KEY SUCCESS FACTORS

FOR EFFECTIVE PUBLIC PRIVATE

PARTNERSHIPS IN SOUTH AFRICAN

PUBLIC HOSPITALS

Nandi Diliza

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg

July, 2008

ABSTRACT

Context

This research is a study of a Public Private Partnership (PPP) in a South African public hospital using the Inkosi Albert Luthuli Central Hospital in Durban as a case study. An investigation of the challenges facing the PPP as well as the key success factors for this PPP, as expressed by interview respondents, will be determined. Based on findings made in these investigations, a proposal for key success factors for PPPs in South African public hospitals will be made.

A brief statement of the problem

The researcher has investigated what the challenges are for PPPs in South African public hospitals. Thereafter key success factors for PPPs are determined.

The method of data collection

In-depth interviews were conducted to elicit responses to the research problems. A set of interview questions were prepared prior to the interviews and were posed to the respondents. This ensured that the interviewer got responses to similar questions so as to be able to get information on the research problems.

The key findings

Several challenges are facing the PPP being studied. These are a perceived high cost of the PPP as well as doubts about value for money in the partnership. The other challenges are dissatisfaction by some of the managers, on the client's side, about the functioning of the help desk, response to logged calls and application of the penalty clause.

Failure by the state to appoint a dedicated, full time, appropriately qualified and skilled contract manager was cited as the main weakness in the management of the PPP.

Key success factors of the PPP were that the service provider was in a position to provide the state with a high quality package in all the areas under the PPP; these are Facilities Management, Information Technology and Medical equipment. There had been adequate stakeholder participation during the planning phase of the partnership and even now there are various forums at which the service provider meets with the client at various areas of management and at operational level.

The key message

PPPs in the South African public sector are a fairly new concept that is providing some lessons to be learnt. Although PPPs provide required capital to enable the state to venture into high value massive public health sector projects, there are challenges facing PPPs and every effort needs to be made to ensure that the challenges and risks are avoided or, at least, mitigated against.

Key success factors have been identified in this case study and, ensuring that these are factored into future PPPs in the health sector will definitely assist government in planning and implementing successful partnerships.

DECLARATION

I, Nandi Diliza, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination at this or any other university.

Nandi Diliza

Signed at Johannesburg, South Africa

On the …… day of July 2008

DEDICATION

This research report is dedicated to my late father, Penrose Malungisa Mbawu who, despite financial difficulties, inculcated in me a culture of education, learning and a high sense of achievement. Without you, Bawo, Ngconde, Kawuta I would not be where I am today. Thank you for believing in me, for encouraging me all the way and not accepting my pleas to be allowed to admit defeat. May your beautiful soul rest in peace.

ACKNOWLEDGEMENTS

My first acknowledgement goes to my patient supervisor, Mr Michael Mcethe, without whom I would have never gone through this last mile of this course, the research report. To Michael I say, “ungadinwa nangamso Chizama”. I also wish to acknowledge Professors David Dickinson and Rasova Rijamampianina, with whom I began this arduous journey of the research report. I cannot forget to thank Claire Beswick, from the WBS case study section, who gave me both material and moral support during the data collection part of this research.

My heartfelt gratitude goes to my loving husband, Mzolisi, for his untiring encouragement and support throughout my studies, and to my children Yola and Athi for their understanding, encouragement and sacrifice of time with Mom.

I also wish to thank the KwaZulu-Natal Department of Health, management and staff of Inkosi Albert Luthuli Central Hospital for allowing me to use their PPP as a case study and the latter for their cooperation during the study. Many thanks to my employer, the Eastern Cape Department of Health for allowing me time and sponsoring me for the last leg of my studies.

And, last but not least, my friend and former classmate, Ms Tsepiso Makgothi, who planted in me the idea of applying for an MBA after we finished the MAP. Most importantly, I give all the praise and glory to Almighty God for keeping me in good health and inspiring me not only to start but to finish this race.

Abbreviations:

BOO:	Build Operate Own
BOOT:	Build Own Operate Transfer
BOT:	Build Operate Transfer
BOTT:	Build Operate Train Transfer
DOH:	Department of Health
IALCH:	Inkosi Albert Luthuli Central Hospital
NHS:	National Health Service
PFI:	Private Financing Initiative
PFMA:	Public Finance Management Act
PPP:	Public Private Partnership
RSA:	Republic of South Africa
SLA:	Service Level Agreement
SPV :	Special Purpose Vehicle
TA:	Transaction Advisor
USA:	United States of America

TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION

1.1 Objective of the study

The objective of the study is to determine key success factors for Public Private Partnerships in South African public hospitals, using the Inkosi Albert Luthuli Central Hospital in Durban, South Africa, as a case study. The study will be conducted by discussing the literature review, conducting interviews and making recommendations on what the key success factors are.

1.2 Context of the study

This study is conducted at a time when the public health sector in South Africa is starting to venture into PPPs. The main reason for this new way of doing things is to access private sector resources to build and manage health infrastructure of a standard that would be comparable to hospitals elsewhere in the world, particularly in developed countries.

PPPs are mechanisms to assist government to run projects that are intended to produce a number of benefits in support of a country's developmental objectives.

Picciotto(1996) states that the ultimate objective of development is human welfare. He further states that provision of social services, such as education and health, as well as basic services, such as water, electricity and sanitation, is a form of human welfare. Such activities then become a political instrument and lobbying mechanism by politicians who gain more support among their communities by creating new facilities and services.

PPPs can take different forms, one of which is outsourcing. According to Hedgecock (1996:213), “In the 1970’s and early 1980’s, conventional wisdom was very much that organisations should be fully integrated”. This meant that an organisation ought to provide both core and non-core services and functions and not enlist the services of outsiders to help it with non-core functions. Hedgecock (1996:213) goes on to state, “The philosophy was a simple one; the more we own and control, the more efficiently we will be able to run our business.” The companies were also of the view that contracting out meant forgoing some profit which could have been retained in the business.

This approach has inherent pitfalls in that the organisation needs to have expertise in vast, diverse and non-core functions, instead of channelling its energies into excellence in its core business. Another disadvantage of an integrated in-house system of service delivery is that organisations have to be very large and this would sometimes divert the attention of managers from the organisation’s core business. It would thus make sense that an organisation defines what its core business and activities are and determines what its non-core functions are (Hedgecock, 1996).

Despite the advantages of contracting out discussed above, the experience of the National Health Service (NHS) in the early eighties, when this approach was first adopted, was that outsourcing was not all that successful. The main problem was that there was no experience on the part of the NHS in drawing up specifications for contracting out, in managing service level agreements, and monitoring and evaluating provider contracts. The lack of proper monitoring of service providers resulted in deterioration in standards of non-core service delivery. Suppliers, on the other hand, also had no experience in rendering service to hospitals and would thus not be able to comply with requirements of the contracts. Sometimes they would have under-priced and thus be unable to render the specified service. Many small enterprises went insolvent as a result of failing to meet their obligations (Hedgecock, 1996).

In order to assist government departments with guidelines for deciding on and entering into a PPP, National Treasury has prepared and documented a PPP manual which acts as a bible for PPPs in South Africa. The overriding characteristic of the conditions is that, while it is legitimate for the private partner to make a profit, it should not do so at the expense of the public sector, and the public sector must ensure that at all times there is a cost benefit for it in the partnership. The issue of transfer of financial, technical and operational risk to the private sector plays a pivotal role in a PPP (National Treasury, 2004).

1.3 Background of the study

Governments worldwide have been seriously considering the matter of entering into partnerships with the private sector. It is thus necessary to discuss what views are held about the topic of public private initiatives and partnerships and their various permutations.

Hedgecock (1996), in highlighting the positive role of partnerships in hospital service provision, states that a hospital would benefit a lot by outsourcing its non-core activities. He asserts that in outsourcing, specialist providers, like caterers, would be likely to manage their specialist business best, there would be economies of scale for them and that benefit would filter down to the outsourcing organisation. For example, a national catering company should be able to buy produce more cheaply than a local one.

In in-house non-core service provision, capital tends to be tied up in assets that have nothing to do with the organisation's core business. Each of the support or non-core services tends to be small and the organisation is therefore unable to achieve economies of scale or to build up real expertise in a particular area. Having weighed the pros and cons of being fully integrated, a management decision needs to be taken about which activities can be contracted out and which need to be kept in house.

Despite the disadvantages of an integrated organisation discussed above,

Hedgecock (1996) argues that a fully integrated organisation does have some advantages. If the organisation can manage its activities efficiently and economically, it does not have to pay someone else to render services and thus makes savings in the form of the profit that would have been made by a contractor. Also, if a particular requirement is absolutely crucial – perhaps supplying a particular component or spare part – maintaining the capability in-house may be sensible, both in terms of assuring your own supply and denying the component to competitors.

In the context of this study, which is mainly about Public Private Partnership, the author will dwell on the advantages of forming partnerships with the private sector in enhancing healthcare service delivery. The outsourcing organisation would not need to incur capital expenses by purchasing equipment that is required for the outsourced service and the contracted supplier would be likely to invest in research and development, thus ensuring excellence in service provision. All these measures would ensure that internal management is able to focus all its attention on the core business.

Literature illustrates that contracting out service delivery, even for non-core services, is not necessarily a panacea, but it needs to be considered carefully and entered into with extreme caution.

Another form of a PPP is a Private Financing Initiative. To illustrate the issues which arise in such initiatives, Britain's National Health Service project of rebuilding the Princess Margaret Hospital in Swindon, utilising private sector resources will be

cited. Their plans were to relocate and rebuild Princess Margaret Hospital at a new site, as a Greenfield operation, using modern design and planning techniques which would ensure superior systems and process implementation (Keeber, 1997).

Under the topic “Private Finance: When An Initiative Becomes Reality”, Keeber (1997:300) discusses this PFI and says, “No one should be under any doubt that to achieve success in a PFI scheme one has to overcome variously the cynicism, resistance, suspicion and incomprehension of purchasers, staff and the community one serves.” He emphasises the importance of buy-in by leadership, which in the case of South Africa would be the National Director General for Health and the Superintendent General or Provincial Head of Department. Leadership must ensure that all stakeholders are incorporated into early stages of the discussions; otherwise they can thwart efforts to reach agreements and to cooperate towards successful execution of the initiative.

According to Keeber (1997), the private partner not only provided the requisite funding for the PFI, but also contributed a wealth of new ideas and knowledge which ensured that there was transfer of knowledge to the public sector. This resulted in a huge paradigm shift from the existing culture within the NHS; several interest groups within the NHS were indeed very cynical and doubtful that the hospital would ever be built under this new approach. It is clear that to enter into public private initiatives requires a visionary as a leader as well as determination, open-mindedness and perseverance.

1.4 The Problem and Sub-problems

1.4.1 Research problem

In this research key success factors for PPPs in South African public hospitals will be determined.

1.4.2 Sub-problems

1.4.2.1 The first sub-problem is to identify and define the different types of Public Private Partnerships in hospital services.

1.4.2.2 The second sub-problem is to identify the challenges to effective PPPs in public hospitals.

1.4.2.3. The third sub-problem is to investigate and state the success factors for PPPs in public hospitals.

1.5 Scope and limitations

The study will utilise one PPP in a South African public hospital, the Inkosi Albert Luthuli Central Hospital (IALCH) in Durban. This hospital is ideal for this case study because it is a full PPP, where there is significant transfer of risk from the state to the service provider. The state is only responsible for the clinical aspect of patient care. The building infrastructure, medical equipment, facility management, administration,

security, transport, cleaning, linen, laundry, catering and other support services have been set up and are managed by the private partner.

It must be noted that in a hospital situation there are two groupings of service, namely, core and non-core services. The core service of a hospital is the rendering of medical treatment, while the provision of accommodation and all its requisite services are non-core. This implies that all non-core functions at the Inkosi Albert Luthuli Central Hospital have been contracted out to the private partner.

The partnership agreements which will be taken up for investigation and study are:

- The building infrastructure and facility management;
- Procurement and maintenance of big ticket medical equipment;
- Catering; and
- Laundry and linen management.

These units are being studied because the first two involve a huge capital expenditure while the latter two are usually a challenge to manage in public hospitals and are the key areas that inform public perceptions of quality of care in a hospital.

The reason for not undertaking the study throughout the whole Inkosi Albert Luthuli Central Hospital PPP is that the institution is huge and is being completely run as a PPP, except for the clinicians and nurses treating the patients. It would therefore be an insurmountable task to conduct a study of the entire PPP. It would take volumes

of documents and endless time to cover everything.

1.6 Significance of the study

The South African public health sector is trying to get into PPPs, so there is a lot to be learnt from the findings and recommendations of this research.

Government has repeatedly stated that it views the private health sector as a potential partner in addressing the burden of health care in the country.

A model for partnerships that will lead to improved efficiency and service delivery needs to be developed. In that way, the study fills a gap in knowledge and, this will not be knowledge simply for the sake of knowledge, but an initiative that will assist government and the private sector in making meaningful input when entering into PPP agreements.

Although PPPs are a strategic direction that has been adopted by the democratic government's National Treasury Department for purposes of acceleration and efficiency of service delivery, not much has been published on the structuring of Public Private Partnerships in the country.

An effort has been made in this research to study initiatives in South Africa, and in other parts of the world, that have a resemblance to a PPP. When this study has been completed a knowledge gap on PPP initiatives will have been filled. The outcomes of such initiatives will be studied and recommendations will be made for a

framework for future PPPs in the health sector. The study will provide a framework, guidance or resource material to the health department on the structuring of PPP agreements.

To illustrate National Treasury's commitment to set up PPPs, a PPP unit has been set up to assist the provinces with conceptualisation, planning and implementation of PPPs. The PPP unit starts at the stage of assisting the province with identifying potential PPP projects, drawing motivations and requests for registration of projects as PPPs, drawing up of specifications for sourcing in transaction advisers to assist with planning the PPP and drawing specifications for requesting proposals for service provision.

Lastly, the findings of the study will help the country in strengthening and improving its modus operandi for PPPs, thus having a positive impact towards reducing the inherent risks for government when it enters into PPP agreements.

1.7 Assumptions

In order for the study to have any meaningful impact on the healthcare situation in South Africa, it has become necessary to make certain assumptions about the Inkosi Albert Luthuli Central Hospital:

- That the PPP is fully developed;
- That the IALCH is a typical example of a tertiary hospital as defined by the National Department of Health's Integrated Health Planning Framework such that

should other provinces wish to build and operate or even revitalise tertiary hospitals this case study can be used as a model or prototype;

- That this PPP is good for developing a framework for further PPPs within the Republic of South Africa;
- The documents to be studied, that is, tender specifications, contracts and service level agreements are accurate, relevant and truthful;
- The benefits which will be determined in the study are replicable and will be applicable to all public hospitals in the country.

1.8 Definition of terms

Public Hospital

A public hospital is a hospital that is run by the state with state funds and renders healthcare for the citizens of a country irrespective of their ability to pay or not.

Private Sector

All institutions or organisations that are outside the public sector, whether they are profit distributing or not.

Public Private Partnership

A commercial transaction between an institution and a private party in terms of which the private party either performs an institutional function on behalf of the institution for a specified or indefinite period; or acquires the use of state property for its own commercial purposes for a specified or indefinite period (Republic of South Africa).

CHAPTER 2: LITERATURE REVIEW

2.1 Different types of PPPs

There are various types of partnerships that can be entered into between the public and private sectors. These will all be generally referred to as Private Public Partnerships (PPPs). In the literature, the types of partnerships are classified into different categories and will be briefly discussed in this section.

According to the National Treasury (2004), a PPP is a contract between a public sector institution and a private party, in which the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project. Two types of PPPs are specified in this manual – where the private party performs an institutional function or where the private party acquires the use of state property for its own commercial purpose or a combination of these two. The private party gets money from the government institution for rendering the service or by collecting user fees or a combination of both, where minimal user fees are charged and the government subsidises the service.

In the HM Treasury (2006), it is argued that a PPP refers to any alliance between government and private companies to deliver a public project or service. It is clear that this definition is very broad, as it refers to any arrangement that could be entered into between government and a private company. It is probably for this reason that the South African government decided to embark on an

initiative to define how PPPs in the country will be fashioned and how they will be entered into (National Treasury, 2004).

The Wikipedia Encyclopaedia (2006) describes a PPP as a system in which a government service or private business venture is funded and operated through a partnership of government and one or more private sector companies. These are sometimes referred to as P3 schemes. In some types of PPP the government uses tax revenue to provide capital for investment, with operations run jointly with the private sector or under contract. In other types, notably the Private Finance Initiative, capital investment is made by the private sector on the strength of a contract with government to provide agreed services. Government contributions to a PPP may also be in kind, notably the transfer of existing assets. In that case the state might allow the private company to make use of state infrastructure, like a building, to render a service to the public and generate income from the service.

Typically, a private company plans, finances and constructs infrastructure, leases it to the state and maintains it during the lease period. The private sector, in the form of a consortium, typically forms a special company called a "special purpose vehicle" (SPV) to build and maintain the asset. The consortium is usually made up of a building contractor, a maintenance company and a bank lender. It is the SPV that signs the contract with the government and with subcontractors to build the facility and then maintain it. A typical PPP example would be a hospital building financed and constructed by a private developer and then leased to the hospital authority. The private developer then acts as landlord, providing housekeeping and other non-

medical services while the hospital itself provides medical services (Wikipedia Encyclopaedia, 2006).

2.1.1 Private Financing Initiative (PFI)

A specific type of PPP which has been developed and defined in the United Kingdom is a PFI. HM Treasury (2006:3) refers to a PFI as “a more formal approach to PPP adopted in the United Kingdom. In a PFI the public sector contracts to purchase quality services on a long-term basis, so as to take advantage of private sector management skills incentivised by having private finance at risk”. The key word here is risk, which is transferred from government to the private sector. If there is no risk transfer to the private sector and government remains with all the risk, this cannot be referred to as a PFI but as outsourcing, which will be discussed later in the text.

Keeber (1997) defines a PFI as a method of acquiring the use of capital assets which are owned and funded by the private sector. In a PFI, a government institution decides to embark on a capital intensive project for which it has inadequate or no funding. In that case, it will invite bids from the private sector to bring in capital, set up the project and operate it. Thereafter the private entity will recover its costs through concession payments by government, by collecting user fees, or a combination of both over a stipulated time period.

The private partner takes on responsibility for providing a public service, including maintaining, enhancing or constructing the necessary infrastructure. If there is a

service component to the PFI, the public sector specifies a level of service in return for an annual payment, called a unitary charge. PFIs are generally used to set up or refurbish huge infrastructural projects and, in the UK this financing model has been used to build hospitals, schools and transport infrastructure (HM Treasury, 2006).

The Wikipedia Encyclopaedia (2006) states that the Blair government in Britain encouraged outsourcing of medical and support services to the private sector. The system used for this outsourcing is the PFI route and has enabled an increasing number of hospitals to be built by private sector consortia. These PFIs are granted under long-term contracts for rendering of medical services, like running of surgical centres and non-medical services, like catering.

To illustrate some of the healthcare PFIs which have been documented, the case of the Princess Margaret Hospital in Swindon, Britain, will be utilised. A PFI was entered into by Britain's National Health Service for rebuilding the hospital, utilising private sector resources (Keeber, 1997). The plans were to relocate and rebuild Princess Margaret Hospital at a new site, as a greenfield operation, using modern design and planning techniques, which would ensure superior systems and process implementation (Keeber, 1997). This is the type of PFI where the private company also assumes operation of the state institution. The private entity would operate the service for a fixed period until such time that it had recovered all its costs and had, in addition, made a profit. During the operation period, the private company must transfer skills to the state employees, so that the operation is sustainable when the private company's contract period comes to an end.

Another hospital PFI initiative is three Peterborough hospitals, which were being built and refurbished as a PFI. This was a three hundred million pound project which involved designing, building, financing, operating and maintaining the new facilities by a private company (News Digest, 2004). This illustrates the format that a PFI can actually take, namely, from design down to operation and facility management. This would depend on what the state has identified to be its need and has specified in the tender. It is advisable to go this route, so that the company which has designed and built an infrastructure, has the responsibility and accountability for the “after sales” service as well. If a company knows that it has to look after and maintain a facility which it designed and built, the likelihood is that it will make sure that it does a proper job during the design and construction phase and will not take short cuts.

A different type of PPP has been documented by Perera (2006) where he cites three examples of partnerships involving private companies and civil servants in the United States of America. In the first example, the Army Corps of Engineers announced that it would give a $447.3 million contract to a team combining federal employees and the leading Defence Department contractor. In the second example, in 2005 civil servants employed by the Energy Department teamed with a consortium of companies called Energy Enterprise Solutions to beat private sector bids in a contract to manage the department’s information technology services. The third example was where Federal Aviation Administration employees joined a private company called Harris Corporation to compete to operate flight service stations (although they lost the bid). This type of PPP is referred to as an in-house bid

(Perera, 2006).

This PPP model could be challenged as far as issues of governance and integrity are concerned, because civil servants are paid by the state to do their jobs. It might seem as if the same civil servants, who are on the public payroll, are now devising ways and means of dipping their hands into the state's coffers by cooperating and forming consortia with private companies and bidding for government business. Doesn't it follow that a consortium that includes civil servants is likely to win the bid over the purely private entities? This assertion is being made on the basis that the bid evaluators are most probably other civil servants who might be friends with, or just be biased towards, the civil servant members in the bidding consortium.

In support of PFIs, Raynsford (2005) argues that there are lots of attractions to using PFIs, as this is a means of procurement that has proved its capacity to increase the levels of investment in some key public services. This is because the state benefits from private sector capital availability and service delivery efficiencies. He further states that PFIs have a big role to play in provision of housing and infrastructure.

2.1.2 Outsourcing

Outsourcing has been in existence for a long time. It was practised even before the term "outsourcing" was actually coined. Bedford (1996) states that security has been outsourced since as early as the 1930s. According to an Arthur Anderson survey conducted in 1996, 85 percent of North American and European firms are

outsourcing all or part of at least one essential business function (Bedford, 1996).

“Non-core processes” is defined as “the processes that are fundamental to all businesses but not unique to yours” (Barnsley, 1998:4). For public hospitals, the core service is healthcare service delivery to in and out patients. The support functions that are necessary to ensure that all the requirements for health service delivery are in place can then be considered non-core. These would be information technology, catering, cleaning, laundry, security etc. There are different opinions about “to make or to buy” a so-called non-core function or process.

Hodgson & Hoile (1996:260) define outsourcing as “The practice of using an external supplier to carry out certain organizational functions. Typical examples include catering, printing, car fleet management”. An institution would thus identify companies whose core business is a service that the state institution desires to outsource. This practice would ensure that the service is left in the most competent hands and the institutional management is thus able to focus on the core business. While this is a generally accepted and desired practice, there is a view that institutions lose control of some of their activities like, for example, security. The implication then is that carefully choosing a service provider for outsourcing is critical if an institution is to avoid the risk of poor service provision.

Bendor-Samuel (2000:1) defines outsourcing as a process which takes place “…when an organization transfers the ownership of a business process to a supplier. The key to the definition is the aspect of transfer of control. The crucial issue is that

the buyer does not instruct the supplier how to do the task, but instead the focus is shifted to the results that he (the buyer) wishes to see – how those results are achieved is the business of the supplier". This implies that defining upfront the desired and expected outcomes is very important, as is strict management of performance.

Lever (1997:16) states: "Outsourcing involves a long-term contractual relationship for business services from an external provider." This definition is vague and could mean any form of a contractual relationship between a state institution and a service provider. The meaning of "long-term" needs to be specified as it could mean different things to different people. This definition stresses the long-term nature of an outsourcing relationship and it also refers to the relationship as a contract. This implies that there is legality in outsourcing, and an entity that ventures into outsourcing should be very careful and ensure that it follows legal contractual processes.

In healthcare the services that can be outsourced could be anything from the trivial keying in of the physicians' audio transcript of the treatment records into a structured document, to physically sending the patients to another country for treatment. Other services include using the service of radiologists in a remote but competitive country to interpret scan images such as CT or MRI scans. A recent example of outsourcing is the United Kingdom's decision to send blood and urine samples from National Health Service (NHS) patients to India for pathology tests to cut costs. The non-emergency requirements (where the results are not required within 48 hours) of

pathology tests are conducted at the clinical lab setup at Mumbai, India. The blood and urine samples are flown to Mumbai. The 24-hour lab conducts the tests and the results are uploaded into the special network linked to the NHS. The NHS hospitals in the UK get the reports in 24 hours. Another large area of outsourcing in the biological area is bioinformatics and biotechnology. Here again the outsourcing ranges from data analysis to basic research (Wikipedia Encyclopaedia, 2006).

Brown (1997) argues that outsourcing has moved from being a peripheral activity to being a central one. He contends that this is the trend, because there is an increasing debate about what core activity is and what core competency is. An institution might want to outsource core activities, but will not outsource its core competency. In a public hospital one might consider the activity of cleaning; this is a core activity but not a core competency of a public hospital. A hospital that is not cleaned might, if not abandoned by patients, soon be closed down by health authorities and would thus not be able to render its core competency, that of healthcare service delivery.

2.1.3 Build Operate Transfer (BOT)

According to Badawi (2003), Build Operate Transfer (BOT) concessions have become popular financing schemes for developing countries, as foreign aid funds for infrastructure projects have continuously declined. The BOT system and its variations are gaining global recognition as finance schemes to design, construct, operate and manage revenue producing, large-scale infrastructure projects by

private foreign and national investors at no or minimal costs to governments. Although gaining popularity there is yet to be legislation and regulations, internationally, to govern this new funding system. Individual government departments entering into BOT initiatives thus use their own discretion in developing rules around these types of initiative. In today's global economy, the governments of many countries, especially emerging economies, have resorted to BOT or BOOT schemes to promote private, foreign and national investors to finance, design, construct and operate large-scale infrastructure and development projects. In return these private companies are granted the right to generate revenues from the facilities for an agreed period of time, the concession period (usually between 10 to 40 years), to recover their invested capital and earn a fair return on investment. At the end of the concession period, the assets of the BOT project are transferred in a good condition to the government department which granted the concession.

Therefore a BOT arrangement would operate in public hospitals by getting the private company to finance, design, build and operate a hospital for an extended period on behalf of government and then transfer it, in good condition and free of charge, to the state. During the concession period the private company would generate revenue in the form of state subsidies for health service delivery and collect user fees from health service users or patients. In this way the company is able to recover costs and get a return on investment.

Shen, Platten and Deng (2006) concur with Badawi by describing a BOT as a procurement strategy that has been utilised in developing economies where

infrastructure works account for the majority of public investments. They also agree that this strategy is most suitable for large scale infrastructure projects. A BOT assists by reducing public sector budget contribution to infrastructure investment and by bringing in efficiency gains from private sector commercial practices. Governments in developing economies find private sources of project finance an effective strategy to assist implementation of large infrastructure projects. With the use of PPPs the developing countries use the BOT strategy, but with an add-on of risk mitigation by transferring risk to the private sector (Shen, Platten & Deng, 2006).

Anonymous (1997) describes BOT or Build Own Operate (BOO) contracts as shifting the responsibility for financing, building and operating discrete facilities, such as water, from the government to the private sector. He further asserts that these contracts are particularly attractive for countries with an urgent need for capital to finance large projects. Australia, Malaysia, Mexico, China and Thailand have adopted this approach for capital project financing.

According to Woodhouse (2006), Mexico has joined the increasing number of countries that are implementing a new generation of PPP deals called Projects for the Provision of Services (PPS). A PPS is very similar to a BOT, because essentially it involves a private entity getting a government contract to finance, build, operate, maintain and hand over a facility after a prolonged term of operation or service rendering, during which the state pays for the service rendered. Woodhouse believes that this model is more efficient than traditional schemes. In a PPS all the funding for setting up a project is provided by the private sector and is therefore not considered

to be public debt. It should be noted that in a PPS the focus is not on the asset but the Provision of Service. The series of activities, that is, design, finance, build, operate and maintain, are considered to be part of the same service and most of the risks are transferred to the private sector.

Badawi (2003) uses the term Build Own Operate Transfer (BOOT) synonymously with BOT and states that many governments have resorted to this scheme “to promote private, foreign and national investors to finance, design, construct and operate large scale infrastructure and development projects. In return they are granted the right to generate revenues from the facilities for an agreed period of time, the concession period (usually between 10 to 40 years), to recover their invested capital and earn a fair return on investment. At the end of the payback period, the assets of the BOT project are transferred in a good condition to the ownership of the government or local authority which granted the concession”. A BOT model suits the hospital environment very well, because after constructing a hospital the private company generates revenue through user fees, medical insurance and government subsidies. Over the life of the concession period the private entity is able to recover its invested capital and also get a return on investment. This type of PPP will be discussed in greater detail in the next chapter on documentary analysis, where the different types of existing PPPs in South Africa will be examined.

Logan (2003) also agrees that BOT projects have become an increasingly popular method financing large infrastructure ventures since the 1980s. He further explains

that private entities receive a franchise or incentive system to finance, build and operate the project for a fixed period of time, after which ownership reverts back to the government. Ownership reversion is planned to occur only after the private sector entity has received the return on investment in the project. Logan states that the BOT model is appropriate for developing economies, because public funds are often limited and therefore the state is unable to fund capital intensive projects, the level of inefficiency, demonstrated by cost and time overruns, in government projects tends to be substantial. Government therefore wishes to take advantage of private sector efficiencies and to transfer risk to the private sector. Tam (1999) states that properly implemented BOT projects are usually more efficiently managed than the equivalent government owned and operated projects.

2.2 Success factors for PPPs

2.2.1 Proper risk allocation

According to Abednego & Ogunlana (2006), parties that are involved in PPP projects typically have different perceptions of proper risk allocation. Consequently disputes may arise between the parties thus resulting in obstructions and hindrances to project completion. They further state that PPP projects usually have challenges with both day-to-day project management problems and relationship or partnership problems which are of a long-term strategic nature. Therefore issues of governance are very important in PPPs as these partnerships need monitoring and overseeing as well as strategic decision making. The significant success factors for PPPs are

government support, proper project planning, good coordination between the parties, trust, a good tendering system, proper information dissemination and high managerial capabilities (Abednego & Ogunlana, 2006).

In order for a PPP to be successful, several key strategies must be in place and these generically apply to all types of PPPs in the various sectors. Woodhouse (2006) describes a decree that was passed in Mexico in March 2003 and modified in April 2004, which establishes the rules for implementation of PPP projects. The rules establish provisions governing the steps that need to be taken by public sector entities to put PPP projects out to tender. These include a cost-benefit-analysis to ensure that having the private sector responsible for finance, construction, operation and maintenance of the project's assets is indeed more efficient than traditional schemes. Woodhouse (2006) further states that the government must ensure that all or most of the necessary investment in projects can be provided by the private sector and not considered to be public debt.

Kim and Chang (2004) discuss new ways of managing construction risk in Korea during the BOT construction of the Machang Bridge. This project was the first in Korea to involve a non-recourse financing. Three types of risk are identified in this paper; these are cost overrun risk, delay risk and under-performance risk. It is mandatory that during the period of contract negotiation these three risks are dealt with and incorporated into the contract agreement in order to avoid later misunderstanding and legal battles. Usually, penalty clauses are incorporated in PPP contracts in order to ensure that either party in a PPP is covered should the

counterpart default in any way. It is not an unusual occurrence in PPP projects to have cost and time overruns. It is against these that penalty clauses are put in place.

Wahdan, Russell & Ferguson (1995) argue that identification and allocation of the risk are critical for successful BOT projects. These authors have identified three key risk areas that must be taken into consideration before entering into a BOT project. These are political, technical and financial. The success of a BOT project hinges on the identification and appropriate allocation of risks to the parties that have the greatest control over those risks.

Planning is key to a successful PPP, so is stakeholder involvement and participation. Selecting a suitable service provider is extremely critical for a successful PPP because without choosing a suitable partner, who will deliver, the PPP becomes a failure. After a partner has been chosen it is imperative that the two parties prepare, discuss and sign a contract and a service level agreement which will be the vehicle utilised to manage and monitor the partnership. These requirements will be discussed in detail in the following section.

2.2.2 The feasibility study

Bedford (1996) identified several steps that need to be followed before embarking on an outsourcing initiative. These are a needs analysis, followed by a feasibility study. This involves an internal assessment by the company, of exactly why it is considering outsourcing. Time scales, availability of vendors and the cost will be

considered at this stage. The scope of the service to be outsourced must also be determined. Then follows the stage of preparing the tender specifications, advertising the tender, selecting a suitable supplier or service provider. After a suitable service provider has been selected, a contract that includes a service level agreement is signed. The contract is then implemented and should afterwards be closely managed.

Lever (1997) agrees with Bedford, but categorises the feasibility study into four phases. First is the discovery phase which consists of benchmarking own services, conducting a needs analysis and issuing requests for proposals. The negotiation phase follows and includes selection of a suitable service provider, drawing up of the contract and service level agreement. Then follows the transition phase, which is implementation of the contract. Lastly is management of the contract and service level agreement.

Khosrowpour, Subramanian, Gunderman & Saber (1996) also identified four stages in the outsourcing process. These are investigation, planning, implementation and transition, and post implementation. Cooke (1996) states that not all companies should necessarily be outsourcing their non-core activities, but that each company should do its own needs analysis before deciding whether to outsource or not.

The above literature illustrates that there is unanimity of ideas among several authors on the necessary preparatory steps to be taken before and after entering into an outsourcing process. These are a needs analysis, planning and advertising

the tender, selection of a service provider, signing of a contract, implementation of the contract, and monitoring and management of contract implementation. These are the basic success factors for a successful partnership.

Keeber (1997) discusses a PFI which was entered into by the British government and a private company to build Princess Margaret Hospital as a greenfield operation. In this PFI, the private partner not only provided the requisite funding for the PFI, but also contributed a wealth of new ideas and knowledge, which ensured that there was transfer of knowledge to the public sector. This resulted in a huge paradigm shift from the existing culture within the NHS. Some interest groups within the NHS were indeed very cynical and doubtful that the hospital would ever be built under this new approach. However, after successful execution of the PFI the cynics were won over. It is clear that to enter into public private initiatives requires strong leadership with a vision, determination, open-mindedness and perseverance. One of the requirements for a successful PFI is communication with both the staff and the public. Public sector processes demand that there is openness and transparency at all times.

According to the National Treasury (2004), a transaction advisor who is going to conduct a feasibility study must first be appointed. The transaction advisor is usually an established group of consultants, who have experience and a proven track record on establishing and re-engineering business processes. It needs to gain a good understanding of the client's needs. This is gained as a result of extensive consultation with various stakeholders including the end users of the service to be done as a PPP. The transaction adviser, after understanding all the intricacies of the

transaction to be entered into, draws up accurate specifications which will be utilised to invite proposals or tenders for rendering of the required service.

After the tender has been advertised, the transaction advisor assists with evaluation of the submitted bids. This is a very long and laborious process, the size of which depends on the size of the envisaged PPP. After elimination of unsuitable proposals one or two preferred providers are selected. At that stage the government has an opportunity to negotiate the terms of the proposal, in particular the price and time frames. After a suitable bidder has been appointed the transaction adviser assists the institution with drawing up of a contract and a service level agreement (SLA). This is a legal document which is binding on both the service provider and the client, that is, the state (DTI, 2004).

2.2.3 Stakeholder participation

Another key success factor for a PPP is ensuring that there is stakeholder involvement from the beginning of the process – otherwise there is a possibility for the project to be sabotaged by disgruntled stakeholders, who may feel that they have been left out of the process. In government, stakeholders that need to be roped in are organised labour, government officials, health service providers and non-governmental organisations. National Treasury and Provincial Treasury, two other important stakeholders, are the initiators and sponsors of the project, and would be part of the conceptualisation and planning of the PPP.

According to Frederick, Davis & Post (1988:358), "…Public-private partnerships are a source of energy and vitality for America's urban communities…. In fashioning local partnerships, there is no substitute for the judgement and leadership of individuals who live in a community, are knowledgeable about its people and institutions, and care about its future". Part of the community in a government institution is the employees themselves who, most of the time, are actually locals.

They also state that business, the community and government are interdependent and their relationship requires mutual support from all parties. Communities are important, because they are best positioned to articulate their needs; government provides legislation and guidelines for implementing community and social services, while business possesses specialised skills, executive talents and resources.

Under the topic "Private Finance: When An Initiative Becomes Reality", Keeber (1997) discusses a PFI and states: "No one should be under any doubt that to achieve success in a PFI scheme one has to overcome variously the cynicism, resistance, suspicion and incomprehension of purchasers, staff and the community one serves." He emphasises the importance of buy-in by leadership.

The public and staff, both clinical and non-clinical, are important stakeholders who need to be brought in early, so that they contribute constructively in shaping the PFI. This is because, as stated earlier, stakeholder buy-in is the key to successful implementation of a PFI. Employees can do all sorts of things to block an initiative of this nature, particularly when such initiatives affect employees' jobs. Keeber

mentions the importance of involvement of senior managers within an organisation, whereby they would dedicate time to communicate with employees across the organisation.

In any negotiation situation it is important and vital to have strong leadership which has fully bought into a concept. These are the people who give full support to the administrators to plan and execute initiatives most successfully. In the case of the Princess Margaret Hospital the team was able to pursue the PFI, because key players in their management team were convinced that the initiative offered better value for tax payers' money and that there was significant transfer of risk to the private sector. (Keeber, 1997).

Bok (1998) illustrates the importance of public participation in major healthcare debates by discussing the USA presidential initiative of strengthening and lowering the cost of healthcare through forming a task force which secretly worked on a plan and brought it out to the public to present as a master plan. This case demonstrates the pitfalls of lack of transparency and openness in planning matters of national interest. It took a lot of deliberation and debate for the White House to be able to sell the concept to the legislators, because they were never involved in its formulation.

2.2.4 Selecting a service provider

Choosing the right service provider or supplier is an important success factor for a successful PPP. The client needs to make sure that it has profound knowledge of the

skills of the service provider or supplier to which it is awarding a contract. It must make sure that the service provider under consideration has a proven track record, skilled personnel and is financially solvent to be able to carry out the responsibilities of the contract. The supplier must also be quality driven and focused on customer satisfaction. The supplier or service provider must not be only interested in making a profit, but should also demonstrate a commitment to working with the client and to ensure that the relationship succeeds. To sum up and to emphasise the importance of a credible supplier, Clemons (2000) states that when in doubt, hiring an honourable and well-managed supplier with a reputation to preserve may be your best protection.

It is important that the transaction adviser understands the client's requirements accurately, so that correct tender specifications are drawn up. It becomes problematic when a client realises midstream that what has been specified does not meet all the requirements, because it cannot turn around now and demand of the prospective tenderer to do different things from those which were specified in the tender document.

The bid evaluation and tender adjudication process is critical in deciding on a winning bid. The bid evaluation committee usually consists of staff members of the institution that is entering into a PPP, together with the transaction adviser. The committee must ensure that the evaluation process is conducted with integrity and that none of the committee members has a conflict of interest in the tender that is being evaluated. There are government protocols and policies advising on the details

of how a bid evaluation process should be conducted. These must be followed to the letter, otherwise the process can be challenged by losing bidders and the whole PPP be derailed. Criteria that are used to adjudicate the submitted bids are, among others, value for money, technical competence, transfer of significant financial, technical, economic and operational risk to the private company, affordability and broad based black economic empowerment (DTI, 2004). According to Grimsey & Lewis (2005), value for money is usually a poorly understood concept and bid evaluators tend to equate it to the lowest cost. They argue that value is a complex trade-off between cost, risk and performance. In PPPs it is extremely important that government's exposure to risk is fully understood and in this case, volatility of outcomes of a PPP is the main risk.

2.2.5 Signing of a contract

When embarking on a PPP, the institution must ensure that expert technical advice from lawyers, architects and accountants is obtained. Equally important is communication and negotiation advice, if it does not already exist in the organisation. Participants in these kinds of negotiations develop at a personal level and gain skills which can be used in the overall development of the organisation (Keeber, 1997).

The experts, who draw up the contract and Service Level Agreement (SLA), must ensure that there is substantial transfer of significant financial, technical and operational risk from the state to the service provider. The contract needs to state clearly that the service provider must take control and responsibility for quality,

reliability and strategic direction of the service delivery (Kelly, 1990). The client or institutional management must ensure that its experts are sophisticated enough to draw a good contract and SLA (Mullin, 1996). Many a time clients have been left out in the cold due to service providers being able to renege on contracts utilising legal loopholes in the wording of the contract.

Included in the contract should be means by which performance of the service provider will be measured, starting from a clearly stipulated baseline. It is therefore important to include both qualitative and quantitative measures in the SLA (Avery, 1997). This is most important in hospital services, because the quality of healthcare is mostly measured by customer perceptions of the service. Periodic patient surveys will give the public institution an idea of the quality of service rendered by the service provider (Mullin, 1996).

Shen, Platten and Deng (2006), using the example of Hong Kong Disneyland, advise that it is important that in a PPP the various types of risk are allocated and effectively shared between the public and private partners. In this type of PPP it was found that allocation of site acquisition risk and legal and policy risks to the public sector were more effective, while the design and construction risks, operation risks and industrial action risk were better placed if allocated to the private partner.

Last, but not least, is the recommendation stated by Corbett & Associates (2001) that a contract should always have a termination clause for reasons of cause and convenience. The termination clause must make provision for each party of the

contract to be the initiator of the termination. Zahler in Potgieter (2002) suggests that the contract should also include the assistance that the provider would need to lend to the client should a contract have to be terminated before expiry date.

2.2.6 Contract management

Corbett & Associates (2001) emphasise the importance of managing an outsourced relationship, that is, the entire set of people, processes, tools and systems that are needed to make the outsourcing relationship work. The reason for emphasising the importance of the relationship is that, although a function or process is outsourced, the outsourcer cannot run away from the accountability and outcomes of the function that is outsourced. The outsourcing arrangement works well if contracts or service level agreements (SLAs) are in place and are adequately enforced. The state prescribes what outcomes it expects and the service provider knows what its client's expectations are and therefore strives to deliver according to the specifications in the SLA.

"Contracts are made to allocate risks. Typical contracts allocate known risks and provide some opportunity to each party to obtain a commercially reasonable outcome for risks that are unlikely but nonetheless possible." (Bierce, 1999:2). The issue of risk transfer is very important for the public sector, because the reason that the state enters into PPPs in the first place is to transfer risks to the private sector. That is why PPPs are different from downright outsourcing, because in the latter there is no significant risk transfer from the state.

Corbett & Associates (2001) emphasise the formalisation aspects of a contract. One of the advantages of a contract is that it forms a basis for future legal engagement by the two parties should a need arise as, for example, in the case of breech of contract.

Johnson (1997) states that outsourcing, in general, has a tendency to improve a company's bottom line due to efficiencies brought about by outsourcing. In the case of government, the equivalent of bottom line would be improvement in service delivery and efficiency. Johnson further argues and stresses the importance of SLAs in the outsourcing or contracting out arrangement. Such SLAs must be well-reasoned and clearly defined and be part of the PPP package.

There is an ongoing debate about whether a short or long-term contract is the most suitable. Apparently both short and long-term contracts have both advantages and disadvantages. If a client is locked in a long-term contract this might be a disincentive for good service on the part of the service provider as the contractor might be complacent with the full knowledge that they have a long-term business. However, an advantage is that the two parties get an opportunity to know each other, understand each other's needs and thus be able to meet them (Clemons & Gray, 2001). On the other hand, a short-term contract has the advantage that the provider has an incentive to get into a process of continuous improvement and reinventing itself, as it seeks to ensure that it retains the business when the contract ends and a new provider is sought (Gibbins, 2001). Corbett & Associates (2001): "Longer

contracts offer the advantage of simplicity and running room to build a strong relationship." Despite the stated virtues of long-term contracts, they do have disadvantages and inherent complications, like a changing environment which necessitates adaptation of the contract. It is usually very difficult to renegotiate an existing contract (Potgieter, 2002).

2.3 Challenges to effective PPPs in public hospitals

Although numerous benefits of PPPs have been espoused, there are challenges which need to be considered by any manager who is about to enter the world of PPPs.

2.3.1 Tendering and bidding process

Holmes, Capper & Hudson (2006) present a study of health PFIs in Britain, analysing the procurement process from bidding and negotiation through to completion. In this study the difficulties in demonstrating value for money for government are highlighted. A conclusion is drawn that the bidding process can be an unequal struggle between large consortia and inexperienced clients, that may result in a wasted opportunity to obtain the optimum solution in design of the health facilities and price. Abednego & Ogunlana (2006) emphasise the importance of a good tendering system as one of the key success factors for a PPP.

2.3.2 Contract management

Another challenge which must be borne in mind when entering into PPPs is the possibility of contractors falling behind schedule and overshooting the budget. The Wikipedia Encyclopaedia (2006) quotes the example of the NHS's National Programme for IT, which is believed to be the largest IT project in the world. This PPP has been found to be running significantly behind schedule and above budget, with a lot of conflict between government and contractors as a result of the non-compliance. This budget has increased more than ten-fold from the original price of just over two billion pounds to about thirty billion pounds and is still rising.

From the point of view of the outsourcer, the service provider can be a risk to the company through practices that are detrimental to successful implementation and sustainability of the PPP agreement. Clemons (2000) states that some of the undesirable tendencies that have been displayed by service providers are shirking responsibility, whereby the service provider deliberately under-performs but continues to enjoy the benefits of making claims for full payment while perhaps working fewer hours than stipulated in the contract.

The supplier might also poach, from the outsourcer, intellectual capital that it invented as a requirement for the contract. "With poaching, as defined by Clemons (2000), the risk not only lies in a system being redeveloped for another client, but the company also faces the risk that, once the outsourcing agreement has come to an end, the knowledge gained in the process remains with the outsourcing partner. It is therefore advisable that a deliverable that captures institutional knowledge and

lessons learnt forms part of the upfront agreement between the parties." (Potgieter, 2002). The client has therefore already paid for the research and development of that particular information or technology. The supplier might use that information to service another client and thereby incur less cost to produce the information – this is in a way poaching from the initial client who has paid for the information or skill.

Sometimes, during the execution of a contract, unanticipated costs arise and the supplier feels obliged to make changes to the existing contract. Suppliers often hold the outsourcing entity up and demand extra payment or refuse to continue service provision or issuing supplies. That is why the outsourcer needs to seek sound legal advice and participation during the drafting of the contract so that the service provider or supplier cannot simply "hold up" the client when it identifies a profitable opportunity that was previously unpredictable (Wahdan, Russell & Ferguson (1995), as well as Kim (1999)). These authors argue that identification and allocation of the risks are critical for successful BOT projects. They have identified three key risk areas that must be taken into consideration before entering into a BOT project. These are political, technical and financial. The success of a BOT project hinges on the identification and appropriate allocation of risks to the parties that have the greatest control over those risks.

Doig, Ritter, Speckhals & Woolson (2001) argue that one should not assume that it is easier to manage suppliers than to improve one's own performance. Although the paper they present here refers particularly to private sector companies outsourcing non-core business, the same warning can be sounded to the public sector. This will

encourage managers in that sector to adopt an open-minded approach to and to develop inquisitive minds about PPPs. If a public organisation has unfortunately erred by selecting an unreliable supplier or service provider, managing the contract might be a nightmare due to non-delivery by the contractor. Significant executive time might be wasted in following up and policing the contractor.

Developing and directing a new supplier network has a considerable cost implication. Drafting and concluding service level agreements with suppliers is a mammoth and demanding task, which needs to be undertaken by trained and experienced people. Supplier management practices and vendor performance measuring mechanisms must be developed. Cross company teams ought to be developed to facilitate the sharing of best practices with service providers, particularly in situations of shared services, so-called co-location (Doig *et al.*, 2001).

Doig *et al.* (2001:36) go further to assert “The leap from ‘make’ to ‘buy’ requires a clear strategy and a factual assessment of a company’s strengths, weaknesses and objectives.”

2.3.3 Lack of experience on the part of the state

Many a state department has drawn government into a situation where it incurs losses or enters into partnerships which are detrimental to the state. It is mandatory that government officials equip themselves with the necessary skills to be able to manage the SLA with the service provider.

Mullin (1996) states that many service providers in PPPs maintain that one of the reasons for their success is determined by the level of sophistication of the client in drafting the contract. One might assume that, if a contractor is more sophisticated than a client, the latter is likely to be taken advantage of.

Badawi (2003) states that experiences of governments and stakeholders involved in real-life PPPs, like BOT systems, reveal a host of successes and rewards, failures and losses, and their political consequences. The main reason for this is that PPPs, in particular BOT, are fairly new practices and legislative and regulatory mechanisms for governing these have not been fully created and established. It is therefore to be expected that many mistakes will occur during execution of BOT systems.

Keeber (1997) states that during the Princess Margaret Hospital PFI negotiations, the team found that it sometimes proved difficult to ensure public transparency while, at the same time, taking into consideration issues of confidentiality agreements entered into with the private company. The team had to remember that even at the period of announcement of a preferred bidder, the reserve bidder was still waiting in

the wings and there was no way that the preferred bidder's confidential information on the bid could be made public, for instance issues like the bid price. However, several radio slots were purchased to inform the public, within the limitations of divulging bid process information, of developments and to get the public's inputs and views. This assisted the planning team to ensure that all potential gaps, that would otherwise compromise the project, were prevented or even closed.

An unpleasant experience in Britain was where major PFI capital projects ended up being underutilised under the NHS trusts, and the NHS trusts were then not able to meet their obligations under the PFI (Hellowell, 2005). This can happen when patients decide to go to providers other than the ones running an NHS trust that has been funded through a PFI. In that situation revenue streams in the PFI funded trust become unable to fund or service the PFI debt, thereby causing a huge compliance challenge on meeting the obligations of the PFI contract.

One of the challenges the Mexican government found when entering into PPPs was that none of the country's laws were designed for a scheme where the private sector assumes more risks and the public sector is far less involved in the day-to-day operations of a government project (Woodhouse, 2006). Badawi (2003) concurs with this author and states that currently the new BOT sector lacks a special legislative act and regulatory provisions, as well as accounting and auditing standards and taxation rules. This implies that governments need to ensure that appropriate legislation is available, so that the establishment of PPPs is facilitated and made easier and more attainable.

The lack of experience on the part of government in planning PPPs sometimes comes up when contractors design and build poorly functional and defective facilities. The case of the Newham mental health PFI will be used to illustrate this type of challenge. Several mistakes were made during the design and construction of this facility. Staff offices were not included during the design phase. As a result these had to be “squeezed in” at the completed facility, to the inconvenience of all affected. Some ablution facilities could not be connected to the water supply pipes, something which should have been catered for in the design and laying out of services (www.publicprivatefinance.com, 2004). An experienced client would have known that, after a contractor finishes the design, it must be presented to the client and signed off before the contractor even starts laying the foundation. Also, the client must ensure that it has the requisite competence and capacity to monitor the contractor’s product at different stages of the PPP.

2.3.4 Contractor non-performance

Unison labour organisation in Scotland has expressed disapproval of PPPs, stating that the concept that in PPPs there is a transfer of risk to the private sector was a myth (www.publicprivatefinance.com, 2004). The union’s leadership relates the case of a PPP in Scotland where the subcontractors were left unpaid, the hospitals were left unfinished and government had to pick up the pieces. Another concern raised by the union was that there seemed to be an oligopoly, because only a few private sector companies were in the PPP “business”. As a result they tended to be lax and

not give government a good service. To illustrate the extent of this oligopoly, only four service companies control half of the NHS contracts.

This is corroborated by Ho (2006), who warns that the fact that government may rescue a distressed project and renegotiate with a developer causes major problems in the procurement and management of PPP projects. What this means is that when a project is threatened, normal tendering and procurement rules are broken and the contractor is given some leeway not to abide by the stringent rules of the SLA.

2.3.5 Inability to draw up and manage a comprehensive, adequate service level agreement

Even if the state is in partnership with a service provider for rendering of a service, accountability for quality of service delivery to the public still remains with the state. Kelly (1990) points out that, in an outsourcing arrangement, a company might lose control over quality, reliability and strategic direction. It is for this reason that the most important aspect of contract implementation is drawing up and management of an SLA.

According to the National Treasury (2004), a transaction adviser (TA) must be appointed to assist the institution that is implementing a PPP by first of all, doing a needs analysis, an options analysis and a feasibility study for a PPP. If these analyses indicate that a PPP is justified and is the route to take, the TA assists the state with the drawing up of specifications for a tender or a request for proposals. It will also assist with the bid evaluation, short-listing and choosing a suitable bidder.

Thereafter the drawing up of a good SLA which provides clear guidelines on how the service ought to be rendered, will take place.

Bedford (1996) has identified the issue of contract preparation, contract signing, contract implementation and management as one of the important steps in setting up a PPP. Lever (1997) also talks about contract implementation and management.

It is critical that all possibilities are taken into consideration when preparing a contract and SLA. Legal, technical and financial input must be sought so that all risk for the state is mitigated. Should the state enter into a PPP with a weak contract, the private sector will, if given a chance, find ways to fleece the state of more funds. Also, the state might not have recourse should the service provider default on any of the contractual agreements. The most common areas where dispute arises in PPPs is time frames and unforeseen cost escalations. This needs to be borne in mind during contract preparation and all loopholes closed to avoid risk to the state.

Tam (1999) highlights the various reasons for success and failure of BOT projects. Among these are lack of experience with bidding processes, negotiations, legal and technical procedures, project financing and guarantees for sufficient foreign exchange. It is essential that governments should ensure that the key requisite skills are available before getting into PPPs.

It is important that the SLA is closely monitored to ensure that the state benefits, as planned, from the PPP. A monitoring and evaluation mechanism must be in place

and must be agreed upon upfront by the client and the service provider or contractor. This should be a legal document that is enforceable and for which penalties and recourse are available for non-compliance.

A very important aspect of contract management in a PPP is management of the relationship between the private company and the public sector. According to Hellowell (2004), one of the recommendations for a PFI is that parties to a PFI contract make an effort to understand each others' businesses and consider long-term contract management at an early stage. It must be noted, that the two sectors were set up for different and divergent reasons and behind them lie different goals. The private sector's main goal is to generate return on investment for shareholders, while the public sector has been set up for various social and political objectives which are hard to define and measure. Problems therefore arise when the private sector shows little or no consideration for these socio-political objectives when it acts as an agent for the state. Trust also needs to develop between the two parties, so that instead of them being hard on each other, there is a degree of flexibility though the contract is being dealt with in a tough manner (Hellowell, 2004).

2.3.6 Lack of proper consultation with stakeholders

It is critical that the ideas and views of various stakeholders are solicited before an institution embarks on a PPP. Government officials, end users, like doctors, nurses etc, and organised labour must be brought in so that they can buy into the project. Their cooperation is essential for a successful PPP.

Bok (1998), discussing the healthcare debate in the USA, emphasises the importance of open communication with the public while planning major health reforms. The Clinton government committed an error in keeping its healthcare reform debates and plans secret. At the end of the plan a 1000 page report was produced by a presidential task force. Bok emphasises the importance of having citizens actively participating in these kinds of debates and deliberations, using media and other forms of public platforms.

According to Potgieter (2002), “In an outsourcing process, people are usually not considered properly. It is crucial that the HR department is involved in the outsourcing process right from the beginning. They are to feed information through to affected staff members, and provide the necessary support and encouragement”.

Staff issues are therefore a serious challenge that surfaces whenever a state institution is considering bringing in a private sector player. In the Princess Margaret Hospital PFI, staff were worried that this was privatisation, something to which organised labour worldwide is vehemently opposed. Keeber (1997) argues that engaging staff in a non-threatening way, which complemented their informal networks, allowed them the freedom to question and, where appropriate, reject the concepts which were being proposed. Staff was concerned about job losses, about being transferred to the private company in areas like facilities management and other non-clinical functions.

Extensive consultation and openness ensured ultimate buy-in by the majority of staff, who were initially opposed to the process and their potential transfer to a new employer. Staff may initially feel sold out by government, their employer, but if jobs are guaranteed and they get exposed to the way the prospective new employer conducts its business, chances of acceptance of the new order increase. It is also critical that staff has the assurance that their employment benefits are not lost; this could include things like transfer of insurances, retirement benefits and other benefits to the new employment contract. Government needs to assist staff by negotiating favourable employment contracts with the new employer. If there is no buy-in from these stakeholders, the possibility exists that they may sabotage the project through lack of cooperation.

2.3.7 Other risks to PPP projects

BOT schemes and other types of PPPs carry different types of risks, like, design and development risks, construction risks like cost overrun, delay in completion, failure of plant to meet performance criteria, operating risks like operation cost overruns, revenue target risks, financial risks brought about by varying exchange rates, *force majeure* risks due to legal and political matters, insurance risks due to uninsured loss or damage to project facilities, and, lastly, environmental incidents that could occur and impact negatively on the project (Badawi, 2003).

The National Treasury (2004) suggests that it sometimes happens that following the bid evaluation process, there may not be an outright winner and the evaluation

process may have to go to into a second level of evaluation, calling for the best and final offer (BAFO) from short-listed bidders. A tough and robust negotiation phase then takes place and both parties are now looking for an opportunity to get the best out of the bid.

2.4 Due planning process for PPPs

2.4.1 Initial needs analysis

According to the National Treasury (2004), a needs analysis is done by the institution considering a PPP. This is done by a project officer and his or her team and a transaction adviser. The work on the feasibility study must be based on the institution's preliminary assessment of its needs and options.

Corbett (1996) identified steps to be taken in outsourcing (which is a form of a PPP). These are conducting a strategic analysis of the function contemplated for outsourcing. He also states that it is important to define the requirements for outsourcing, analyse these, quantify and measure them and communicate them clearly to the service provider. The needs analysis will inform the content of the tender or request for proposals as well as the contract and SLA. Only if an organisation has clearly defined its requirements, will it be in a position to draw a specification for the kind of service it requires from a service provider and to monitor performance.

Bedford (1996) has also identified important steps to be followed during an outsourcing initiative. Among those is conducting an internal feasibility and analysing why an organisation is considering outsourcing. During this stage financial implications, time scales and available suppliers in the market are taken into consideration. During this stage the envisaged work is also scoped and service levels are determined.

Lever (1997) describes four phases of an outsourcing process. The first of these stages is an analysis, by the organisation planning to outsource, of its internal services, then benchmarking them, identifying future requirements and issuing requests for proposals.

All these authors agree on one thing, that planning and analysing your requirements is an integral part of consideration in a PPP, whether it be outsourcing, a BOT or a PFI.

2.4.2 Tendering, provider selection and the service level agreement

After a decision has been taken to go the PPP route, the government department or division affected, assisted by the transaction adviser, needs to draw up specifications for bidders to send proposals to undertake the task in question (National Treasury, 2004). A rigorous bid evaluation process must take place, after which an award should be made. Selection of a winning bidder is determined on technical ability to perform the task, the price and in the case of South Africa preferential points based

on the black economic empowerment credentials of the bidding company.

A key aspect to be considered during selection of a service provider is the importance of a cultural fit between the company and the service provider. Darling (1996) contends that shared values are essential to the success of a PPP. One can enumerate values like quality, high returns on investment, low cost, among others. A clear understanding of what the client sees as its core value is essential on the part of the service provider, so that it can align the product with the client's values. Bedford (1996) supports this view by asserting that the true measurement of a successful PPP is when there is a merging of cultures and ideology between the two contracting parties.

The need for trust between the contracting parties has been stated by Sheridan (1997). However, it is important to note that trust alone does not imply that the client must sit back and allow the service provider complete control over the contract. Guterl (1996) points out that the SLA should have all the monitoring criteria and constraints on the service provider to make sure that it delivers according to agreed upon standards and time periods.

As soon as a preferred bidder has been identified, a negotiation process should start in order to enable government to bargain for the best suitable deal in terms of risk transfer and value for money. When agreements are reached the process goes to the next step, of entering into a contract and service level agreement with the winning bidder.

As stated by Griessel (1998:27): “One of the most important issues with regard to outsourcing is that of control. Kelly (1990) points out that the price a company may pay for cost savings through outsourcing, is less control over quality, reliability and strategic direction. It is for this reason, according to the literature, that the most important aspect of this phase is the determining of service levels and the formalisation of these in the service level agreement.”

The contract governing SLAs is the most powerful tool against disappointment (Greco, 1997). This is corroborated by Mullin (1996), who states that many service providers in PPPs maintain that one of the reasons for their success is determined by the level of sophistication of the client in drafting the contract. An often forgotten element of a PPP is the staff that belongs to the state. Longnecker and Stephenson (1997) purport that any company considering a PPP must develop a strategy for managing the human resource issues that are an integral part of a PPP. The table below illustrates how a contract should be planned and managed as well as the role of a service level agreement. This table will be used as a checklist during the documentary analysis period of the study.

CHAPTER 3: RESEARCH METHODOLOGY

This case study was conducted by carrying out a literature review and conducting qualitative research in the form of in-depth interviews of selected stakeholders.

Interviews were conducted in person directly with managers from government, a community representative, managers and employees from the service provider, health professionals working at the hospital as well as union representatives. They were conducted using an open-ended question approach. However the interview questions had been pre-planned and noted down in order to ensure that similar issues were addressed by all respondents. This was beneficial in eliciting the respondents' knowledge and views about the PPP, while ensuring uniformity in the line that is being pursued by the interviewer.

3.1 The case study method

The case study method is used because the author is of the view that, in an attempt to identify the key success factors for PPPs in public hospitals, lessons from an existing PPP will be of value (Stake, 1996).

Yin (1994) describes case study research as being an investigation of a modern phenomenon within its real life surroundings and where the boundaries between this phenomenon and the surroundings are unclear. Perry (2001) states that this insight

can be achieved by analysing data gathered by means of interviews, observation and other multiple sources.

3.2 Qualitative research method

The case will be researched by qualitative means. According to Leedy (1997), qualitative research should be used when the purpose of the research is to describe what the researcher has observed and explain key issues on the subject under study. Qualitative research should involve a rich and in-depth description of the area being researched (Schmitt & Klimoski, 1991). Babbie & Mouton (2001) state that the main purpose of research is to explore, describe and explain the phenomenon being studied. According to Leedy & Ormond (2001), the methodology to be used in a research study must take into account the nature of the data to be collected in solving the research problem. For this purpose in-depth interviews of selected key stakeholders will be conducted and findings made from the information received from the interviews.

3.3 Literature review

Literature review will enable the researcher to establish how PPPs are conducted in general and in the health sector. By doing so, global best practices in establishing and managing PPPs will be found. The various steps, espoused in the literature, undertaken in establishing a PPP will be identified, tabled and used as a checklist for the steps taken in establishing the PPP in this case study. This is a deductive case

study procedure, because it entails the use of prior theory to provide the direction for assessing and comparing practices in the case study with those that have been determined before in the literature review (Perry, 2001).

3.4 In-depth Interviews

The literature review will be followed by in-depth interviews where the steps taken during the process of planning, implementation and management of the PPP at IALCH will be investigated and then compared with what was found in the literature review. The study will evaluate whether the PPP followed these globally utilised trends or not and, if not, what the reasons were.

The in-depth interviews will be conducted with selected key participants and stakeholders who were involved in the planning phase, the implementation stage and are currently involved in the day to day running of the PPP. In other words, there will be no random sampling but the researcher will identify relevant people to interview and establish facts about what happened during the IALCH PPP initiative. All these findings will then be analysed, after which recommendations, in the form of key success factors for effective PPPs in public hospitals in South Africa, will be made.

3.5 Data collection

Data to be collected will be information found in the in-depth interviews. Cooper and

Emory (1995) advise that the first step in a study of this nature is a literature search. The literature review is intended to provide a body of theory and research on best practices in PPPs. The findings of the research will be consolidated into a checklist that will be used in the in-depth interviews to investigate which one of the best practices were used in this case. According to Yin (1994), it must be realised that the interviewer will not be able to control the data collection environment and the integrity of the data obtained by this means as is the case with other research methods.

In conducting in-depth interviews there are constraints, like the availability and cooperation of the interviewees, and the interviewer's constraining behaviour at the interview. The interviewer will ensure that interview procedures and guidelines are observed and adhered to.

3.6 Population

For the in-depth interviews, stakeholders that participated from the beginning of the PPP process to date, will be interviewed. These are managers from the National and Provincial Departments of Health, National and Provincial Treasuries, the hospital management, labour representatives, community representatives in the form of the hospital board members, and management of the University of KwaZulu-Natal's Nelson Mandela School of Medicine. The government departments are obvious choices for the study population because the hospital belongs to them. Hospital management is the custodian of the institution, labour representatives are the voice

of the workers and the hospital board is a body which represents the community served by the hospital.

An explanation needs to be submitted on the role of the university. As a central hospital, IALCH is an academic institution which provides a service platform for the university, for teaching of doctors and other health science students. Some of the teaching staff are joint appointments funded by and accountable to both the university and the Provincial Department of Health. It goes to say then that the lecturers are an important stakeholder group.

3.7 Sampling

According to Oosthuizen (2004), a sample must be comprehensive and include an acceptable cross-section of the total population being studied. This is corroborated by Cooper & Schindler (1998) who assert that the ultimate test of a sample is the extent to which it represents the characteristics of the population in question. It is important that bias is eliminated as far as possible when designing a sample.

As far as sampling the documents to be studied and reviewed is concerned, the researcher will use convenience sampling. This is a method of sampling used to source information that is actually obtainable. For the in-depth interviews the researcher will use a biased sample in that stakeholders who are, in the researcher's judgement, relative to and are affected by or have influenced the formation of the PPP will be interviewed. This is called judgement sampling (Cooper & Schindler,

1998). In other words, you select a sample of people who meet certain criteria as determined by the requirements of the study.

3.8 Data analysis

Data analysis for a qualitative study is difficult and time consuming. This is mainly because the data is descriptive and raises many different meanings at the same time (Cooper & Schindler, 1998). Analysis of information received from the interviews will mainly be to confirm whether the experiences in the literature review were utilised in the planning and implementation of this PPP. The study will ascertain the reasons for following or not following certain steps recommended in the literature.

3.9 Development of a framework

Based on the literature review and the in-depth interviews, best practices in PPPs will be ascertained. The researcher will then determine those processes, systems and measures that need to be put in place to ensure the achievement of successful PPPs.

3.10 Validity and reliability

According to Leedy & Ormrod (2001), validity refers to the extent to which a measuring instrument measures accurately what it is supposed to measure. This is corroborated by Cooper & Schindler (1998) when they refer to validity as the extent

to which a test measures what it was intended to measure. The measurement must be meaningful and the research credible. If the data produced in a research is not meaningful and one is unable to draw defensible conclusions from such data, it casts doubt on the credibility of the research itself (Leedy & Ormrod, 2001). Cooper & Schindler (1998) define two forms of validity, internal and external validity. Yin (1994) adds another form of validity, construct validity. This type of validity is specifically applicable to case studies.

3.9.1 Internal validity

Leedy & Ormrod (2001) define internal validity as the extent to which a study has sufficient controls to ensure that the conclusions that are drawn are truly warranted. They further state that a study has internal validity if accurate conclusions can be drawn from it.

3.9.2 External validity

Cooper & Schindler (1998) define external validity as the extent to which the research findings are able to be generalised across persons, settings and time.

3.9.3 Reliability

Reliability is the degree to which a measure will produce consistent results (Cooper & Schindler, 1998). Leedy & Ormrod (2001) refer to reliability as the extent to which

the measuring tool yields consistent results and the tool has not been changed. In order for a study to be deemed reliable, the researcher must provide as much information as possible, so that the study must be replicable by other researchers. In the case of this study, findings from the literature review will be compared with findings from the in-depth interviews. The framework thus developed will be based on these reliable sources of information, and this should make the overall study outcomes reliable.

3.10 Limitations of the research methodology

The following limitations of the research methodology have been identified:

- The sample of documents for review will most probably be somewhat biased as the researcher will request specific documents from the PPP participants. Such requests will be based on what the researcher has found out in the literature review and on her prior knowledge and understanding of what should be done and documented in a PPP. It will not be possible to review all the documents within the time limitations of a study like this;
- It also depends on whether all facts were correctly and accurately recorded, that is, on the integrity of the documents reviewed;
- Due to the various meanings of PPPs to different people the research questions may not have covered all aspects of a PPP and the study may therefore have missed some of the fundamental questions that need addressing in order to come up with a suitable framework for a PPP;

- It is not possible to source views of all stakeholders involved in PPPs in South African public hospitals, therefore the researcher has probably missed out on some of their views and experiences with PPPs.

CHAPTER 4: RESEARCH RESULTS

4.1 Introduction

The discussion starts with a history and sequence of events leading up to the establishment of the PPP. This is followed by results obtained and the responses elicited to the specific research questions, namely;

“What are the challenges facing PPPs in South African public hospitals?”

“What are the Key Success Factors for PPPs in South African public hospitals?”

The interview results will be illustrated by means of tables and text to describe the contents of the tables.

Activity/Event	Date
Fact finding missions	1997 – 1998
Transaction adviser sought and procured	December 1999 – January 2000
Feasibility study conducted	2000
Tender specifications drawn up	2000
Tender for a PPP service provider prequalification advertised	November 2000
Prequalification adjudication	December 2000
Issuing of a Request for Proposals	January 2001
Bids due	February 2001
Preferred bidder announced	March 2001
Negotiation started	May 2001
Commercial agreement reached	August 2001
Contract documents agreed	September 2001
Financial close	December 2001
Commencement Date	February 2002
First Patient admitted	June 2002

Table 4.1 Sequence of events which led to the awarding of the contract

This table depicts the sequence of events from the time of conceptualisation of the PPP to the implementation thereof.

Before the PPP was embarked on, several delegations visited overseas

countries to learn how PPPs were structured. One of those places was the United Kingdom's National Health System (NHS) which has of late made use of PPPs to deliver health services. These fact finding missions took place in 1997 and 1998. Preliminary investigations were funded by the Department of Trade and Industry.

According to Departmental senior officials, the hospital had already been built by the Department of Public Transport Roads and Works but had not been commissioned due to financial constraints. The reasons for considering the PPP route were that the state did not have the requisite capital to finalise the infrastructure and to buy equipment required for a central referral hospital. The other reason was to outsource private sector skills and expertise to add value to the state department.

Request for and appointment of Transaction Advisors was done from December 1999 to January 2000. The transaction adviser did a feasibility study, which is, determining the requirements for commissioning of the hospital, drawing tender specifications for a PPP partner and costing the whole project. Thereafter a Request for Proposals or tender was issued. The Transaction Adviser drove the whole tendering and selection process, assisting the KwaZulu-Natal Department of Health. It was emphasised that affordability and sustainability were of primary importance for this PPP.

During the bidding process the Transaction Adviser (TA) had to make recommendations regarding the preferred procurement route with the intention of selecting a preferred bidder by March 2001. Specifically, the Transaction Adviser

was to clearly identify the financial implications of alternative procurement and financing strategies. It had to provide a comprehensive appraisal of the legal constraints. It had to also develop an IT strategy that would enable clinical data in the hospital to be virtually paperless. Another function of the Transaction Adviser was to prepare and lay out a procurement plan for medical equipment as well as scheduling thereof, to match the service specifications. Developing Human Resource plans and ensuring appropriate staff numbers for the volume and level of service to be rendered in the hospital were also part of the TA's brief. The TA had to also develop output specifications for facilities management services which would be affordable, qualitative and measurable to support the delivery of clinical care.

4.2 Demographics of Sample

The researcher was able to interview a wide spectrum of respondents ranging from labour representatives to management at local, Provincial and National Department of Health level. Managers from the contractor's side were also interviewed as planned. The interview sample was in accordance with what had been planned and the researcher found that the departmental officials and contractor managers were very cooperative and helpful.

4.3 Results Pertaining to Challenges facing PPPs

The table below points out the challenges experienced by the various stakeholders who were interviewed and the number of times that a particular issue was raised as well as the number of interviewees who raised it.

Issue raised	Statements Made by Respondents	Number of times issue raised	No of respondents who raised issue
Cost	The PPP is costly and the DOH cannot fund it	23	7
	Impilo is getting a lot of money from this PPP		
	The PPP is expensive		
	There is a lot of interest in the project due to its unique nature and the high cost		
	The benefits of the PPP are there but the cost is a challenge		
	The PPP is a success and I am very proud of it. However, the department thinks it is very costly although the benefits far outweigh the cost		
Penalty avoidance	The consortium has a tendency of ensuring that it avoids having to pay penalties, thus depriving the department of the refund to be recouped from penalties	33	10
	There is misinterpretation of the penalty clause by the state employees		
	The state wants to use penalties as a revenue generation mechanism		

Issue raised	Statements Made by Respondents	Number of times issue raised	No of respondents who raised issue
	The penalty clause needs to be reviewed as it does not assist the state		
	The contractor is taking advantage of the state by interpreting the penalty clause in a complicated manner		
Help desk	The help desk does not always respond promptly to logged calls	22	10
Management of Logged calls	Logged calls are not always attended to within the time stipulated in the contract	21	8
Poor Contract Management	The contract is not well managed by the hospital management.	20	7
Cost Benefit	The cost benefit of the PPP is doubtful	12	3
Value for money	Value for money of the PPP is doubtful	11	5
Lack of trust	There is a lack of trust between the two sides of the PPP, that is, departmental management and the consortium	15	6

Table 4.3 Challenges in the PPP as raised by the respondents

4.4 Results Pertaining to Key Success Factors for PPPs

Contract Management	The PPP needs a good contract manager on the side of the state
Help Desk	The help desk is a very good and useful aspect of the PPP in ensuring that there is proper handling of problems pertaining to service delivery
Penalties	Penalties are good for a PPP because they keep the contractor on its toes as poor performance has negative consequences
Stakeholder Participation	Various stakeholders participated in the planning of the PPP
Trust between partners	The parties to the PPP trust each other but not 100%
Feasibility study	The feasibility study was key in the planning of the PPP as it indicated to the state what exactly needed to be done and the implications thereof, especially financial ones
Transaction Advisor	The transaction advisor was essential for the PPP as it did all the spade work for the state, doing research and advising the state on all aspects of the PPP
Cost	The state must always ensure that the PPP is affordable and sustainable

Contract management	The state must have a dedicated appropriately qualified and skilled contract manager
Quality	Quality and standards of service delivery must be clearly spelt out in the contract
Cost benefit	A cost benefit analysis must be done during the planning period of a PPP
Value for money	Value for money must be carefully determined
Lack of Trust	Development and existence of trust is necessary for a smooth running PPP

Table 4.4: Key Success Factors for PPPs

4.5 Summary of Results

Planning Stage for the PPP

The PPP was carefully planned with extensive research and fact finding missions taking place before the PPP was embarked upon. A feasibility study was conducted by a Transaction Advisor which assisted the department with the specifications, selection of a contractor, drafting and negotiating a contract and service level agreement.

Challenges Facing the PPP

From the above discussion it is clear that the issues raised as being most problematic were the costs of the PPP, penalties being flouted, penalty clause misinterpreted, the help desk not responding adequately to client's needs, logged calls not acknowledged sometimes, and contract not well managed by the state

due to absence of a skilled, dedicated contract manager. Some of the state respondents were uncertain about the cost benefit and value for money of the PPP as the cost to state of the PPP was exorbitant although the quality of service of the PPP was good.

Key Success Factors for the PPP

Certain mechanisms need to be in place in order for a PPP to be successful. These are a well conducted feasibility study, a good Transaction Advisor, a contract or Service Level Agreement, good contract management by a skilled contract manager, a properly functioning, customer sensitive help desk, penalty clauses, stakeholder participation, trust between partners, affordability and a carefully calculated cost benefit analysis to ensure value for money.

CHAPTER 5: DISCUSSION OF RESULTS

5.1 Introduction

The report will start with the historical background and conceptualisation of the PPP. An explanation of why certain decisions were taken will then be given. This will enable the reader to get a better understanding of the situation around the planning of the Inkosi Albert Luthuli Central Hospital PPP.

The demographics of the interview respondents will be discussed, taking into consideration what was planned as a sample. If there is a difference between the two figures and composition of the samples, the implications of that situation will be discussed as well as the impact of the difference on the study outcomes.

In discussing the interview results the issues reported in the previous chapter will be discussed and explained in the context of the literature review. First the challenges facing the PPP under review will be discussed and the findings will be compared with the facts found in the literature review. A critical analysis of what happened at this particular PPP will be made and that will be compared with what the literature says. Thereafter, the processes which were undertaken as well as considerations taken in the planning and implementation of the PPP will be discussed. These will be discussed in the light of what the literature says are the key success factors for PPPs.

Historical Background

A political decision was taken in the early nineties to build a tertiary hospital in the KwaZulu-Natal province. It was decided that this hospital would be built as a greenfields project and tertiary services from the three Durban-based tertiary hospitals would be relocated to the new hospital. The hospital was then built by government through the Department of Public Works. After completion of the building the government realised that there was no money to procure and maintain equipment, so the decision was taken to explore the PPP route.

At that time there was no treasury PPP manual and guidelines, only treasury regulations and the Public Finance Management Act, which had to be complied with, in any procurement process. This meant that IALCH PPP was a completely new concept in the country and it was a process of “learning by doing”.

Overview of the Hospital and the PPP

IALCH has 800 active beds; an additional 46 beds for the trauma and burns units were about to be commissioned during March and April 2007. IALCH is a referral only central tertiary, quaternary hospital for KwaZulu-Natal and the North Eastern part of the Eastern Cape Province. Tertiary services from Wentworth, King Edward and Addington hospitals, except for a few, have been relocated to the IALCH. These hospitals are now being reclassified as District and Regional hospitals.

The current team, except for the CEO and the Medical Manager, took over after financial closure of the PPP procurement process. The CEO and the Medical Manager came after the short listing process of the bids for the PPP consortium and were therefore involved before the selection process. They received a brief from the province and put together a commissioning plan. The consortium used this plan to develop its own commissioning plan. The first patient was seen on 28 June 2002, but the plan had been for the first patient to be seen in August 2002. Therefore, the commissioning actually exceeded expectation. After that, commissioning dragged for a long time. The main challenge was inability to recruit suitably qualified nursing and medical professionals due to the general shortage of those personnel country-wide.

The areas which have been put under the PPP are Facilities Management Services, Medical Equipment and Information Management and Technology. The core service of the hospital, which is clinical patient care, has been left entirely with the state. The logic here was that hospital staff must be relieved of running non-core services and be allowed to focus on its core business, that of patient clinical care. The PPP thus provides an enabling environment for nurses, doctors and other health professionals to render clinical care to patients.

Summary of Findings about IALCH

The IALCH PPP came out of a realisation that government did not have funds to commission the already built hospital. The hospital had been built by the Department of Public Works and was now lying hardly completed due to lack of funding. Funding

was required to do the finishing touches on the infrastructure, procure medical and IT equipment and maintain it. Medical equipment is very expensive and some of the big ticket items run into millions of rands.

For the reasons stated above it soon became clear that there was a need to look at various funding options including the private sector. At that time the Treasury PPP manual had not yet been developed, so the Provincial Department of Health had to use available legislation like the PFMA.

5.2 Demographic profile of respondents

The researcher was able to meet and interview respondents according to the planned sample. Because the researcher had first approached National Treasury and the KwaZulu-Natal Department of Health, it was not difficult to get good cooperation from the management and staff of IALCH. The consortium managers were equally eager to take part in this study as it would give them an opportunity to show-case their participation in this renowned PPP. The consortium managers also hoped that the result of the research might be headed by senior public sector officials and decision makers and thus some of the shortcomings in the PPP could then be rectified.

5.3 Results pertaining to the Challenges Facing PPPs in South African Public Hospitals

Cost	There is an admission that the quality of service rendered by the consortium is excellent but the department feels that it is paying too much. The question is, is it value for money, and is the quality of service rendered to the state commensurate with the money paid to the consortium?
Penalty avoidance	According to the managers and employees of the state, the consortium avoids paying penalties as provided for in the penalty clause. The managers of the consortium feel that the partners are misinterpreting the penalty clause due to lack of understanding of what the clause means.
Help desk and Management of Logged calls	The respondents from the side of the state are of the view that the help desk does not address issues raised in the logged calls satisfactorily. Sometimes the time frames specified in the contract are not complied with by the consortium, in addressing the complaints.
Poor Contract Management	The fact that the state has not allocated a dedicated contract manager for the PPP results in the contract being inadequately managed. According to the consortium's managers, certain matters need to be attended to in terms of management of the contract but there is no one from the state's side with whom they can address these matters in a mutually acceptable manner.
Lack of trust	.The state employees do not trust the service provider.

Table 5.1: Challenges facing the PPP

Cost

There is a view that the PPP is expensive. Out of the annual R4,5 billion budget for health services in Ethekwini municipality, R1 billion rand is consumed by the IALCH. One needs accuracy in calculating the costs of the PPP. However a cost comparison with non PPP hospitals indicates that if non PPP hospitals were to be run at the same standards as the IALCH, they would cost much more.

While there is a view that the PPP is costly, one needs to weigh this against the high specifications of the quality of service delivery which the state and invariably, the patients are benefiting from. It would thus be necessary to do an objective evaluation of the benefits enjoyed by the patients as a result of the PPP.

Penalties

Penalties were stated to be problematic by Exco members and also, in separate interviews by the financial manager, the CEO, the hospital board chairperson, Impilo manager, AME (IM & T) manager, Siemed (Medical Equipment) manager, the provincial CFO, the previous CFO and the Drake & Scull manager. Much as the DOH and the PPP consortium had differing views, opinions and explanations about the penalty clauses, this matter was spontaneously raised by the respondents at the interviews.

The DOH officials felt that Impilo does everything in its power to avoid paying penalties, by manipulating the logged calls. Impilo denies this and alleges that the help desk is automated, self monitoring and cannot be manipulated. They are of the

view that the DOH officials do not understand how the help desk and therefore, the penalty clauses, work.

Help Desk and Logged Calls

Logged calls were mentioned as being not really responded to adequately at about ten interview sessions. This was by Exco members, the financial manager, the medical manager, the CEO, the CFO, and the former CFO. On the consortium's side the Impilo manager, the AME manager, Siemed's manager and D&S manager stated that they were aware of this problem but, again it was all due to the fact that most DOH officials did not understand the project contract.

From the help desk logged calls can be classified as available or non-available, depending on what the effect of a broken down machine is on the particular service or services. Problems arise on whether a non-availability call ought to be logged and by whom. Non-availability calls ordinarily invoke penalty clauses. The financial manager, the Impilo manager, Siemed manager, AME manager, former CFO and D & S manager mentioned this problem and each one had their own understanding and interpretation around this matter.

Poor Contract Management

There is no dedicated contract manager from the side of the state while the service provider has a dedicated, qualified and skilled contract manager who coordinates the various sub-contractors within the consortium that is the service provider. He is the point of contact between the consortium and the client and is very knowledgeable

about the activities of the various sub-contractors.

The state depends on the involvement and contribution of the various senior managers at IALCH and the provincial Department of Health. These officials, at the same time, have the huge task of running their departments.

Trust

The cause of the lack of trust is mainly the apparent lack of understanding of certain aspects of the contract on the side of the state. This necessitates training and capacity building for the affected partner. Team building is also a necessary intervention, in an effort to build trust among the partners.

5.4 Results pertaining to The Key success Factors for a PPP

Planning	Proper planning for a PPP is mandatory. This was done extensively in the IALCH PPP.
Transaction Advisor	A Transaction Advisor was appointed to assist the state with the PPP planning process.
Feasibility Study	A feasibility study was conducted by the Transaction Advisor.
Cost benefit analysis	A cost benefit analysis was done before embarking on the PPP.

Stakeholder participation	Stakeholders were consulted to ensure buy-in.
Contract Management	The state needs to have a dedicated appropriately qualified and skilled contract manager.
Help Desk	A help desk is in place at IALCH to ensure proper handling of problems pertaining to service delivery
Penalties	There is a penalty clause which ensures that the service provider is punished for non-compliance
Quality	Quality and standards of service delivery are clearly spelt out in the service level agreement
Trust	Existence and development of trust is necessary for a smooth running PPP. Unfortunately this does not seem to exist in this PPP.

Key Success Factors for PPPs

From the interviews certain aspects of the PPP were mentioned as being of concern. These were the help desk, logged calls, availability and non-availability of service, penalties, the cost of the PPP, contract management, value for money, quality and trust.

Certain areas were mentioned by the various officials and PPP managers as causing concern within the PPP. These will be discussed in detail later in the text.

The issues which were raised will now be discussed, in detail, as they were articulated by the interviewees.

Contract Management

Interestingly, both sides of the partnership conceded that the PPP needs a good contract manager on the state's side, who would have the necessary contract management skills and be dedicated to the project, not having any other day to day operational responsibilities. This was said by the financial manager, the CEO, the CFO, the former CEO, AME manager, Siemed manager and D&S manager.

Help Desk

The help desk is another bone of contention which is apparently causing a lot of unhappiness and strife between the two parties in the PPP. It was raised as a problem by various managers on the side of the state. On the other hand the Impilo manager also mentioned the challenges occurring at the help desk but he felt that this was due to a lack of understanding of the project contract on the part of the DOH officials. However, from an end user point of view, the labour representatives were happy with the service provider and felt that it responded adequately to the logged calls most of the time.

Penalties

Penalties were stated as problematic by Exco members and also in separate interviews by individual managers. However, there were differing views, opinions and explanations about the penalty clauses. This matter was spontaneously raised by

most of the respondents at the interviews.

The DOH officials felt that the service provider does everything in its power to avoid paying penalties, by manipulating the logged calls. The service provider disagrees and alleges that the help desk is automated, self monitoring and cannot be manipulated. They are of the view that the DOH officials do not understand how the help desk and the penalty clauses work.

There are different levels at which the contract is being managed. These are at provincial Health Department level, at IALCH Exco level and at operational level. Periodic meetings are held with the service provider. Meetings with clinicians from the referring hospitals also take place.

Stakeholder Participation

Various stakeholders participated in the planning of the PPP. Labour organisations were thoroughly consulted during the planning stage as the initiative had implications for the conditions of employment of some of the workers. Moreover, all facilities management and soft services were going to be managed by the private sector and “privatisation” is a sensitive topic among labour organisations.

Trust

The parties to the PPP do not fully trust each other. The existence and development of trust is necessary for a smooth running PPP. In this particular PPP there is some mistrust between the two parties, particularly from the side of the state whose

officials are very suspicious about the intentions of the service provider.

The feasibility study

This was key in the planning of the PPP as it indicated to the state exactly what needed to be done and the implications thereof, especially financial ones. In conducting the feasibility study, the transaction advisor gathered as much information as possible about PPPs. This was to ensure that the state would have all the information to identify and address possible risk and therefore enter into the PPP well equipped to deal with the intricacies thereof.

The Transaction Advisor

The transaction advisor was essential for the PPP as it did all the ground work for the state, doing research and advising the state on all aspects of the PPP. The transaction advisor consisted of experts in various fields that were relevant for the PPP. These were finance, health, legal, infrastructure and IT experts as these were the areas to be provided for in the PPP.

Cost

The PPP was considered to be costly by a considerable number of respondents on the Department of Health side. On the service provider's side the managers stated that they were aware of the DOH officials' uneasiness and unhappiness about the cost of the PPP. However, these managers felt that the DOH managers were not appreciating the social value, the level of excellence and convenience brought about by the PPP. They stated that the DOH needs to realize that there is a price for

quality and excellence.

The managers from the service provider went on to further explain that the IALCH cannot compare with any other public hospital as far as the hotel services and overall facilities management are concerned. The consortium runs the hospital according to industry norms and standards, something unheard of in any public hospital. They contend that much as the DOH likes the good quality of service that it receives from the private sector, it feels that it is over-paying for the service, a matter that the service provider disagrees with.

The managers stated that they had no doubt that there was a cost benefit for the state but, again, due to lack of understanding of the project contract the DOH officials have a different opinion. Some of the officials did not think that the PPP provided value for the money which the department pays. Another view was that the tender specifications may have been too high to the extent that although the specifications are high and the quality of service provision very good, the department should have probably put out lesser specifications for a service which would be more affordable to the DOH. Certainly there is agreement that what the consortium is rendering to the DOH is good. The main concern is affordability.

The DOH officials feel that the PPP is expensive, based on the fact that the PPP is costing the department an amount of close to one billion rand per annum. The main challenge faced by the current DOH managers is that they have a problem of limited financial resources throughout the province. They have to ration limited funding

among all the facilities in the province and due to the high specification nature of Inkosi Albert Luthuli hospital, a disproportionately higher portion of the budget has to go to that facility while the other hospitals in the province are having suboptimal funding.

Quality

Quality and standards of service delivery have been clearly spelt out in the contract. There are stipulated time limits for correction of faults from the time a call is logged with the help desk. When turnaround time is not complied with, the penalty clause is invoked.

Cost Benefit

A cost benefit analysis was done during the planning period of a PPP. The cost of the PPP was measured against the service that the state benefits from the transaction. The purpose was to ensure that the state gets value for money from the PPP. However many respondents from the state's side do not agree that the PPP provides value for money for the state.

Comparative Study

Badawi (2003) states that experiences of governments and stakeholders involved in real-life PPPs, like BOT systems, reveal a host of successes and rewards, failures and losses, and political consequences. The main reason for this is that PPPs, in particular BOT, are fairly new practices and legislative and regulatory mechanisms for governing these have not been fully created and established. It is therefore to be

expected that many mistakes will occur during execution of BOT systems.

5.5 Conclusion

The researcher was able to get cooperation from the selected respondents who were selected according to their roles in the planning of and involvement in the PPP. Respondents from the state, the service provider, the community and labour organisations were interviewed and their responses provided valuable information about the PPP.

The IALCH PPP is the first of its kind in the South African Public Health Sector. It came about after the state had built the hospital but had run out of funding to finalise the infrastructural requirements and to buy medical and other equipment.

Proper planning preceded the move to appoint a PPP service provider. A major part of the planning was finding a suitable transaction advisor who would assist with conducting a feasibility study for realisation of a PPP. The transaction advisor was involved in the drawing up of tender specifications for the procurement of the PPP service provider.

Several challenges are facing this PPP. Mainly, they centre on the cost and affordability, complaints management, contract management and lack of trust between the two parties of the partnership.

From the interviews and, based on the challenges experienced in the PPP, key

success factors for a PPP in the health sector have been identified. These are conducting of a feasibility study to determine, among other things, the specifications and affordability, to do a cost benefit analysis, signing of a contract, good contract management, stakeholder participation, good complaint management system and clear and open communication between parties so as to build a relationship of trust.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

In this chapter the findings of the research will be summarised with respect to challenges facing PPPs in the health sector in South Africa. The key success factors which have been identified according to the literature review and as found at IALCH will be stated in summary form. A conclusion will then be drawn about how the PPP under study compares to what is said in the literature.

Then a recommendation will be made on what the key success factors for PPPs in South African public hospitals are.

Finally, suggestions for future research on this topical issue will be made.

6.2 Conclusions of the study

The Inkosi Albert Luthuli Central Hospital PPP in KwaZulu-Natal is the first PPP of its kind in a South African public hospital. It was implemented after very careful planning and fact finding. An important fact to note is that this PPP was planned and implemented at a time when there was no documented PPP manual in South Africa. Some of the principles used in establishment of this PPP were in fact used by the National Treasury in formulating the now existing PPP manual.

A feasibility study was conducted prior to establishment of the PPP to ensure that a proper due diligence was done and that most possible risks associated with the PPP were taken care of. An estimation of the cost of the PPP was also done, thus enabling the state to plan and budget appropriately.

Appointment of a Transaction Advisor (TA) was key to the success of the transaction because it is the TA that investigated and determined the feasibility of the PPP and also determined the requirements in terms of funding. The TA assisted with the drawing up of the tender specifications for acquisition of the private partner in the PPP.

Certain matters that were stated in the literature review to be key for the success of PPPs will be visited and a comment on how these were dealt with in the IALCH PPP will be made.

Proper risk allocation

As stated by Abednego & Ogunlana (2006), the parties in this PPP have different views about the implementation of the penalty clause, which was included in the PPP in the first place to ensure that the state transferred risk of poor performance to the private party. However the parties seem to interpret the penalty clause differently. Consequently disputes do arise between the parties and it has taken elaborate meetings and discussions to resolve these. As far as governance matters go the procurement process for the service provider in this PPP was conducted strictly according to government procurement processes. There was full government

support for the PPP, proper project planning, good coordination between the parties, a good tendering system and proper information dissemination. However high managerial capabilities and trust are areas of weakness as discussed in the chapter on findings, where there is no contract manager on the state's side and the two parties do not trust each other. These are factors which, as stated by Abednego & Ogunlana (2006), are key success factors for PPPs.

The feasibility study

A needs analysis and feasibility study, as advocated by Bedford (1996) as necessary steps to be followed before embarking on an outsourcing initiative, were followed in the PPP. During this process the cost was determined and a procurement process for a service provider ensued. The scope of the service to be outsourced was determined and was followed by preparation of tender specifications, advertising the tender, selecting a suitable supplier or service provider. In line with Bedford's view, a contract that includes a service level agreement was signed. However contract management remains a challenge in this particular PPP. This process is also advised by Lever (1997), who categorises the feasibility study into four phases: that of benchmarking, conducting a needs analysis, issuing requests for proposals, negotiation with shortlisted bidders, selection of a suitable service provider and drawing up of a contract and Service Level Agreement and lastly management of the contract and service level agreement. These steps were also identified by Khosrowpour, Subramanian, Gunderman & Saber (1996).

Stakeholder participation

The various stakeholders participated in the PPP planning process – these were organised labour, government officials, health service providers and non-governmental organisations. National Treasury and Provincial Treasury, were the initiators and sponsors of the project, and were therefore at the core of the conceptualisation and planning of the PPP.

Frederick, Davis & Post (1988:358), have emphasised the importance of involvement of locals in PPPs; in this case the community of Cator Manor was involved through community representatives.

Selection of Service Provider through a tendering and bidding process

From the findings in the interviews and observations made at the IALCH the service provider is a consortium of experts in their various fields of specialisation, namely, information technology, medical equipment, facilities management, catering and cleaning. This is emphasised by Clemons (2000) who states that when in doubt, hiring an honourable and well-managed supplier with a reputation to preserve may be your best protection.

As stated by Holmes, Capper & Hudson (2006) it is difficult to demonstrate value for money for government partnerships. In this case study there are different views about whether the PPP brings value for money for government. Different participants had different views about this.

Signing of Contract and Contract Management

A good thing about this case study is that a contract that states clearly what the service provider's responsibility is, was written and signed by both parties. It took care of issues like quality, reliability and strategic direction of the service delivery (Kelly, 1990). The provincial health department, that is, the client ensured that its experts were sophisticated enough to draw up a good contract and SLA (Mullin, 1996).

Corbett & Associates (2001) emphasise the importance of managing an outsourced relationship, that is, the entire set of people, processes, tools and systems that are needed to make the outsourcing relationship work. Contract management in this case needs to be addressed as it has been identified as an area of weakness, thus exposing the state to risk of exploitation by the service provider. The outsourcing arrangement works well if contracts or service level agreements (SLAs) are in place and are adequately enforced. The state prescribes what outcomes it expects and the service provider knows what its client's expectations are and therefore strives to deliver according to the specifications in the SLA.

Corbett & Associates (2001) emphasise the formalisation aspects of a contract. One of the advantages of a contract is that it forms a basis for future legal engagement by the two parties should a need arise as, for example, in the case of breach of contract.

Mullin (1996) states that many service providers in PPPs maintain that one of the

reasons for their success is determined by the level of sophistication of the client in drafting the contract. One might assume that, if a contractor is more sophisticated than a client, the latter is likely to be taken advantage of. This is likely to be the case in this PPP because the state is utilising its line managers as some sort of contract managers.

6.3 Recommendations

The main challenges identified in this case study are cost as measured by value for money and affordability. The recommendation that can be made to address this problem is for a detailed cost analysis whenever a PPP is envisaged. Various financing models need to be put under consideration and all sorts of experts brought in to look at various pricing models, consider future cost escalations and ensure that government is not caught off guard by escalating costs.

Another recommendation to be made here is to ensure that the legal contract and service level agreement are water tight so as to protect the state against the opportunism of lending different interpretations to clauses in the agreement, with the service provider avoiding meeting requirements. The state must always ensure that there is no ambiguity in the contract and service level agreement.

The importance of appointing a suitably qualified contract manager is crucial in a PPP. This contract manager must be dedicated to management of the contract and should have no other responsibilities, especially in multi-billion rand projects like the

one under study. The contract manager should preferably have the technical knowledge of the core business of the PPP as well as managerial experience, in particular, contract management.

6.4 Suggestions for further research

Further research to measure the cost benefit of the PPP could be conducted. In such a study a researcher could do a costing of the various activities and functions performed by the service provider and determine whether the state is being charged fairly. The cost per Patient day Equivalent could be measured against that of similarly operating hospitals.

Further research could also be on comparing this PPP with other health sector PPPs in the country and thereafter making a recommendation on the most suitable PPP model for the country.

Other research could be to study whether PPPs are suitable for the South African public health sector by comparing PPPs with state only operated hospitals.

APPENDIX A: RESEARCH TOOL: INTERVIEW QUESTIONS

1. Why was a decision made to build the IALCH as a PPP?

2. Why did government not just go and find a loan from one of the finance institutions?

3. Please explain which units within the hospital have been set up under the PPP.

4. What steps were taken before reaching the decision to go the PPP route in these units?

5. What challenges did you experience in registering the project as a PPP with the National government?

6. What are the different steps that were taken as soon as the decision to procure was made and funding made available?

7. What were the inherent challenges with that process?

8. Did you appoint a transaction advisor?

9. If so what role did it play and, was it beneficial at all in the planning process?

10. Were there any Human Resource implications in the establishment of this PPP?

11. What were they and how did you manage those?

12. Did you follow the policy in the National; treasury's PPP manual?

13. Did you agree with every stipulation in the PPP manual?

14. If there were any disagreements, which aspects of the manual did you not agree with and why?

15. What recommendations would you make in that regard?

16. Two years into the PPP, do you think the PPP is successful?

i. Are there any problems experienced with the contractor/s' performance? If so, what are they?

ii. Why do you think so?

17. What would be your recommendations for future PPPs in public hospitals? Thank you for your time and assistance in this study.

APPENDIX B: CONSISTENCY MATRIX

Sub-problem	Literature Review	Hypotheses or Propositions or Research questions	Source of data
What are the different types of PPPs in hospital services?	Anonymous (1997); Badawi (2003); Barnsley (1998); Bedford (1996); Bendor-Samuel (2000); Brown (1997); HM Treasury (2006); Hodgson & Hoile (1996); Keeber (1997); Lever (1997); Logan (2003); National treasury (2004); News Digest (2004); Perera (2006); Raynsford (2005); Shen, Platten & Deng (2006); Tam (1999); Wikipedia encyclopaedia (2006); Woodhouse (2006).	The different types of PPPs are Outsourcing, Build Operate and Transfer, Private Financing initiative	Literature Review

Sub-problem	Literature Review	Hypotheses or Propositions or Research questions	Source of data
To determine the challenges to effective PPPs in public hospitals	Abednego & Ogunlana (2006); Badawi (2003); Bedford (1996); Bok (1998). Clemons (2000); Doig, Ritter, Speckhals & Woolson (2001); Hellowell (2005); Ho (2006); Holmes, Cooper & Hudson (2006); Keeber (1997); Kim (1999); Lever (1997); Mullin (1996); National treasury (2004); Potgieter (2002); Tam (1999); Wadhan, Russell & Ferguson (1995); Wikipedia encyclopaedia (2006); Woodhouse (2006); www.publicprivatefinance.com (2004)	What are the challenges to effective PPPs in public hospitals?	Literature Review, Interview responses

Sub-problem	Literature Review	Hypotheses or Propositions or Research questions	Source of data
To determine the success factors for PPPs in public hospitals?	Abednego & Ogunlana (2006); Avery (1997); Bedford (1996); Bierce (1999); Bok (1998); Clemons & Gray (2001); Clemons (2000); Cooke (1996); Corbett & Associates (2001); Ferguson (1995); Frederick, Davis & Post (1988); Gibbins (2001); Gunderman & Saber (1996); Johnson (1997); Keeber (1997); Kelly (1990); Khosrowpour, Subramanian, Kim & Chang (2004); Lever (1997); Lewis2005); Mullin (1996); National treasury (2004); Potgieter (2002); Shen, Platten & Deng (2006); Wadhan, Russell & Woodhouse (2006); Zahler (2002);	What are the success factors for PPPs in public hospitals?	Literature Review; Interview Responses

Sub-problem	Literature Review	Hypotheses or Propositions or Research questions	Source of data
To set a framework for PPPs in public hospitals	Bedford (1996); Corbett (1996); Darling (1996); Greco (1997); Griessel (1998); Guterl (1996); Kelly (1990); Lever (1997); Longnecker & Stephenson (1997); Mullin (1996); National Treasury (2004); Sheridan (1997);	What would be the framework for PPPs in South African public hospitals?	

List of References:

Abednego, M.P. & Ogunlana, S. O. (2006): Good Project Governance for Proper Risk Allocation in Public-Private Partnerships in Indonesia, *International Journal of Project Management,* Vol. 24, p622-634.

Anonymous, (1997): “BOT/BOO projects: A step forward or a diversion?” *Finance & Development,* March, Vol. 34, No 1, p36.

Avery, S. (1997): “Establishing the baselines”, *Purchasing,* Vol. 123, No. 1, 17 July, p213-216.

Babbie, E.R. & Mouton, J. (2001): *The Practice of Social Research*, Cape Town: Oxford University Press.

Badawi, I. M. (2003): “Globalization of the B.O.T. system and its taxation problems”, *Review of business,* Spring, Vol.24, Iss.2; p60-65.

Barnsley, J. (1998): Outsourcing as a board-level decision. Directorship. *[http://www/pwc/com]* (accessed 22 November 2006).

Bedford, R. (1996): “Outsourcing, a supplier’s view”. *Purchasing and Supply Management,* February, p12–15.

Bendor-Samuel, P. (2000): Outsourcing FAQ. Available:

[http://www.outsourcing.faq.com] (accessed 22 October 2001)

Bergin, A. & While, A. (2000): A Case for Case Studies: Exploring the use of case study design in community nursing research, *Journal of Advanced Nursing*, 31(4), 926-935.

Bok, D. (1998): “The Great Health Care Debate of 1993-94”, *Public Talk online journal of discourse leadership. [http://www.upenn.edu/pnc/ptbok.html]* (accessed 2 October 2006).

Brown, M. (1997): “Outsourcery”, *Management Today*, January, p56-60.

Clemons, E.K. (2000): The build/buy battle. Available*: [http://www.cio.com/archive]* (accessed 6 November 2001).

Clemons, E.K., Gray Jr, E.T. (2001): The confidence game. Available: *[http://www.cio.com/archive/101501/expert_content.html]* (accessed 6 November 2001).

Cook, J.A. (1996): “How to build a solid third-party relationship”, *Logistics Management*, Vol. 35 No. 8, August, p39-41.

Cooper, D.R. & Schindler, P.S. (1998): *Business Research Methods*, Sixth Edition, Singapore: McGraw-Hill.

Cooper, D.R. & Emory, C.W. (1995): *Business Research Methods*, Fifth Edition, Irwin.

Corbett, M.F. (1996): “Outsourcing as a strategic tool”, *Canadian Business Review*, Vol. 23, No. 2, Summer, p14-16.

Corbett M.F. & Associates (2001a): Contracting. Available: *[http://firmbuilder.com/articles/5/32/539/]* (accessed 6 November 2006).

Corbett M.F. & Associates (2001b): Moving forward: pricing models that share gains. *[http://www.firmbuilder.com/articles/5/32/571/] (*accessed 6 November 2006).

Corbett M.F. & Associates (2001c): Outsourcing trends for functions and industries. *[http://www.firmbuilder.com/articles/19/42/605/]* (accessed 6 November 2006).

Corbett M.F. & Associates (2001d): Managing the people dimension. *[http://www.firmbuilder.com/articles/5/34/549//]* (accessed 6 November 2006).

Corbett M.F. & Associates (2001e): HR involvement crucial in the transition process. *[http://www.firmbuilder.com/articles/5/34/553/]* (accessed 6 November 2006).

Corbett, M.F. & Associates (2001f): Welcome to outsourcing. *[http://www.firmbuilder.com/articles/19/50/590/]* (accessed 6 November 2006).

Darling, C.B. (1996): “Need an App Integrator? Build a Relationship”, *Datamation,* March 1 p84-92.

Davies, D.G. (ed.) Washington, DC: *EDI Learning Resource Series.*

National Treasury (2004): *PPP Manual.*

Doig, S.J., Ritter, R.C., Speckhals, K. & Woolson, D. (2001): Has outsourcing gone too far? *The McKinsey Quarterly*, No.4, p25-37.

Greco, J. (1997): “Outsourcing: The new partnership”, *Journal of Business Strategy,* Vol. 18, No. 4, July/August, p48-54.

Frederick, W.C., Davis, K. & Post, J.E. (1988:358): The Community and The Corporation, *Business and Society Corporate Strategy, Public Policy ethics*, 6th Edition, McGraw-Hill, Chapter 14, 358-360.

Gibbins, P.L. (2001): Classic outsourcing blunders. *[http://www.darwinmag.com/read/080101/blunders_content.html]*
(accessed 2 October 2006)

Grimsey, D. & Lewis, M.K. (2005): Are Public Private Partnerships value for money? Evaluating alternative approaches and comparing academic and practitioner views,

Accounting Forum, Vol. 29, p345-378.

Guterl, F. (1996): “How to manage your outsourcer”, *Datamation,* Vol. 42, No. 5, March, p79-83.

Hedgecock, E.(1996): “Contracting out Services.” *Managing Health Service Contracts,* London: Saunders.

Hellowell, M. (2005), PPPs in Perspective, Public Finance. *[http://0proquest.umi.com.innopac.wits.ac.za/pqdweb?retrievegroup=0&index=10&si]* (accessed 17 October 2006).

HM Treasury (2006)

Hodgson, K. & Hile, R.W. (1996): *Managing Health Service Contracts*, London: Saunders.

Holmes, J., Capper, G. & Hudson,G. (2006): Public Private Partnerships in the provision of health care premises in the UK, *International Journal of Project Management,* Vol. 24, p566-572.

Johnson, R. (1997): SLAs and bottom line. *[http://outsourcingjournal.com/issues/oct-2001/contract.html]* (accessed 02 October 2006)

Keeber, I. (1997): Private Finance: When an Initiative Becomes Reality, *The Healthcare Management Handbook,* London: Kogan Page.

Kelly, J. (1990): “Outsourcing: Who pulls the strings?”, *Datamation*, 15 September, p103-106.

Khosrowpour, M. Subramanian, G., Gunderman, J. & Saber, A. (1996): “Managing information technology with outsourcing: An assessment of employee perceptions”, *Journal of Applied Business Research*, Vol. 12, No.3, Summer, p85-96.

Kim, D. Vusi Sibiya & Chang, Y. (2004): Cutting edge close-up: Investors find new ways to manage construction risk in Korea, *International Financial Law Review.* London, October. *[http://0proquest.umi.com.innopac.wits.ac.za/pqdweb?index=2&sid=6&srchmode=1…]* (accessed 17 October 2006).

Leedy, P.D. & Ormrod, J.E. (2001): *Practical Research: Planning and Design*, Seventh Edition, Upper Saddle River: Merrill Prentice Hall.

Lever, S. (1997): “An analysis of managerial motivations behind outsourcing practices in human resources”, *Human Resource Planning,* Vol.20, No.2, p37-47.

Logan, T. (2003): Optimal debt capacity for BOT projects in emerging economies, *[http://0proquest.umi.com.innopac.wits.ac.za/pqdweb?index=5&did=487372901&Src*

…] (accessed 17 October 2006).

Longnecker, B. & Stephenson, J. (1997): “hr’s role in outsourcing”, *Journal of Business Strategy*, Vol. 18, No. 4, July/August, p53.

Mullin, R. (1996): “Managing the outsourced enterprise”, *Journal of Business Strategy*, July/August, p28-36.

News Digest (2004): “Peterborough hospitals shortlist three bidders”. *[http//www.public privatefinance.com]* (accessed 13 October 2006).

PPP Forum (2006): PFI Strengthening long-term partnerships. *[www.pppforum.com]* (accessed 11 October 2006)

PPP forum, 2006: PFI/PPP Factsheet. *[www.pppforum.com]* (accessed 17 October 2006).

Perry, C. (2001): Case Research in Marketing, *The Marketing Review,* 1(3), 303-323.

Perera, D. (2006): Government Executive, Vol. 38, Issue 18, September. *[http://0plinks.ebscohost.com.innopac.wits.ac.za/ehost/detail?vid=34&hid=101&sid=…]* (accessed 10 October 2006).

Picciotto, R. (1996): “Evaluation and the New Development Agenda”, in The Economic Evaluation of Projects: Papers from a Curriculum Development Workshop, ed. Davies, D.G. Washington, D.C.: EDI Learning Resources Series.

Schmitt, N. & Klimoski, R.J. (1991): *Research Methods in Human Resources Management.* Cincinnati, Ohio: South Western.

Shen, L., Platten, A. & Deng, X.P, (2006), “Role of public private partnerships to manage risks in public sector projects in Hong Kong”, *International Journal of Project Management,* Vol. 24, p587-594.

Sheridan, J. H. (1997): “Bonds of Trust”, *Industry Week*, 17 March, p52-57.

Stake, R.E. (1995): *The Art of Case Study Research*, Thousand Oaks, California: Sage.

Tam, C.M. (1999),“Build-Operate-Transfer Model for Infrastructure Developments in Asia: Reasons for Successes and failures,” *International Journal of Project Management, December*, p377-382.

Wikipedia Encyclopaedia (2006): “Publicly-funded health care”, *[http://en.wikipedia.org/wiki/Publicly-funded_health_care]* (accessed 02 October 2006).

Woodhouse, D. (2006), “Public private partnerships, Business models, Effects, Legislation”, *International Financial Law Review.* London: Aug 2006.

www.publicprivatefinance.com (accessed 17 October 2006).

Yin, R.K. (1994): *Case Study Research Design and Methods,* Second Edition, Thousand Oaks: Sage.

Zahler, R. (2001): Planning Against Failure. *[http:www.sourcinginterest.org.htm]* (accessed 9 November 2006).

Research Reports and Project Reports:

Griessel, D.L. (1998): “Critical Success Factors for Outsourcing”. Unpublished MBA Research Report. Johannesburg: University of the Witwatersrand, Wits Business School.

Mills, S. (2004): “Managing Projects in a Virtual Organisation”. Unpublished MBA Research Report. Johannesburg: University of the Witwatersrand, Wits Business School.

Omba-Djunga, P.E. (1999): “The Sustainability of Selected Public-Private Partnership Projects”. Unpublished MBA Research Report. Johannesburg: University of the Witwatersrand, Wits Business School.

Oosthuizen, M. (2004): “A Creative Leadership Model for the Reinsurance Industry”. Unpublished MBA Project Report. Johannesburg: University of the Witwatersrand, Wits Business School.

Potgieter, H.C. (2002): “Best Practice in the Outsourcing of Administrative Functions”. Unpublished MBA Project Report. Johannesburg: University of the Witwatersrand, Wits Business School.