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## **Models of public – private partnership projects in tourism industry**

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**MODELS OF PUBLIC – PRIVATE PARTNERSHIP  
PROJECTS IN TOURISM INDUSTRY**

**Abstract:** There is a general agreement at the conception (theoretical) level about the imperative of a public-private partnership and there are various efforts do it. It is also taken into account the experience of other countries of the European Union or other developed countries able to support and to assist with their previous experience.

Public – private partnership aims to high light the role of the two components in general development of society, regional, economic and company development and increase of competitiveness. All of them are subordinated to serve the objective of satisfying the population economic and social requests and/or needs. Efficient communication establishment between the two environments will conduct, for sure, to the development of a segment of satisfied citizens, employees, owner and vice-versa.

The public – private partnership in tourism industry could be developed in various ways. It could start with public – private strategies, joint proposals of regulations, up to growing business together and so on. The present paper aims to underline the main issues of public – private partnership and to propose few models applicable in tourism industry. The proposed models offer an image about better usage of both environment expertise and facilities (power) some of them still open opportunities for Romania.

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**Key words:** *public, private, partnership, models*

## **1. INTRODUCTION**

In the last 18 years Romania faced several stages of socio-economic transformation. According with the process of restructuring the market economy generates the appearance and development of business sector – company owners, shareholders, entrepreneurs, managers, various qualification labour forces; in other words employers and employees. On the other side the public administration sector knows a profound process of redefining it selves. In this area we have public institutions and public services suppliers – as employers and public servants (there are some categories assimilated with public servants) as employees.

The tow sector knows different evolution due to the premises, context and the abilities of the people involved either employers or employees. Personnel (employers and employees) skills, behaviour and culture could be the engines of a process, at the same time they are creating the organizational culture that contribute to increase the competitiveness.

At this moment, a link between the public and private sector is requested for the enforcement of future projects, mainly of public interest, that request high level of investments, competitiveness in achievement and exploitation. The public-private partnership in projects, especially in public investments, could be the way to solve the actual socio-economic problems and to access the structural funds that consisted in a source of development for all the countries that joint the European Union.

Using this opportunity each new member country had the chance to reach easier and faster the requirements, to improve the life quality of its citizens and to be more competitive.

## **2. PREVIOUS CONTEXT END EVOLUTION**

Very briefly the main reasons of the polarised evolution are presented in order to offer a better understanding of the future decisions and context.

Business environment knows a rapid development determined by the individual private initiative and later by the privatization programs. After a long experience of privatising the production facilities, using various methods, we still have to sell some big companies and the most important issue is that we have to handle the way that the privatization contracts were implemented. The conception of the private entrepreneurs was adapted easier to the market economy expectations because of factors as:

- existence of knowledge, at least theoretically, of the market economy requests in certain environments;
- availability of the people for being acquaintance of practical and then theoretical knowledge or vice-versa;
- the courage of the private entrepreneurs to start business and to adapt them and themselves on way;
- appearance of the foreign investors, experts of the occidental business environment (very small and small at the beginning and later bigger companies and multinational organizations);
- the presence of foreign capitals in large amount.

The attractiveness of the business environment was very high because of the various methods of motivation the personnel by the company management, the most important upon our opinion are: high level of salaries (compared with public sector), professional

satisfaction, training and continuous learning for employees, other incentives, health assurances, company cars, phones etc. These elements attracted from the labour market the personnel with the highest level of skills and field education. Together with the flexibility of the system, the business environment knows a fast development that allowed also a very good capitalization. Further more the capital become a force of future development.

The public administration environment (central and local structures) has a natural much more slow changing and reorganising process. The drawing up process of a new legislation system, in conformity with the expectations of market economy states and the European Union directives, was a complex, difficult and long term one. The main reasons that slowing down the transition in public sector were:

- less knowledge, theoretical and practical, about public systems in Europe and abroad;
- lack of professional public servants educated accordingly;
- impossibility of free initiative determined by the bureaucratic character and regulation;
- lack of funds for investment.

The two components of the public system employers and employees had to face with a different situation compared with the business environment. The employers were dependent to the state budget allocation and a very small amount of additional financial sources and a long list of priorities to be solved. The absence or weak usage of the mentioned forms of personnel motivation on the public sector determined the remaining of an old and obsolete practice personnel, attract the young with a low level of education or with out other options for a period of time. Often, the public managers decided to debalance the budget on favour of increase wages, this caused a bigger deficit on the area of public investments.

As a result of the new public system and the legislation that is according with the European directives, the public sector had the possibility, in the last few years, to become an attractive operational environment. This is mainly based on the possibility of using a large area of methods for personnel motivation and also the increase of the institutions autonomy in supplementing the public funds (budget) with additional sources. On the other hand the new legislation allowed some types of public institution to retain part (in percentage) from the tax income and to use it according with their needs. Shortly, the public sector became more flexible and closer to the business environment. Theories as public affairs, public marketing, social-economic efficiency etc. were implemented.

The absence of the funds needed for the implementation of different policies and the social objectives was determined by the fact that the majority of the citizens did not know the way of obtaining the public funds and also how they are spend. They are aware, due to the information in mass-media (not always very accurate and real) about the contract allocation without bids, corruption to all level, lack of professionalism, bureaucracy etc. All of these generated a certain degree of mistrust with regard of local and central authorities.

Even if the general situation was changed the lack of funds continues to be one of the most important problems in promoting public investments. This is why stating with 2002 the fundament of public-private partnership started to be build.

### **3. PUBLIC-PRIVATE PARTNERSHIP**

A start for redesign the public-private relationships could be represented by the investment projects in infrastructure. They are under regulation by the Government Ordinance no. 16/2002, Government Ordinance Emergency15/2003 and Law 293/2003 and these allowed the public-private partnership on the investment field. These regulations have the aim to clarify the ways of designing, finance, construct, exploitation, service and transfer of any public assets according to the public-private partnership.

Public-private partnership is a method to introduce the private management in public services by the contractual links on long term bases between a private operator and a public authority. Public-private partnership assure the public service totally or partially, as a function of the private found involved and asks for the private sector know how related to the efficient administration and offers of better quality public services. Using the marketing tools in promoting these services and supporting the way of offering them to high level of quality consolidates the link between public and private environment.

The public-private partnership defining starts from the key words it includes:

- **partnership** for action is formed by two or more partners joint to realize together an activity, an objective, a subject, a fact, an institution, a business. On the public-private partnership the main elements belong to the two sectors and have as aim the public interest objectives.
- **public** – presume that it belongs to the community or to the local/regional/ national society. This determines the obligation to be conduct base on specific laws and regulation and it is handled by central or local authorities.
- **private** – defines that it belong to the individual property, free initiative, market economy and it is controlled by demand and offer rule.

The public-private partnership represents the association between the two components aimed to achieve public interest objectives joining characteristics and principles of approaching from the business field, able to increase the efficiency and public sector regulation that should be more focused on the social benefits.

The partnership is the opposite of opponent, fight, aggressive and it is based on understanding, cooperation between partners to achieve common objectives.

The Romanian society, according with the actual needs, was directed to build a system of public-private partnership due to the following constraint:

- necessity of joint the competences and principles of market economy and democracy;
- complexity of the socio-economic problems that have to be solved;
- limits of the public sector in initiate, implement and handle projects;
- important changes on the evolution of state role, the report between „central” and „local”, „national” and „regional”;
- high level of investment projects budgets;
- lack of funds for investments with long term reimbursement.

The public-private partnership has to be analysed as a whole and it could be used in various areas of socio-economic system as:

- transport infrastructure and roads system rehabilitation;

- social and health assistance by free competition, assuring the protection for the categories with disabilities;
- education and research by stimulating the academic autonomy and function on the principle of educational demand and offer, on respect with the society demand of education;
- public services and services of public interest on the base of profitability but avoiding the monopolist consequences;
- production capacities of public interest;
- agriculture, forestry and environment protection;
- lend rehabilitation, water flows adjustments and disasters prevention;
- preservation of cultural, historical and natural monuments and sites;
- others.

Public-private partnership was created to give the opportunity of joint the effort aiming to obtain better results with benefits for the community and generally for the socio-economic environment. It is based on several cooperation principles that are reaching at the same time the altruism that should be taken into account regarding the general welfare of society and the profitability and efficiency requested by the business:

- free competition in investor selection;
- fix set of criteria, easy to be measured, transparency of the investor evaluation;
- confidentiality;
- neutral and preventive about conflicts of interest;
- follow the schedule of the selection procedure and the project implementation;
- clarity in communication;
- honesty in project implementation and transfer;
- fulfil the accepted obligations.

The main types of investment project, that could be made by public-private partnership, are:

1. Design – Build – Operate (DBO)
2. Build – Operate – Renewal of Concession (BOR)
3. Build – Operate – Transfer (BOT)
4. Lease – Develop – Operate (LDO)
5. Rehabilitate – Operate – Transfer (ROT)
6. Build – Own – Operate – Transfer (BOOT).

Each type of public – private partnership is proper for different applications.

### **3. ROMANIAN EXPERIENCE IN PUBLIC-PRIVAT PARTNERSHIP**

According to the Romanian law the steps of building a public-private partnership are as follows:

- initiating project by the public authority or at the private sector initiative based on the society needs;
- elaboration of „pre-feasibility” to after information about the possibility and the effects on the objectives achievement;
- publish the advertise related with the initiation of a public-private partnership for the project implementation and/or public debate;

- issue the „Letter of intention” regarding the involving in project implementation;
- negotiations of the project implementation conditions with the selected investors;
- concluding the “The project agreement” with the selected partners by the public authority in charge to handle the project;
- elaboration by the public authority together with the partners form the private sector of „Project feasibility study”;
- hierarchy the investors offers by the efficiency technical, economic and financial index;
- negotiation „Public-private partnership contract” with the investor firms placed on the classification, in order of the offers hierarchy, until the best results is obtained;
- exploitation of the project results according with the „Public-private partnership contract” by the private partner;
- transfer to the public authority of the public assets obtained by the project at the end of „Public-private partnership contract”.

This type of cooperation was used in various areas as: water supply, energy, land rehabilitation, transport etc.

In the field of tourism industry the Romanian experience was concentrate on privatising 100% of facilities either for mountains, see, cultural/historical type. These do not exclude the possibility of using the public-private partnership as alternative.

If we are analysing the tourism industry as a whole we see that a decision should be taken based on a set of criteria that covers all the aspects there are involved in offer the best conditions to attract tourists.

Starting from this point we are trying now to complete the picture using the public-private partnership.

First, we have to mention that in Romania we have mention that the tourism has a various forms as follows:

- seaside tourism;
- mountain tourism;
- rural tourism;
- spa tourism;
- cultural/historical tourism;
- religious tourism;
- active tourism (winter sports, equitation, hunting and fishing);
- cruises on the Danube;
- business tourism (conferences and exhibitions).

This diversity and the dispersion around the country determine a very important issue that is taken into account in settle the tourism destination – ACCESS. That means that it is requested to have a very good airports, train and busses networks and of course a very good road infrastructure.

The airports structure is good enough, they are placed in the most important towns for each region: Arad, Bacau, Baia-Mare, Bucuresti Otopeni and Baneasa, Caransebes, Cluj, Constanta, Craiova, Iasi, Oradea, Satu-Mare, Sibiu, Targu-Mures, Timisoara, Tulcea and Brasov under construction. The railway network is covering all the country also. The problems we have are the quantity and the quality of air-plains and trains

(carriages, engines), that means that what we have are not enough for satisfying the request and the most of them are not in a good shape (they are very old with physic and technologic wear and tear). At the same time the network it selves for railway is old and it needs huge investments to be up dated functional and technological.

Regarding the roads network, Romania has the most difficult situation having, in 1990 – 100 km highway, now the situation is as follows:

Highway	Route	Distance (km) / in use (km) - 2004	Observation
A1	Nădlac - Arad - Timișoara - Deva - Sibiu - Pitești - București	620 / 113	<i>Under construction; estimated to be ready in: 2014. Segment Pitești – Bucharest ready before 1990.</i>
A2	București - Constanța	225 / 116	<i>Under construction; estimated to be ready in: 2010. 70% in use.</i>
A3	Borș - Oradea - Zalău - Cluj-Napoca - Târgu Mureș - Sighișoara - Brașov - Ploiești - București	545 / 0	<i>Under construction – project started in 2004; estimated to be ready in: 2012.</i>
A4	Târgu Mureș - Ditrău - Poiana Largului - Târgu Neamț - Săbăoani - Târgu Frumos - Iași <sup>[1]</sup>	300 / 0	<i>As project; estimated to be ready in: 2013.</i>
A5	Albița - Focșani - Ploiești	314 / 0	<i>As project; estimated to be ready in: 2016.</i>

Source: [www.wikipedia.ro](http://www.wikipedia.ro); [www.autostradatransilvania.ro](http://www.autostradatransilvania.ro), press releases

We already used several forms of public-private partnership to sustain mainly the infrastructure projects and public services (utilities). The results are not spectacular as we presume and several aspects rised up.

That is the reason why, at this time, we are thinking that these projects should be made by public-private partnership, but in a more complex form. There are some questions we are trying to get solutions as:

- What form of public-private partnership to use?
- How to decide the partnership form to be more efficient and effective?
- Is it better to approach some targets (ex. tourism industry) as a whole together with the facilities?



Issuing a model of approaching these we intend to offer to the authorities some clues about the best way to follow in order to obtain maximum effect as socio-economic impact.

#### 4. MODEL OF DECIZION IN PUBLIC-PRIVATE-PARTNERSHIP

The model we proposed is base on the scorecard system. That means that we are building a set of criteria – general one ore specific to the domain – and allocate a sum of points to each criterion. Base on the context and the special condition that are influencing the decision there are settled rates of participation for each criterion to the final score. The alternative that achieves the best score offers the premise of the most profitable option.

The public-private partnership is based on the relevance and viability of the following general criteria:

- G1 – fulfil the public needs, but under the administration of the private sector tools;
- G2 – common objectives, evident and identifiable by both parts;
- G3 – existence of the politic support for the project;
- G4 – public found availability and resources mobilization;
- G5 – previsions/perspectives related to the add value and project efficiency;
- G6 – existence of interest from the private sector;
- G7 – possibility of risks transfer to the private sector;
- G8 – necessity of both sectors implication;
- G9 – expected benefits and profits;
- G10 – procedures/regulation of project implementation.

For tourism industry we consider that have to be added the specific criteria as follows:

- S1 – is tourism a national priority, is it part of the national development strategy;
- S2 – there is a significant contribution of tourism industry to the GDP (8% in Romania);
- S3 – is it possible the full transfer to the business environment in terms of funds availability;
- S4 – there are some other facilities (ex. beaches, natural or historical monuments etc.) that have to related in away with the main objective;
- S5 – the infrastructure sustains the main objective;
- S6 – there are all the public services and facilities available to the requested level;
- S7 – could be areas fully affected by unemployment due to massive discharge after the transfer to private sector;
- S8 – tourism sector contributes to the general national prosperity, European Integration and globalization.

If we apply, in a very simply way, the proposed model taken into account two options:

V1 – privatization of the tourism assets and support the others by public effort with public-private partnership;

V2 – using public-private partnership for all elements involved in tourism industry

Criteria	Rates	Version 1	Version 2
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		Gross Score	Adjusted Score	Gross Score	Adjusted Score
G1	15 %	60	9	80	12
G2	10 %	80	8	80	8
G3	5 %	100	5	70	3.5
G4	20 %	50	10	40	8
G5	15 %	40	6	80	12
G6	5 %	100	5	75	3.75
G7	5 %	100	5	50	2.5
G8	5 %	30	1.5	50	2.5
G9	15 %	10	1.5	80	12
G10	5 %	50	2.5	50	2.5
	100 %		53.5		66.75

Seems that according with the general criteria score the V2 is more profitable, of course the rates and the scores gives to each criteria has to be made on very solid base to be sure that the final result is not affected. Our proposal is to have a group of specialist to settle the criteria, a different group to distribute the rates among the criteria and a third one (could be the fist one, but not quite the same it has to have at least 30% of fresh minds) for evaluation of the proposed alternatives.

This procedure will guaranty the viability of the model due to the fact that the first and the third group will not be acquainted with the rates and this is the key of the model due to the fact that the rates could conduct to unpredictable results.

Criteria	Rates	Version 1		Version 2	
		Gross Score	Adjusted Score	Gross Score	Adjusted Score
S1	20 %	80	16	40	8
S2	15 %	90	13.5	60	9
S3	10 %	100	10	50	5
S4	20 %	10	2	100	20
S5	15 %	60	9	90	13.5
S6	10 %	60	6	90	9
S7	5 %	90	4.5	20	1
S8	5 %	30	1.5	70	3.5
	100 %		62.5		69

According with the adjusted scores applied to the special criteria seems that the second version is better then the first.

The final score is determined by the formulas:

$$St = GCS + SCS$$

St = total score

GCS = general criteria score

SCS = specific criteria score

if the specialists that are involved in settle the criteria consider that a category of criteria is more important that the other they could ask for adjusted formula, as follows:

$$\text{Sta} = \text{GCS} \times \text{GR} + \text{SCS} \times \text{SR}$$

Sta = total adjusted score

GR = general criteria rate

SR = special criteria rate

With this rate the proposal has to be analysed, in the same mode, about the proper public-private partnership forme (6 types mention above) that should be used. At this stage the first criteria is the total score obtained and then are used specific criteria defined by the particularities of the public-private partnership type. Some time the results could be turn on other direction according with this three stage of analyse.

## 5. CONCLUSIONS

The proposed model of analyse and decision about the public-privat partnership project, with reference to the tourism industry is a theoretic aproach of a problem that the Romanian public authorities is engrossed in. This is due to the fact that we are facing with the position to asure infrastructure, public services and facilities to support the tourism industry after we privatised the assets and the private interest is lower and the public effort has to be bigger.

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