

Contracting Risk

Risk Management, Innovation and Public Private Partnership

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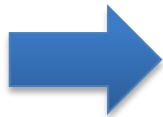


PPPs/PFIs Intended as Innovation Drivers



Mixed Evidence on Risk, Innovation and PPPs

- Positive
 - Potentially significant source of innovation in public services (Freshfields et al. 2005)
 - Risk-sharing relationships between the public and the private sector (Lewis, 2001)
 - Risk transfer essential for PPP/PFI to deliver value for money (Ball and King, 2006)



- **Negative**

- Hood and McGarvey (2002): public sector prone to inefficient risk allocation choices in PPPs as too little awareness of risk management
 - Consequently leading to negative outcomes (Commission on Public Private Partnerships, 2001)
- Transfer of risk is from private to public sector partners (Ball & King 2006)

Lack of empirical data on interplay of risk, innovation and PPPs...



LIPSE – Research Questions

- *What is the current range of **approaches to risk in innovation** in PPPs?*
 - *What are the **key contingencies** of ‘success’?*
- *What are the current approaches for relevant stakeholders to engage in **discussions about levels of risk** in PPPs?*
- *How are these discussions translated into **specific risk management and governance models**?*
- *What are relevant **principles for effective risk governance** in innovation in PPPs?*



LIPSE- Methodology and Data

- Focus on sustainability and mental health
- Document Analysis
 - Websites
 - Internal communications
 - Risk management tools
- Survey Analysis
 - 200 contacts in the UK, 137 responses
- Case Study Analysis
 - 2 cases, as above - not *infra-structure* or *capital* projects (but see Asenova)



Theoretical Framework I

- What is *locus of risk*?
 - Organisation, staff, users, community, partners
- What is *risk governance framework*?
 - Renn
 - Technocratic (hard), Political (mixed) or transparent (soft)

Theoretical Background II

*Type of Risk/
Risk Management
Approach*

Hard risk management

Soft risk management

Risk

Top-down risk management

People-driven
management

Uncertainty

Minimisation approach

risk “Thriving on Chaos”



Survey Findings

- I - Respondents showed **difficulty in conceptualizing risk**
 - Managerial staff more aware of “risk management” in classical sense
 - But risk management rarely understood or seen as a key role by frontline staff
 - Very few dedicated risk managers
 - Awareness focused on risk process set out in PPP contract or regulation (i.e. no risk management beyond letter of contract)
- II - Connection between risk and innovation affirmed but **most often not incorporated in work and planning processes** or considered in terms of sharing with partners – no planning or weighing of opportunities/dangers
- III - In relation to innovative capacity, most respondents referred to ...
 - Financial risks
 - Reputational risks
 - Regulatory/bureaucratic risks
 - Health and safety risks (staff and service users)



Interview Findings

- **Risk** viewed as wholly negative with no perception of balancing risks and gains (or for whom)
 - Little consideration of risk transfer
- **Financial risks** most important overall, followed by reputational risk (staff and organisations)
- Often **top-down risk management** approaches dominated
 - Driven by contracts/procurement and regulation - trying to minimize risk but not incentivizing agile risk governance
 - Indication of 'blame game' at play (Hood, 2009)
- Resulting tensions led many organisations to become **risk averse** in PPPs with little understanding of balancing tensions
- Emerging partnerships in sustainability more likely to show **transparent risk governance** across partners
 - New relationships/partners rather than inherited models
 - Private organisations leading process
 - Less media scrutiny resulting in more room for negotiation



Conclusions

Policy and practice implications

- Acknowledge the impact of regulation and procurement processes
- Accept innovation involves risk and not just financial
- Move away from minimization of risk *if* policy is meant to encourage innovation and re-evaluate 'transfer' models
- Improve transparency of risk negotiation/governance
 - Understanding of varying stakeholder perspectives
- ?Create independent body to govern risk decision-making (c.f. medical model)?
- Acknowledge effects of risk on innovation and impact on procurement process
- Raise awareness and acknowledge risk as core of the process of innovation
- Appreciate different types of risk and hard/soft risk governance



Theory

- Need to evolve further models of risk and innovation
 - Risk governance not management (H&S) or minimisation (actuarial)
- Integrate risk governance and stakeholder negotiation models
- Develop more sophisticated understanding of risk transfer
- ...More research!



Questions? Answers.

