of PPPs correspond perfectly to the idea of Williamson. The analysis of the characteristics of the network in PPPs leads to the conclusion that PPPs are combination of elements of markets and hierarchies.**

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