

END-USER ORIENTED PUBLIC-PRIVATE PARTNERSHIPS IN REAL ESTATE INDUSTRY

Wisa MAJAMAA¹, Seppo JUNNILA²✉, Hemanta DOLOI³ and
Emma NIEMISTÖ⁴

¹ Project Management, YIT Construction Ltd. P.O Box 36, FIN 00621 Helsinki, Finland and
Visiting Academic, Faculty of Architecture, Building and Planning, The University of
Melbourne, 29 Canterbury Road, Middle Park, 3206 VIC, Australia

E-mail: wisa.majamaa@yit.fi

² Faculty of Construction Economics and Management, The Helsinki University of Technology,
Finland

E-mail: seppo.junnila@tkk.fi

³ Faculty of Architecture, Building and Planning, The University of Melbourne, 29 Canterbury
Road, Middle Park, 3206 VIC, Australia

E-mail: hdoloi@unimelb.edu.au

⁴ Faculty of Construction Economics and Management, The Helsinki University of Technology,
Finland and Faculty of Law, University of Helsinki, Finland

E-mail: emma.niemisto@tkk.fi

Received 17 August 2007; accepted 23 November 2007

ABSTRACT. The European Union (EU) is reforming its public services and suggesting Public-Private Partnerships (PPPs) as a solution for producing high quality and cost effective real estate service delivery. However, the use of PPP approach in real estate industries has been found to have significant constraints related to the end-users' (general public's) perspective. The purpose of the paper is to show how PPP projects have failed to produce desirable characteristics expressed in purchasing processes and fulfilment of the end-user expectations. While the customer-oriented development of public services and the needs of the end-users were noted to be crucial points in all five major Finnish PPP projects studied, the case studies pointed out a fundamental lack of understanding and maintaining the end-user perspective through the tendering and evaluation processes. Especially, in the final stage of evaluation, and evaluation criteria used to decision making, the disappearance of the end-users' perspective was evident. The findings are further used to develop a new suggested Public-Private-People Partnership (4P) model. The results can be useful to the public sector's purchasers and to the private sector's providers to understand the limitations of current PPP practices and to further develop their practices towards more customer-oriented service production.

KEYWORDS: PPP; Purchasing; End-users; Customer-orientated; Real Estate Service Delivery

1. INTRODUCTION

The member states of the European Union (EU) are reforming their public services and discussing alternatives for producing future public services for their citizens (Bode, 2006; European Commission, 2004a). Public-Private

Partnership (PPP) is considered as one solution for producing quality, cost effective public services related to the real estate industry, and PPPs have an important role in the EU's Internal Market Strategy (European Commission, 2003a and 2004b).

PPPs are seen as a possible approach for increasing public services' diversity and quality, and at the same time, using taxpayer's money more effectively (European Commission, 2003b; HM Treasury, 2003; Piekkola, 2003). Recently, discussion of PPP benefits has moved from "Value-for-Money" (VFM) and cost-effectiveness to more innovative development of public service structures in partnership with the private sector (Yliherva, 2006; Demirag et al., 2004; Brunila et al., 2003; CIC, 2000). Since Brunila et al. (2003) noted customer-orientation and innovativeness as the key-elements in the development process of public service structures in Finland, the Finnish Innovation Fund (Sitra) conducted several studies into issue and has setup a special program to increase profitability, effectiveness, and co-operation between the public and private sectors. Traditionally the Finnish welfare state, like its Scandinavian neighbours, is based on wide and comprehensive public services produced by government and municipalities. PPPs, as for a solution for public service production on a large scale, have become an interesting topic as demographic changes puts more pressure on public services, especially the health care services. Consequently, the public sector in Finland is seeing at alternative ways to fulfil its legal service delivery requirements in the future (Barr, 2007; Yliherva, 2006; Brunila et al., 2003).

According to the author's recent research (Majamaa, 2004 and 2005), the end-users can be considered as rational consumers, and their preferences can be identified using a framework of evaluation criteria based on the advantage of rational consumers, a group of consumers' entitlement to the public services, but with individual and diverse needs. It is clear that there is a need to develop a general framework to understand the end-users' preferences and foresee the diverse service production from the end-users' point of view (El-Gohary, et al., 2006). This paper aims to provide insight on

what an innovative evaluation process and customer-oriented evaluation criteria in PPPs could be in practice. An evaluation framework is developed based on end-users' advantage and public material related to bidding processes, and several real estate projects using a PPP approach have been analysed from the perspective of the end-user. The aim of the analysis was to study the requirements and desirable characteristics, given in the purchasing material by public sector, and as certain whether those features still recognised in the evaluation criteria used for decision-making at the final evaluation stage. The suggested framework's usability to analyse PPP projects from the end-users' perspective was tested, and the framework was further developed for practical application to the evaluation process and as criteria for a more customer-orientated evaluation form. The findings of this study expand the traditional PPP model to a new Public-Private-People Partnership (4P) model where the end-users' role is clearly visible.

The framework facilitates understanding the preferences of the end users of public services in the PPP lifecycle. Five Finnish PPP cases were analysed to demonstrate the concepts. Finally, the findings of the analysis and the expansion of the PPP model to incorporate the 4Ps model are discussed. In conclusion, the value of this paper in developing more desirable public services by the 4P model is highlighted.

2. END-USERS PERSPECTIVE IN PPPS

According to the World Bank (2007), benefits from PPPs can be achieved in four main areas: increasing efficiency in the execution of projects; enhancing implementation capacity; reducing risk for the public sector; and mobilizing financial resources by freeing scarce public funds for other uses. At the same time, the extent of benefits from private sector participation, and public authorities' uncertainty of

the quality of PPP services have also been criticized (Shaoul, 2005; Kuntaliitto, 2003). The use of PPPs have been mainly justified by invoking international experiences of its benefits compared to the traditional public service production (Nisar, 2007; Zhang, 2006; Earl and Reagan, 2003; IPPR, 2001), but they have not widely considered the context of end-users' participation and perspectives (Ahmed and Ali, 2006; Kaya, 2004; Akintoye et al., 2003).

International studies have been mostly regressive, and concentrate on technical and economical issues, public sector benefits (Shaoul, 2005; Edwards and Shaoul, 2003; Gaffney and Pollock, 1999; Tiong and Alum, 1997), and analysis of the risks of cases and the contracts (Nisar, 2007; Abednego and Ogunlana, (2006); Grimsey and Lewis, 2002; Thobani, 1999). In the field of property development and service production, benefits of PPPs have traditionally measured by using "Value-for-Money" (VMF) as a key-object (EIC, 2003; HM Treasury, 2003; European Commission, 2003b; TTF, 2000). In evaluation processes, based on VFM, the benefits of partnerships are attributed to the participation of the private sector which has better capability and innovation in (HM Treasury, 2004; EIC, 2003; European Commission, 2003a; Grimsey and Lewis, 2002; Treasury Taskforce 1997a and 1997b):

- Controlling risks;
- Design and Building;
- Maintenance of the property;
- Operating assets; and
- Creating third party cash flow.

There has also been a gap in understanding the importance of the influence of the evaluation process and evaluation criteria on service production. While customer-oriented development of public services and the needs of end-users have been noted as the crucial points in innovative development of today's public services and welfare society (Trentmann, 2007; Brunila et al., 2003), the implemented evaluation process and the evaluation criteria

have not been developed from the end-users' point of view (Mattar and Cheah, 2006). Thus the purchasing process and evaluation of proposals, from the end-users' point of view can be seen as an important part of the public service development based on PPPs.

3. RESEARCH DESIGN

The research aims to examine what an evaluation process of PPP with customer-oriented evaluation criteria could be in practice. Based on multiple case studies, a theoretical framework has been devised to integrate the end-users in the PPP development process. The advantage for the end-user is based on the author's previous research into PPP from the perspective of a group of rational consumers with individual needs (Majamaa, 2004 and 2005). In the literature, the theory and behaviour of rational consumers is not unambiguous, and has been examined from various scientific perspectives (Miljkovic, 2005; Abell, 1996). However, what are common to the economic and behaviourist theories of rational consumer behaviour (Zafirovski, 1999; Varian, 1996; Rohlf, 1996; Heap et al., 1992):

1. Individuals are capable at making decisions based on their own preferences, for example, individuals understand the value/quality and Value-for-Money aspects;
2. There are multiple options to act (choice) and results are related to choices made; and
3. Individuals are willing to make free choices from multiple options.

Establishing what rational consumers prefer as individuals or as a group of individuals is very difficult in the case of large topics, like public services. In this study, instead of naming detailed preferences, the foundation is laid to insure that the basic axioms can be fulfilled. The assessment of PPP service provision from the perspective of rational consumers with in-

dividual needs is founded on the following three presumptions, which fulfill the aforementioned axioms, through which a rational consumer maximises their benefits (Majamaa, 2005):

1. *The “Value-for-Money”* both in an individual’s personal decisions and behaviour as a part of the community, as well as expectation that the representative leadership of the community also adheres to the principle;
2. *Appreciation for diversity in selection* and the resultant ability to make choices between different alternatives; and
3. *Independent choices* and expectation of having the possibility to make free choices based on personal preferences.

4. DATA COLLECTION

In order to devise the framework and test for appropriateness, five Finnish PPP projects were selected, where the public sector was the purchaser of the functions offered by the project (see Table 1, and “Service Provision” in it). The projects include:

- A real estate investment;
- A private body responsible for Design and Build and technical–maintenance; and
- Financing and/or ownership of the property.

The primary nature of all the selected projects was the Build-Own-Operate (BOO). For some projects, like Kaivomestari and

Table 1. Basic information of selected PPP cases

Case	Purchaser	Function	Service provision
Kaivomestari [K] in the City of Espoo	City of Espoo	High School, swimming and sport centre	Design & Build Technical-maintenance Financing and ownership Operating (all services excluding teaching)
Pyynikki [P] in the City of Tampere	City of Tampere	Swimming and city spa centre with possibility to develop private business related to the services (hotel, shops, exercise studios and so on)	Design & Build Technical-maintenance Financing and ownership Operating (Swimming centre and city spa)
Dynamicum [D] in the City of Helsinki	Senate Properties (owned by Finnish Government)	Office building for Government's units	Design & Build Technical-maintenance (partial) Financing and ownership
Frami [F] in the City of Seinäjoki	Seinäjoen Teknologikeskus Oy (owned by the City of Seinäjoki and other local public bodies)	Centre of innovations and technology: office space and learning units to the local university	Design & Build Technical-maintenance Financing and ownership
Vantaan Point [VP] in the City of Vantaa	Vantaan teollisuuskiinteistöt Oy (owned by the City of Vantaa)	Local learning and information centre: library, international school and kindergarten	Design & Build Technical-maintenance Financing and/or ownership Option to create leisure services

Dynamicum, the public sector has an option to purchase the real estate asset from the private investor at reversion points during the service contract or at the end of the first service period.

The research relies on the material and information publicly available from the selected cases. By the law all the bidding material and the information and material related to the decision-making in public purchasing process should be publicly available. The purchasing processes for the cases have also been assessed according the Finnish Public Procurement Act (1505/1992).

5. DESCRIPTION OF THE SUGGESTED FRAMEWORK

Requirements, desirable characteristics and evaluation criteria used in the five PPP cases were analysed using the categories of *Life cycle approach*, *Diversity*, and *Customer selection*. *Life Cycle* approach criteria included economic features related to “Value-for-Money” (VFM), juridical (legal) features related to the concession agreement, quality and technical features related to the design and building, quality of required public core services, project management and certainty of service performance, and risk sharing and risk management. Under *Diversity* criteria were assorted requirements, desirable characteristics and evaluation criteria, which embodied added value in public core services, added value from networked service production, diversity of public core services and service development, and service and production innovations in public core services. *Customer selection* criteria included requirements, desirable characteristics and evaluation criteria which embodied end-users’ potential to make free choices, and criteria related to services provided to third-parties (directly from the end-users – customers not included in the PPP-contract), outside or in addition to core public services. These kinds of elements were inno-

vations in third-party services, extra cash flow from third-party services, increases of utilization rate, and increases of potential for people to make free choices related to public and private services. Using these three categories we studied whether the given requirements, desirable characteristics and evaluation criteria were used systematically through out the purchasing processes, and how these categories were emphasized in the selected cases. Purchasing processes were divided into four stages for categorisation:

1. Pre-qualification requirements and evaluation criteria for selecting tenders;
2. Requirements and desirable characteristics given in tendering material;
3. Itemised evaluation criteria given in tendering material; and
4. Evaluation criteria used for decision making.

The results of the categorisation process are represented in Table 2. For brevity, the cases are denoted as follows: K = Kaivomestari; P = Pyynikki; F = Frami; D = Dynamicum; and VP = Vantaan Point. These letters in Table 2 refer to the single features used in the original bids.

6. EVALUATION PROCESS ADOPTED IN THE PPP CASES

The suggested framework, based on end-users’ opinion and perspective of a group of rational consumers, was useful for analysing the cases. The PPP projects and the evaluation features used in their purchasing processes accomplished three main criteria categories: *Life Cycle approach*, *Diversity*, and *Customer selection*. Each of the studied cases had features related to the first category – *Life Cycle* approach; four of five of them had features related to second category – *Diversity*; and three of five had features related to the third category – *Customer selection*. As the projects were designed mainly to fit the VFM principals, it was expected that

Table 2. Requirements, desirable characters and evaluation criteria used in the analysed PPP cases

Criteria categories	Stages of purchasing process				
	Life Cycle approach features	Pre-qualification requirements	Requirements and desirable characteristics given in tendering material	Itemised evaluation criteria given in tendering material	Evaluation criteria used for decision making
Economic features					
Overall costs and Net Present Value			K P F VP D	K P F VP D	K VP D
Financial costs and security of finance		K	P D	K P F	K
Pricing mechanism		K	K VP D	K F D	K D
Residential value of assets		K	K	K F	K VP D
Juridical features					
Requirements of Public Procurements Act		K P			
Juridical competence of tender		K			
Commitment to the proposed contract		P		K P	K
The legal structure of the company and it's shareholders		K P			
Quality and technical features related to the design and building					
Features related to architectural and aesthetic values		P		P	K P F VP D
Usability and divisibility of space			K P F VP D	K VP F D	K VP F D
Internal environmental quality		P	K P D	K VP F D	K VP F D
Mechanical and Electrical installations				K VP F D	K F D
Sustainability and materials used				K VP F D	K F D
Quality of required core public services			K P VP D	K VP F D	K F D
Quality assurances		K			K F
Continuance of the services and competitive advantage to other service providers		P			

(continued)

(continued)

Criteria categories	Stages of purchasing process				Evaluation criteria used for decision making
	Life Cycle approach features	Pre-qualification requirements	Requirements and desirable characteristics given in tendering material	Itemised evaluation criteria given in tendering material	
Quality of the services				K	K
Service organisation and it's experience		K P	K P F D	K P F	F
Options to research and development of the used PPP model		K			
Project management					
Implementation organisation and it's experience		K P	K P F VP D	K P F	K
Timetable of implementation		P	K P VP D	K P F	K F
Security features for work safety and environmental safety			VP	F	
Risk allocation and management					
Risk allocation and risk management		K P	K F	K F	K
Understanding of the nature of risks related to project			K		
Minimising the risks for public sector and for end-users		P	K		K
Diversity features					
Added value in core public services		K	K		
Added value from networked services production of core public services		P	K P D	F	
Diversity of core public services and service development		P	K P	P F	
Service and product innovations in core public services		K	K		
Customer selection features					
Innovations in third party services		K P			
Extra cash flow from third party services		K			
Rise of utilization rate					
Rise of possibility to make free choices in public and private services					

most of the features would relate to the category of *Life Cycle* approach (Shen et al., 2006). As there were also many features related to the other two categories in the Kaivomestari and the Pyynikki projects, we discussed the findings with the owners of these projects. Accordingly, we can state that innovative and customer-orientated development of the required services, as proposed in the categories of *Diversity* and *Customer selection*, seemed to be important to the development of the projects, but were lost in the final stage of evaluation by the public sector agencies.

In the first stage of purchasing processes, *pre-qualification*, the aim was to choose the best companies for the tendering process. The criteria to do this should be related to the capability of the company, not to the suggested outcome of project (Laine, 2006). The *Pre-qualification stage* was used in the Kaivomestari and Pyynikki cases. In Kaivomestari it was called 'Pre-qualification round', and in Pyynikki it was the 'First round of the purchasing process'. In the other cases, the processes went directly to the *tendering stage*. Features given in tendering material were divided into two stages: *requirements and desirable characteristics*; and *itemised evaluation criteria*. All the criteria categories and all the cases were included in the *stage of requirements and desirable characteristics*. The *Itemised evaluation stage* was included in all the cases, but only Kaivomestari, Pyynikki and Frami had evaluation criteria related to *Diversity* features, and Kaivomestari also provided features related to *Customer selection*. In the fourth stage of the purchasing processes, *evaluation criteria used for decision-making*, there were only features from the *Life Cycle approach* category. Even in the *Life Cycle approach* category, the used criteria differed between evaluation stages, especially in the Pyynikki case, from itemised evaluation criteria given in tendering documents.

In Kaivomestari, there were possibilities for

tenders to add value in public core services and also get added value from networked service production, which was also noted in three other cases – Pyynikki, Dynamicum, and Frami. In all the other projects except, Dynamicum and Vantaan Point, there was demand to expand the diversity of core public services, and requirements and desirable characteristics identified for service development, at the beginning and during the service period. In Kaivomestari, service and product innovations for teaching facilities and leisure centres were forward-looking. With the nature of Pyynikki, being a development project renovating an existing block of buildings with the possibility of constructing new ones, there was extra flexibility to create diversity to demand core public services, and room for new services and business ideas for third-party services.

Features related to *Customer selection* were demonstrated in the Kaivomestari and Pyynikki projects. Extra cash flow from third-party services and innovations in third-party services were important requirements and desirable characteristics related to them, and given in tendering material. In Kaivomestari, the benefits of using a PPP, instead of a traditional model, were identified as third-party use of facilities outside school times, and extra cash flow created by special business ideas based on that use. In Pyynikki, the development of the whole block, located in the city centre, was an essential issue, and several examples of how to develop it were given in the information to tenders. The existing swimming hall could be developed into a city-spa, existing hostel changed to a hotel, and other existing industrial and commercial buildings in the block could be developed as residential housing. Other *Customer selection* features in Kaivomestari, like increases of utilization rate, and possibilities to make free choices related to public services, were mainly used to specify desirable characteristics of the project. To sum up, Kaivomestari had many possibilities to

develop third-party services based on *Customer selection* by expanding the diversity of core public services and use of the facilities, and Pyyrikki, with the whole block under development, had great possibilities to create new services directly for the end-users.

The essential finding from the case studies was that the criteria used for decision-making considered only a small number of the possible features available in purchasing processes. All the requirements and desirable characteristics, related to *Diversity* and *Customer selection*, given in the *pre-qualification stage* and in two *tendering stages* were not applied to *decision-making stage*. The projects had requirements, desirable characteristics and criteria considering the end-users' perspective, but those were not used to evaluate the proposals. While customer-oriented development of public services and the needs of end-users are noted to be crucial points in innovative development of today's public services and welfare society (Yliherva, 2006; Brunila et al., 2003), the analysis pointed out a fundamental lack of end-users' perspectives in the evaluation processes, especially in the evaluation criteria used for decision-making. Evaluation processes used in these cases were mainly based on *Life Cycle approach* criteria, were not customer-oriented and would not be advisable from the point of public services' end-users.

7. BUILDING THE 4TH P INTO PPPS

Traditionally PPPs have been based on the purchaser-provider model, where the purchaser, a unit of the public body, and the provider, a private body, assumes homogeneity of the end-users of services. In Scandinavia, public service provision in the past has been closely connected to decommodification; in other words, equal service provision for all members of the community (Aronen, 2003; Esping-Andersen, 1990). When the focus of PPPs have been in the interface of public and private, the

benefits of customer orientation have been partly wasted (Majamaa, 2004). If the end-users (people) are involved in the partnership, the focus can be turned to the interface with customers. The end-users are the customers of public authorities, via its duty to offer public services, and become the customers of the private service provider via combined public-private service production and private, direct service production. In customer-orientated thinking, today's post-modern world promotes individualism and the diverging needs of the members of the community (Bauman, 2001). The changing needs and lifestyles of individual consumers affect the formation of one's self-identity, which is strengthened through consuming (Bauman, 2002 and 2007). In accordance with this thinking, the community of end-users is actually a far more heterogeneous group of consumers with different needs (see Figure 1).

The purpose of the public sector is not to directly monitor psychological changes in consumers or to predict future needs, but to meet existing demand for services. It is, however, in the interests of the consumer community, that the public sector can take advantage of service provision models that allow service provision to be adjusted with optimal flexibility for changing demand (Majamaa 2004). The development of PPPs to an innovative and customer oriented Public-Private-People Partnership model is showed below, in Figure 2.

In the PPP model, the private service provider is operating through a public purchaser with a PPP contract. The public service provision is formally supplied to the end-users (people) by a public body. Even when a private service provider is responsible for the actual service contact with the end-users, feedback formally comes via the public body. The crucial finding is that the focus was on the PPP contract between public purchaser and private provider. Service provision was based on the PPP contract and had no customer-input from

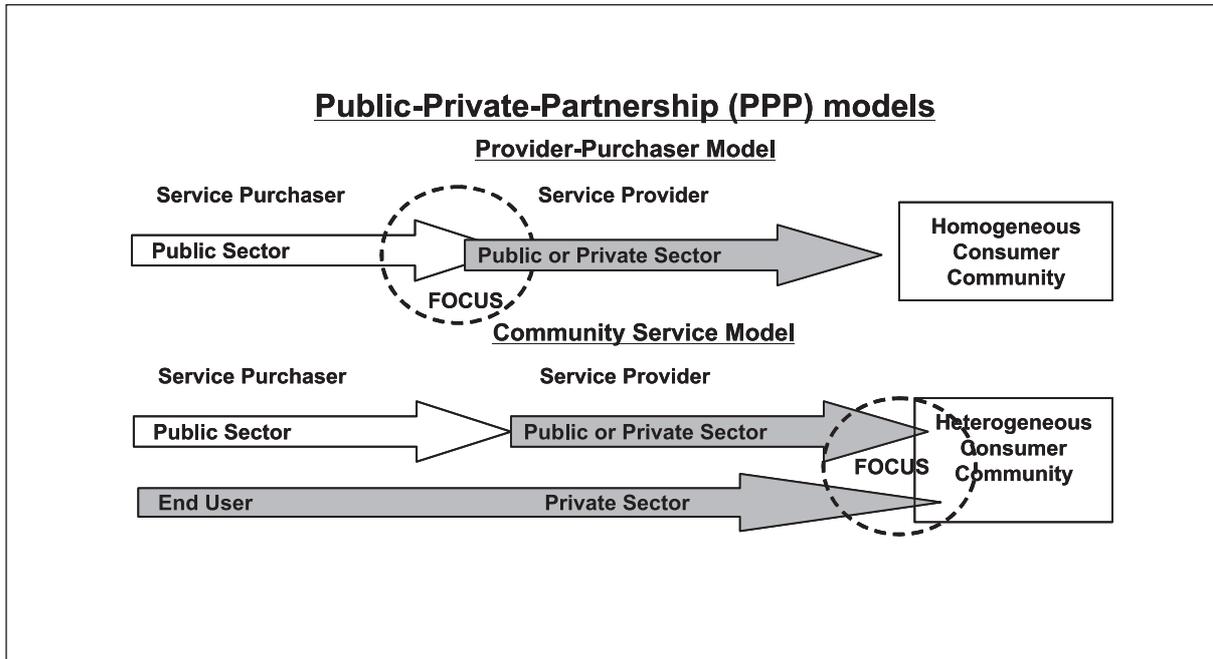


Figure 1. From Purchaser-provider model to Community service model
 (See also Majamaa 2004, Figure 2. Community as a customer in Public Private Partnership)

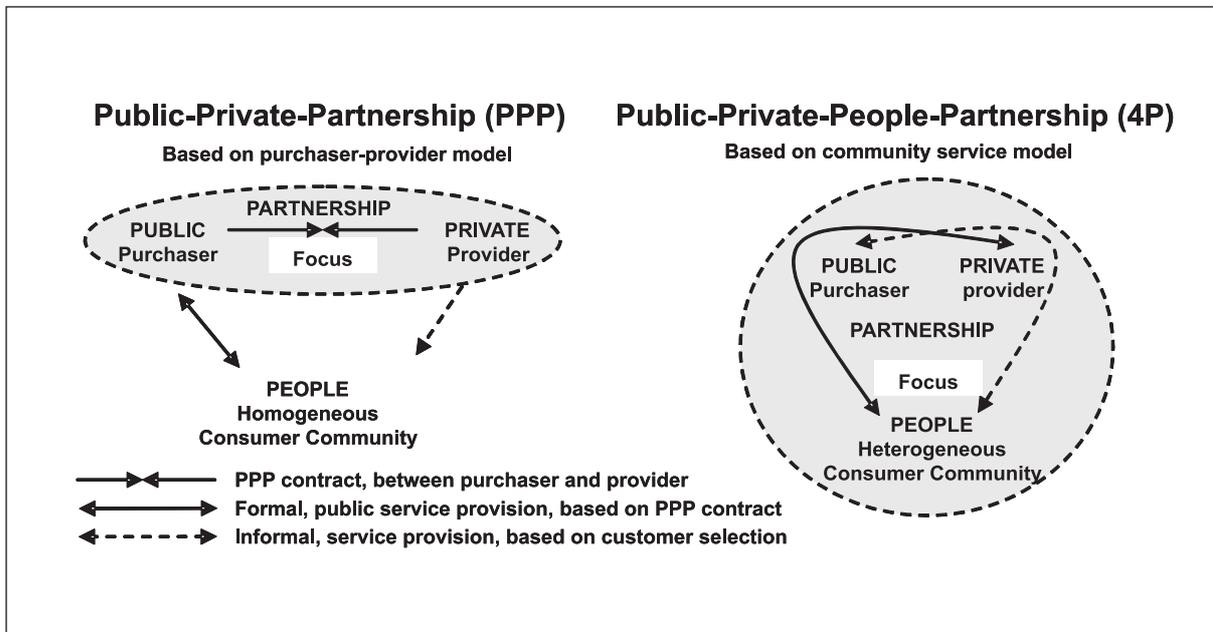


Figure 2. Building the 4th P to the PPP

the end-users. This kind of service production can be cost-effective, but it is not customer-oriented. The customer-oriented 4P model is a more optimal model for flexible service provision and changes in demand. In the 4P model, the focus is on the interface between the end-users (people) and the service providers, both public and private. The formal service provision is based on a PPP contract and core public services, but a private service provider is also able to develop other services by expanding the service provision to correspond to the demand of end-users. In the 4P model, the private provider is also able to create third-party services based on *Customer selection* directly with the end-users. Customers' needs are recognised by two separate channels: formally via political decision-making and municipalities' local democracy; and informally in daily contact with the end-users and by *Customer selection* in third-party services. For example, in the Kaivomestari case, where the core service was education, private service providers are producing the educational, environmental, and support-services related to it. The public body as contracting party and party responsible for the purchasing process is not considered as the only customer in the process as the teachers and the pupils of the school are even more important customers to the service provider. The sport activities in Kaivomestari included services based on the PPP contract, like a swimming pool and gymnasium. In Kaivomestari, the extra cash flow to the private service provider from the third party, the end-users directly, has been quite low. Because the decision-making was based mainly on *Life Cycle approach* and favoured a proposed design to satisfy the public purchaser's needs and not the use of facilities after the school times, the lay-out of the building limits the creation of services directly for the other end-users.

8. NEW SUGGESTED FRAMEWORK FOR 4P PROJECTS EVALUATION

Findings from the case studies point out that customer-orientated service provision should be considered in the early stages of project development. Then the perspective of the end-user could entirely be incorporated into the purchasing process. The project development stage is crucial because the main decisions related to investment and service provision occur during this stage, and over the concession period, changes are extremely limited (Dixon and Pottinger, 2006; Kaya, 2004). The property, which is usually the most expensive single element in the contract, gives physical limits to the service production to be conducted in it (Nisar, 2007). During the concession time, major changes are normally unacceptable because the investors like to secure steady cash flow, based on a tight contract (Dixon and Pottinger, 2006).

In some of the cases, like in Vantaan Point, Frami and Dynamicum, the scheme did not give much space to customer-oriented thinking and innovative service developments. One solution to get innovative proposals could be to keep the project, and the service provision flexible. However, in the studied cases, the construction processes and the buildings themselves were the main focus of the purchasing processes. As noted before, the evaluation criteria used for decision-making in all cases included only *Life Cycle approach* features, and in some cases, like in Vantaan Point, Frami and Dynamicum, almost only technical ones. This is conceivable, but led the focus from service production to property and maintenance issues. From the perspective of the end-users, the property issue is not linked only to the *Life Cycle approach* criteria. The *Diversity* of service provision and *Customer selection* also includes many features related to the property. *Diversity* and *Customer selection* both need the development of flexible spaces, in the begin-

ning and during the concession period which has demands on the property.

The lack of application of the evaluation criteria, and the missed potential of service development from end-users' perspective, particularly in the decision making stage, raises a need to develop a customer-orientated framework for evaluation processes. This new evaluation framework should include all the three criteria categories as evaluation stages, and it is developed for use at pre-qualification and for evaluation of proposals in the tendering process. In pre-qualification the features should be related to the company's capability, and in the tendering stage, to the service outcome of proposals (Pohjonen, 2006; Laine and Junnonen, 2006). If the purchasing process itself has more than one round, the features can be more open in early stages to get innovative solutions, and tighten up during the decision-making stage.

The new framework can also be used to compare the *Public Sector Comparator* (PSC) and PPP solutions. In comparison, PSC is important to point out the benefits of PPP and to verify the costs of it. Traditionally, the PSC has only been used on to the best PPP alternative (Treasury Taskforce 1997b), and only with "Value-for-Money" (VFM) criteria. From the end-users' point of view, it is fundamental that the PSC is on the same track with PPP solutions in the evaluation process (Majamaa, 2004 and 2005). This new framework makes it possible to compare all the elements, not only the VFM features. In the studied cases only in Kaivomestari were the PPP solutions compared using PSC during the tendering process. In Finland, in many cases like Kaivomestari, the public sector had difficulties calculating the real costs of traditional service provision for the PSC. Knowledge of the economics of existing service production is the first step to developing more desirable and cost effective public services in future (Nisar, 2007; Zhang, 2006; Piekkola, 2003). As in Espoo,

where the city had difficulties in calculating the costs of service delivery, Kaivomestari as a PPP project with detailed cost estimation of all the services for next 25 years was seen as an example way to calculate the cost and be one way to help this evolution towards more desirable and cost effective services.

The three categories – *Life Cycle approach*, *Diversity*, and *Customer selection* – comprise the stages in the evaluation process. By evaluating all the proposals through the three evaluation stages, the end-users' point of view is ensured. The customer-orientated criteria have been divided into four categories based on the findings from the case studies. The customer-oriented stages and criteria for evaluation in the purchasing process for 4P projects are presented in Table 3.

The category of "Economic features" is based to the VFM criteria. In its first stage, the *Life Cycle approach*, VFM is related to core public services and property investment. In the next stages, *Diversity* and *Customer selection*, the key issue is the added value for both public core services and private third-party services. The measurement can be done, for example, by calculating the savings from effective and innovative private service production in core services and extra cash flow from third party services. In the studied cases, quality and technical features of property investment were related closely to the *Life Cycle approach*. In the customer-orientated evaluation process more weight is added to the flexibility and usability of the spaces, which is essential to service development and innovations in public core services and in third-party services (Shen et al., 2006).

The next category "Public and private service features", is related to the service delivery, and design and maintenance of property. A very important feature in this category is the innovative capacity to develop both public and private services during the concession period. If the private body does not have an opportu-

Table 3. Customer orientated stages and criteria for evaluation in the purchasing process for 4P projects

Criteria categories	Evaluation stages		
	Life cycle approach	Diversity	Customer selection
Economic features	VFM in public core services and in property investment	Added value in core public services	Added value in third party services and extra cash flow
Quality and technical features related to property	Design & Build and maintenance of property investment	Flexibility and usability of spaces for diversity of core public services	Flexibility and usability of spaces for diverse third party services
Public and private service features	Quality of required core services	Service diversion and innovative development	Possibility for free choice in core public services and innovative development of third party services
Risk shearing and risk management features	Risk shearing and risk management of property investment and core services	Risks from networked service production	Risks of third party services

nity, and if the public body does not insist on the development in services, the conditions for innovative development do not exist. In these cases, like in all the studied projects, the concession period is looked to be stable, and does not encourage any progressive development in services. The public sector concentrates on core public services, as stated in the PPP contract, and the private sector is only looking for ways to provide required services with minimum cost. From the end-users' point of view, the optimal situation would be when the private sector could actively develop third-party services and core public services would also get the benefits of this development. In the case studies, the Kaivomestari and Pyynikki projects were looking for this kind of development, but still the decisions at the final evaluation stage were made only in relation to stable core service production.

In the third category "Risk sharing and management features", customer-oriented evaluation processes includes risks and their management from not only related to the investment and core service production, but also from the *Diversity* and *Customer selection approach*. Networked service production and

third party-services add new type of risks to the service delivery and should therefore be considered separately from *Life Cycle* related risk in *Diversity* and *Customer selection* stages.

In the customer-orientated evaluation process, features are linked to each other and all of these corroborate with the main principles of PPPs to increase public services' diversity and quality, and at the same time use the taxpayer's money more effectively. The *Diversity* and *Customer selection* features have a positive impact on several essential elements of evaluation and decision making, like: *utilization rate; cash flow; residual value; quality of service; innovativeness; and risk management*. Third-party services, based on *Customer selection*, have a positive impact on the utilization rate and the cash flow. When the operator is using same the facilities to direct services to the third-party, in an open market situation, the updating processes of facilities and service development related to it, is not only motivated from the contract term to avoid sanctions, but also becomes crucial to the operator to be able to tempt third-party customers. This kind of development needs innovations and can be seen as a guarantee for quality services and

improvements also in core public services during the concession period. Diverse service provision needs flexible and maintained property and therefore increases the residual value of the property. All these features are affecting the risk sharing and risk management elements of the project. Dynamic and positive relationships between the public and private sector, working together to deliver good quality core services and creating new service provisions to the only real customers, the people, is the optimal solution to avoid risks and get benefits from the partnership.

9. CONCLUSION

The member states of the European Union (EU) are reforming their public services and discussing alternatives for producing future public services for their citizens. Public-Private Partnerships (PPPs) are considered as one solution for providing quality and cost effective public services.

Using the suggested framework, based on the theory of rational consumer and public material related to bidding processes, selected PPP cases were studied from the perspective of the end-user. The research aimed to study the requirements and desirable characteristics, given by public purchasers during the purchasing process, and whether those given features have been recognised in final evaluation stages and evaluation criteria used for decision making. The suggested framework found to be usable to analyse PPP projects.

The findings of this study were used to develop a new Public-Private-People Partnership (4P) model, where the end-users' role is clearly visible. While customer-oriented development of public services and the needs of end-users have been noted to be crucial points in innovative development of today's public services and welfare society, the analysis pointed out a fundamental lack of end-users' perspectives in

the evaluation processes, especially in the evaluation criteria used for decision-making. Evaluation processes, used in the studied cases, were mainly based on Life Cycle approach criteria and not customer-oriented and would not be advisable from the point of public services' end-users.

There was a lack of application of the evaluation criteria, and the missed potential of service development from the end-users' perspective, particularly in the final decision-making stage. As a practical application of this research, a more customer-orientated framework to evaluate PPP projects was developed. The new developed framework includes three criteria categories as evaluation stages: *Life Cycle approach*, *Diversity*, and *Customer selection*.

The results of this study can be useful to public sector purchasers and to private sector providers to understand the limitations of current PPP practices and to further develop their practices towards more customer-oriented service production. To the end-users' of public services, results of this study are valuable in understanding the possibilities and benefits of PPPs and 4Ps models in public service production.

REFERENCES

- Abednego, M.P. and Ogunlana, S.O. (2006) Good project governance for proper risk allocation in public-private partnerships in Indonesia, *International Journal of Project Management*, 24(7), pp. 622–634.
- Abell, P. (1996) Sociological theory and rational choice theory. In Turner, B. (ed.) *The Blackwell Companion to Social Theory*, Oxford: Blackwell Publishers.
- Ahmed, S. and Ali, S. (2006) People as partners: Facilitating people's participation in public-private partnerships for solid waste management, *Habitat International*, 30(4), pp. 781–796.
- Akintoye, A., Hardcastle, C., Beck, M., Chinyio, E. and Asenova, D. (2003) Achieving best value in private finance initiative project procurement,

- Construction Management and Economics*, 21(5), pp. 461–470.
- Aronen, K. (2003) Hyvinvointikunta muutoksessa [Welfare community in transitions]. In Lundström, I. (ed.) *Parasta palvelua – selvitys kuntapalveluiden järjestämisen vaihtoehtoista* [Best service – Report of alternatives in municipality services], PRAKSIS-tiedosta toimeen, No. 9, Suomen Kuntaliitto, Helsinki. (In Finnish)
- Barr, D. (2007) Ethics in public health research: A research protocol to evaluate the effectiveness of public-private partnerships as a means to improve health and welfare systems worldwide, *American Journal of Public Health*, 97(1), pp. 19–25.
- Bauman, Z. (2001) Consuming life, *Journal of Consumer Culture*, 1(1), pp. 9–29.
- Bauman, Z. (2002) *Liquid modernity*. Cambridge: Polity Press.
- Bauman, Z. (2007) Collateral casualties of consumerism, *Journal of Consumer Culture*, 7(1), pp. 25–56.
- Bode, I. (2006) Disorganized welfare mixes: voluntary agencies and new governance regimes in Western Europe, *Journal of European Social Policy*, 16(4), pp. 346–359.
- Brunila, A., Jokinen, H., Kerola, H., Mäkitalo, R. and Putkonen, C. (2003) Hyvinvointipalvelujen turvaaminen [Saving the welfare services], *Valtiovainministeriön julkaisuja*, Vol. 4. Edita Prima Oy, Helsinki. (In Finnish)
- CIC (2000) *The Role of cost savings and innovations in PFI*. London: Tomas Telford.
- Demirag, I., Dubnick, M. and Khadaroo, M.I. (2004) A framework for examining accountability and value for money in the UK's private finance initiative, *Journal of Corporate Citizenship*, 15, pp. 63–76.
- Dixon, T. and Pottinger, G. (2006) Lessons from real estate partnerships in the UK: drivers, barriers and critical success factors, *Property Management*, 24(5), pp. 479–496.
- Earl, G. and Regan, M. (2003) From the three P's to the three W's: Public Private Partnerships and Beyond, *The Australian Property Journal*, 37, pp. 527–533.
- Edwards, P. and Shaoul, J. (2003) Partnerships: for better, for worse? *Accounting, Auditing & Accountability Journal*, 16(3), pp. 379–421.
- EIC (2003) *EIC White Book on BOT/PPP*. European International Contractors.
- Esping-Andersen, G. (1990) *The Three Worlds of Welfare Capitalism*. Cambridge: Polity Press.
- El-Gohary, N.M., Osman, H. and El-Diraby, T.E. (2006) Stakeholder management for public private partnerships, *International Journal of Project Management*, 24(7), pp. 595–604.
- European Commission (2003a) *Internal market Strategy, Priorities 2003–2006*. [Online] Brussels, European Commission, 7.5.2003 COM (2003) 238 final. Available at: http://eur-lex.europa.eu/LexUriServ/site/en/com/2003/com2003_0238en01.doc [accessed 17 April 2007]
- European Commission (2003b) *Guideline for successful public-private-partnerships (March 2003)*. [Online] Brussels, European Commission. Available at: http://europa.eu.int/comm/regional_policy/sources/docgener/guides/ppp_en.pdf [accessed, 24 January 2006]
- European Commission (2004a) *Green Paper – On Public-Private-Partnerships and Community Law on Public Contracts and Concessions*. [Online] Brussels, European Commission, 30.4.2004 COM (2004) 327 final. Available at: http://eur-lex.europa.eu/LexUriServ/site/en/com/2004/com2004_0327en01.pdf [accessed 17 April 2007]
- European Commission (2004b) *A report on the functioning of public procurement markets in the EU: benefits from the application of EU directives and challenges for the future 03/02/2004*. [Online] Brussels, European Commission. Available at: http://ec.europa.eu/internal_market/publicprocurement/docs/public-proc-market-final-report_en.pdf [accessed 17 April 2007]
- Gaffney, D. and Pollock, A.M. (1999) Pump priming the PFI: why are privately financed hospital schemes being subsidised? *Public Money & Management*, 17(3), pp. 11–16.
- Grimsey, D. and Lewis, M. (2002) Evaluating the risks of public private partnerships for infrastructure projects, *International Journal of Project Management*, 20(2), pp. 107–118.
- Heap, S., Lyons, B., Hollins, M., Sugden, R. and Weale, A. (1992) *The Theory of Choice: A Critical Guide*. Cambridge: Wiley-Blackwell.
- HM Treasury (2003) *PFI: meeting the investment challenge*. [Online] July 2003. Available at:

- http://www.hm-treasury.gov.uk/media//648B2/PFI_604.pdf [accessed 24 January 2007]
- HM Treasury (2004) *Standardisation of PFI Contracts (SoPC)*. [Online] Version 3, April 2004. Available at: http://www.hm-treasury.gov.uk/media/B42/D9/pfi_sopc_ver3_complete_apr04.pdf [accessed 24 January 2007]
- IPPR (2001) *Building Better Partnerships*. London: Institute of Public Policy Research.
- Kaya, S. (2004) Relating building attributes to end user's needs: "the owners-designers-end users" equation, *Facilities*, 22(9/10), pp. 247–252.
- Kuntaliitto (2003) Best service – Report of alternatives in Municipality services. In: Lundström, I. (ed.) *Parasta palvelua – selvitys kunta-palveluiden järjestämisen vaihtoehdoista*, Suomen Kuntaliitto, Helsinki. (In Finnish)
- Laine, V. (2006) *Julkisten kumppanuushankkeiden kilpailuttamisesta* [Procurement processes in public purchasers]. Helsingin yliopisto, Oikeustieteellinen tiedekunta, Helsinki. (In Finnish)
- Laine, V. and Junnonen, J.-M. (2006) *Julkisen elinkaarihankkeen hankintaopas* [Guide to purchase a life cycle approach project]. The Confederation of Finnish Construction Industries, Helsinki. (In Finnish)
- Majamaa, W. (2004) Julkis-yksityinen yhteistyö rationaalisen kuluttajayhteison nakokulmasta [Public private partnerships from the perspective of a group of rational consumers], *Kunnallistieteellinen aikakauskirja*, Vol. 2, pp. 150–166. (In Finnish)
- Majamaa W. (2005) Evaluation of proposals for PPP projects from the perspective of a group of rational consumers. In: Kähkönen, K. and Sexton, M. (ed.) *Combining Forces – Advancing Facilities Management & Construction through Innovation Series*, 11th Joint CIB International Symposium, June 13–16, 2005, Helsinki, Finland. Vol. IV, Section II, pp. 200–213.
- Mattar, M.H. and Cheah, C.Y.J. (2006) Valuing large engineering projects under uncertainty: private risk effects and real options, *Construction Management and Economics*, 24(8), pp. 847–860.
- Miljkovic, D. (2005) Rational choice and irrational individuals or simply an irrational theory: A critical review of the hypothesis of perfect rationality, *Journal of Socio-Economics*, 34(5), pp. 621–634.
- Nisar, T. (2007) Risk management in public-private partnership contracts, *Public Organization Review*, 7(1), pp. 1–19.
- Piekkola, L. (2003) Omasta palvelutuotannosta vaihtoehtojen maailmaan [From public production to world of alternatives]. In: Lundström, I. (ed.) *Parasta palvelua – selvitys kunta-palveluiden järjestämisen vaihtoehdoista*, Suomen Kuntaliitto, Helsinki. (In Finnish)
- Pohjonen, M. (2006) *Julkisen elinkaarihankkeen kilpailuttamisopas* [Guide to make public procurement]. Helsinki. (In Finnish)
- Public Procurement Act (1505/1992) [Online] Available at: <http://www.finlex.fi/en/laki/kaannokset/1992/en19921505.pdf> [accessed 20 April 2007]
- Rohlf, W. (1996) *Introduction to Economic Reasoning*. 3rd edition. Addison-Wesley Publishing Company, Inc, USA.
- Shaoul, J. (2005) A critical financial analysis of the Private Finance Initiative: selecting a financing method or allocating economic wealth? *Critical Perspectives on Accounting*, 16(4), pp. 441–471.
- Shen, L.-Y., Platten, A. and Deng, X.P. (2006) Role of public private partnerships to manage risks in public sector projects in Hong Kong, *International Journal of Project Management*, 24(7), pp. 587–594.
- Thobani, M. (1999) Private infrastructure, public risk, *Finance and Development*, 36(1), pp. 50–53.
- Tiong, R.L.K. and Alum, J. (1997) Evaluation of proposals for BOT projects, *International Journal of Project Management*, 15(2), pp. 67–72.
- Treasury Taskforce (1997a) *Partnerships for prosperity: The Private Finance Initiative*. London HM: Treasury.
- Treasury Taskforce (1997b) *Public sector Comparators and value for money, draft policy statement*. London: HM Treasury.
- Trentmann, F. (2007) Citizenship and consumption, *Journal of Consumer Culture*, 7(2), pp. 147–158.
- TTF (2000) *Value for Money Drivers in the Private Finance Initiative*. London: Arthur Andersen and Enterprise LSE & HM Treasury.
- Varian, H. (1996) *Intermediate Microeconomics – A Modern Approach*. 4th edition. New York: W.W. Norton & Company, Inc.

- World Bank (2007) *Expected benefits from PPP*. [Online] Available at: http://rru.worldbank.org/Documents/Toolkits/Highways/1_OVERDIAG/11/112.htm [accessed 17 April 2007]
- Yliherva, J. (2006) Tuottavuus, innovaatiokyky ja innovatiiviset hankinnat [Productivity, innovations and innovativeness in purchasing process], *Sitran raportteja*, No. 64, Sitra, Helsinki. (In Finnish)
- Zafirovski, M. (1999) What is really rational choice? Beyond the utilitarian concept of rationality, *Current Sociology*, 47(1), pp. 47–113.
- Zhang, X. (2006) Factor analysis of public clients' best-value objective in public-privately partnered infrastructure projects, *Journal of Construction Engineering and Management-ASCE*, 132(9), pp. 956–965.

SANTRAUKA

Į GALUTINIŲ VARTOTOJŲ ORIENTUOTOS VIEŠOSIOS IR PRIVAČIOSIOS PARTNERYSTĖS NEKILNOJAMOJO TURTO SEKTORIUJE

Wisa MAJAMAA, Seppo JUNNILA, Hemanta DOLOI, Emma NIEMISTÖ

Europos Sąjunga (ES) vykdo viešųjų paslaugų reformą ir viešąsias bei privačiąsias partnerystes (VPP) siūlo kaip sprendimą teikti pigias ir kokybiškas nekilnojamojo turto paslaugas. Tačiau pastebėta, kad nekilnojamojo turto sektoriuose VPP požiūris susiduria su reikšmingais suvaržymais, kurie yra susiję su galutinių vartotojų (plačiosios visuomenės) perspektyva. Šiame darbe siekiama pademonstruoti, kaip VPP projektams nepavyko pasiekti pirkimo procesuose numatytų pageidaujamų charakteristikų ir patenkinti galutinio vartotojo lūkesčius. Nors visi penki pagrindiniai Suomijos VPP projektai, kurie yra nagrinėjami darbe, į klientą orientuotą viešųjų paslaugų plėtrą ir galutinių vartotojų poreikius nurodo kaip svarbiausius punktus, atvejo tyrimai parodė, kad gebėjimo suprasti bei išlaikyti galutinio vartotojo perspektyvą iš esmės trūko ir organizuojant konkursus, ir vertinant. Galutinio vartotojo perspektyvos išnykimas ypač akivaizdžiai išreiškia galutinio vertinimo etapas ir vertinimo kriterijai, kuriais grindžiami sprendimai. Išvados pritaikytos plėtojant naują siūlomą viešosios bei privačiosios žmonių partnerystės (VPŽP) modelį. Rezultatai naudos gali duoti viešojo sektoriaus pirkėjams ir privačiojo sektoriaus tiekėjams, siekiant suprasti esamų VPP praktiškumą ir toliau plėtojant savo praktikas, kad teikiamos paslaugos būtų labiau orientuotos į klientą.