Chapter 9

Keys to Partnership: Building Effective Risk Management

ABSTRACT

This chapter identifies the key critical pillars for a successful PPP project implementation in order to assist all stakeholders in the process. It also analyses the potential application models of PPP in respect to ingredients, tools and the roles of ICT. The chapter is based on results from a comprehensive analysis of even cases of successful PPP projects that have been implemented in different countries over the years. As a result several keys for an effective risk management have been identified. This can explain why some PPP projects are successful whereas others are not. It is concluded these key pillars must be dearly considered if PPP project is to succeed.

The greatest potential for control tends to exist at the point where action takes place. - Louis A. Allen

INTRODUCTION

The operating environment for a PPP project depends only fully on direct interventions by the respective public and private partners. Many efforts and activities carried out in a PPP arrangement can be as significant as direct policy interventions towards the success of PPP project. And the public and private partners will have some common basic understanding as to the right course of action and activities to perform. In an interrelated PPP project development, actions need not even be directed at a one partner, an action to be performed must be done by all the partners in order to cause attractiveness of such an engagement. PPP success is for those partners who are open and collaborate effectively with each others, for both of active involvement or rather role play is a prerequisite, a marginal activity: the result of a balance of a deeper understanding and convictions they have for the successful outcomes of the PPP engagement. Therefore all the partners should act on this basis. This position at the intersection of a range of actions and activities condition means that assessing the ‘success’ or ‘effectiveness’ of the PPP project may also require multiple criteria. A PPP arrangement mist promote, or at least nor hinder, a variety of

DOI: 10.4018/978-1-5225-2503-5.ch009
objectives. The objectives, the weighting of each, and the effects to be expected from them will change as the PPP project develops, as the partners cooperate. This chapter is directed at identifying the keys to partnership and building effective risk management specifically directed to ensure successful PPP project outcomes. It will first examine briefly the evolution of the understanding of the ingredients for a successful PPP risk management. It must then look at the operating environment, building blocks for successful risk partnership and principles and keys to successful PPP risk management which as necessary conditions for the success of PPP engagements. After this background, it will examine the tools that are often used and are available in contractual partnerships. Under this section, risk mapping, risk register and risk matrix will be presented and discussed in details. A section on the transforming risk management will examine the role of ICT and the possibilities available to partners to adopt it. Aspects of information needs and networks for mitigating risk, current ICT best practices and risk communication shall be reflected on, before concluding with an assessment of the best practices to be adopted.

INGREDIENTS FOR A SUCCESSFUL RISK MANAGEMENT

The opening statement to their catchy article entitled ‘On best practices for risk management in complex projects’ Benta, Podean and Mircean (2011) pronounced, thus: “Risk management shall be proactive, (p.142)” Successful risk management is recognized as an integral part of a good and effective PPP project practices (Smith & Fischbachera, 2009). As the saying goes, a chain is only as strong as its weakest link. This adage rings true in many situations. In regard to risk, for example, there are countless points at which various individuals might contribute to the overall strength of an organization’s management of risks (Marle & Vidal, 2011). Effective risk management is an interactive process consisting of steps, which when undertaken in sequence, enable continual improvement in decision making (Kwan & Leung, 2011). Mouraviev (2012) portrays effective risk management as a logical and systematic method of establishing the context, identifying, analyzing, treating, monitoring and communicating risks associated with any activity, function or process in a way that will enable organization not to minimize losses and maximize opportunities. Zou, Zhang and Wang (2007) compliment effective risk management is as much about identifying opportunities as avoiding or mitigating losses. Suffice to note that significant hurdles in the operating environment of risk partnerships must be overcome to ensure risk management process can deliver effective and effective PPP project implementation in ways that preserve the public interest. at the fundamental level, the parties must establish open and transparent PPP environment, retain not only sufficient but also correspondingly adequate and fair to retain sufficient expertise in risk and contract management and remain determined to achieve the ends for which the PPP was performed.

Operating Environment of Risk Partnership

An effective risk partnership arrangement demands a favorable environment to ensure that risk hurdles and PPP project implementation constraints are reduced to a bearable level. The operating environment is composed of at least two essential elements: the presence of laws and implementation mechanism (Yang, Hou & Wang, 2013) which could be reduced to legal and institutional frameworks regarding the operation of risk partnership arrangement. The existence of enforceable laws provides assurance to private partners for safeguarding their interests and alleviating risk and at the same time help in curbing opportunistic behavior in risk partnership. A sound legal system also assists in ensuring the efficient