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Interpreting risk allocation mechanism in public–private partnership projects: an empirical study in a transaction cost economics perspective

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Abstract

Risk allocation in public–private partnership (PPP) projects is currently claimed as capability driven. While lacking theoretical support, the claim is often ‘violated’ by current industrial practice. There is thus a need for formal mechanisms to interpret why a particular risk is retained by government in one project while transferred to private partners in another. From the viewpoint of transaction cost economics (TCE), integrated with the resource-based view (RBV) of organizational capabilities, this paper proposed a theoretical framework for understanding risk allocation practice in PPP projects. The theories underlying the major constructs and their links were articulated. Data gathered from an industry-wide survey were used to test the framework. The results of multiple linear regression (MLR) generally support the proposed framework. It has been found that partners' risk management routine, mechanism, commitment, cooperation history, and uncertainties associated with project risk management could serve to determine the risk allocation strategies adopted in a PPP project. This theoretical framework thus provides both government and private agencies with a logical and complete understanding of the process of selecting the allocation strategy for a particular risk in PPP projects. Moreover, it could be utilized to steer the risk allocation strategy by controlling certain critical determinants identified in the study. Study limitations and future research directions have also been set out.

Keywords:

Risk management | risk allocation | organizational capability | commitment | uncertainty | transaction cost economics | PPP

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