Innovation through Public-Private Partnerships in the Greek Healthcare Sector: How is it achieved and what is the current situation in Greece?

Konstantinos Biginas
Walden University - Business School
Minneapolis, USA

Stavros Sindakis
Bangkok University – Institute for Knowledge & Innovation South East Asia
Bangkok, Thailand
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Konstantinos Biginas and Stavros Sindakis

ABSTRACT

Public Private Partnerships (PPPs) constitute a partnership with many different applications in the social sphere, in healthcare as well. Some European countries were pioneers in establishing these new forms of cooperation. Greece was one of the countries that followed suite. The aim of this paper is to discuss the case of public-private partnerships in the Greek heath care sector, as well as the impact of this entrepreneurial activity to the development of innovation. The primary focus of this paper is to provide a complete and updated picture of the institution of the PPPs and to evaluate PPPs as an alternative means of production of public works and services. Furthermore, this study attempts to compare the implementation of the PPPs in several projects across different European countries and provide an overview of the Greek experience of the PPPs. Finally, the evaluation of the institution of the PPPs along with suggestions for future action aimed at profit maximization, better utilization of the projects and maximization of social benefits are made, taking under consideration the ever-increasing demands and special socio-economic circumstances of our contemporary society.

Keywords: Public-Private Partnerships, Innovation, Entrepreneurship, Healthcare sector

Introduction

Public Private Partnerships (PPPs) constitute a partnership between many different applications in the social sphere, in healthcare as well. Some European countries were pioneers in establishing these new forms of cooperation. Greece was one of the countries that followed suite. Currently, Greece is experiencing a bloom in these forms of partnerships for a number of reasons. First, a determining factor has been the dysfunction of the public sector. The big lag and the inability to move flexibly and monitor developments were crucial. Budgetary constraints imposed on the healthcare sector necessitated outsourcing many of the services provided by the public sector, especially in the domain of hospital care, which takes up the largest share of the total health expenditure in Greece. The Greek NHS has deteriorated due to the way compensation of health services is an underestimation of the actual cost of services, the lack of real budgets, as well as the deficiency of credible policies, cost control, and cost containment (Tountas et al, 2002).
The Greek Health System was originally developed in early 1980s, but since then minor improvements and reforms took place, until the early 2000s. Several disadvantages emerged that governments were not able to turn into opportunities for improvement due to integral weaknesses, such as characteristic slowness and inflexibility. Under these conditions, the prospect of PPPs seemed to be an efficient mechanism for the Greek governments to move forward, surpassing obstacles in order to develop and provide quality health services. The idea behind PPPs is, in this case, to create centres of medical care in the way that public knows how to use. Such investments create modern hospitals that are able to provide high quality medical services with a view to containing costs. Through PPP projects, new jobs are created, leading to the reduction in the ratio of unemployment, which is, especially now, an important shortcoming in the growth of the Greek economy. In the case of Greece, the government is definitely interested in attracting foreign capital inflows, as a way to escape from the vicious circle of continuous recession, boosting productivity, and hence achieving growth. Magnetizing funding from large investment houses is crucial and increasingly challenging in this fierce and competitive global environment, considering that Asian countries is an additional threat, as they attract the interest of investors, guaranteeing multiple tax breaks and low wages.

The main aim of this paper is to examine the case of public-private partnerships (also known as PPPs) in the Greek heath care sector, since their first introduction to the country with the ratification of the law act 3389/2005, as well as discuss the impact of this entrepreneurial activity on the development of innovation. The primary focus of this note is to provide a complete and updated picture of the institution of the PPPs and to evaluate them as an alternative means of production of public works and services. This study also aims to provide a new insight into the identification of entrepreneurial opportunities through public-private partnerships, while comparing the implementation of the PPPs in several projects across different European countries, providing also an overview of the Greek experience of the public-private partnerships.

This discussion paper examines the public-private partnerships in healthcare services, aiming to give a reliable evaluation of those types of investments. In reference to the various advantages of the PPP contracts, this note goes beyond the infertile description, and attempts to evaluate their decisive role in choosing a model of mutual cooperation-partnership. On the other end, the disadvantages of the PPPs led towards forming a more concrete and objective view of those kinds of partnerships. Next, the paper focuses on the implementation of the PPPs in the sensitive sector of Healthcare in Greece, paying particular attention to the circumstances and the social significance of healthcare provision. At the same time, the contribution of the PPPs to the construction of infrastructure is evaluated, regarding not only the Greek national level, but also discussing the developments at international level. The innovations, benefits, and shortcomings of the examined Public-Private Partnerships are analyzed during the stage of implementation and well after it.

As regards the Greek experience in particular, the relevant merges and initial efforts of implementation - following the ratification of the aforementioned law - are explored. Where possible, the Greek experience is then compared to the international one with the intention of producing secure and objective results. For concise results, partnerships that already function in Greece are also presented. As regards the economic analysis of the PPPs, the presentation and evaluation of the economic data was approached with great care at precision upon which we
based our final conclusions. At the final stage, possible solutions for better economic results are suggested. In this context and taking into consideration the ever-increasing demands and special socio-economic circumstances of our contemporary society, we evaluate the institution of PPPs, and suggest future actions aiming at: achieving profit maximization, improving utilization of the projects, and maximizing social benefits. Finally, ideas for future research are proposed.

**Public-Private Partnerships in Healthcare services**

The literature in healthcare refers to the uncontrolled growth of healthcare costs and the need to reduce those (Fisher et al, 2009). Central to this philosophy of policy decision making was the assumption that the government is responsible to provide universal high quality health services to all citizens without exception. In so far, public services proved to be insufficient and fragmented, creating the need for a new model of healthcare provision in which leveraging strong associations between different partners is expected to provide the means for healthcare spending and budgetary control as well as the necessary surveillance measures. The unbreakable and harmonious cooperation between the public sector and leading financial institutions in the private sector carries the potential for projects economically efficient and socially beneficial for all parties involved. PPPs are certainly a promising model, which in conjunction with other economic and social policies could lead to new ways of commissioning care and promoting innovative practice. Besides everything else, PPPs in Greece can provide a great opportunity to improve the infrastructure and services of the healthcare system with the primary goal being to secure increased user satisfaction.

Basu et al (2012) conducted a comparative study with the objective of gathering the advantages and disadvantages of public-private partnerships, making a case for a clear separation between the public and private sector involvement activities, and reaching the following conclusions:

1. PPPs in healthcare should be distinguished from a general move towards privatization, which is also the prevalent trend of our time.

2. It is necessary to set apart the objectives for public healthcare policy and the rules governing the operation of private sector initiatives.

3. It is of paramount importance to guarantee the social character of health services under the model of public-private partnerships. Among the fundamental objectives of such initiatives should be improving product quality, improving and strengthening health services, enhancing the education of citizens as end-users of these services.

In essence, the level of service provided should respond to the terms, conditions and standards defined by the contract, otherwise, the private sector should be held accountable. Any amendments or improvements should fall in the legal obligation of the private investor. If these conditions are not met, the public sector then holds the legal right to terminate the contract and appoint new partners through fair competition procedures. Roumboutsos and Anagnostopoulos (2008) state that the economic efficiency of any PPP investment largely depends on risk-sharing decisions—direct or indirect—taken by the parties (public and private). Their research, which focused on identifying risks and their underlying patterns, concluded that the risks arising from a
partnership must be recorded and then coded and archived. Their evaluation for their impact on the final project contributes to assessing incidence factors, creating file responses to them and finally enables the explicit and clear separation of the responsibilities of both parties. Only then, a fair share of the costs arising from new, corrective measures can be guaranteed and the incidence of risks in the current or future projects can be reduced or even eliminated. A study by Siskou, Kaitelidou, Theodorou and Liaropoulos (2008) focuses on the high level of private spending on health services by Greek households, a phenomenon which they characterized as the ‘Greek paradox’. The conclusion drawn in this study is that the rapidly increasing health expenditures in the Greek healthcare system, coupled with the rapid growth of the private sector over the last 20 years, seem to be inextricably linked with the underfunding of the public healthcare system. A further implication of this is the additional use of private care, which aims to compensate for the weaknesses and gaps in the NHS.

Cheung et al (2012) developed assessment models employing data from different PPP projects. The contribution of the above study is the economic dimension they added to assessing and measuring methods of the impact of these partnerships. Finally, Blanc-Brude et al. (2008) examined public-private partnerships that were in place in-hospital settings across different EU states, concluding that partnerships PPPs show varying results in different countries. The focal point of this research is the process to be followed by public and private stakeholders before and during the implementation of the partnership. Practically, this means evaluating the local actors of the current market in Greece, analysing financial data and finally, isolating of the existing or potential factors affecting the course of the partnership. Among the key elements for analysis are the economic and business cycles, levels of economic growth and inflation and the safeguarding of financial resources. It is also important to include social factors that can affect the course of a partnership, by which we mean not only the private and public actors involved, but also the involvement of interested stakeholders e.g. public or local authorities, local communities, service users and their families and other social actors. These seem to be external factors affecting the partnership, but who are, nonetheless, very important too.

International experience in Public Private Partnerships

In South Africa, the main Hospital of Cape Town, for example, was constructed and operates under the PPP model. The specifics of the project are as follows: the duration of the contract amounts to ten years with no provision of extending for ten more years made. In this case, the private partner provides ancillary and nursing staff, while the government provides the medical staff (Marek et al, 2005; Farlam, 2011). At the conclusion of the contract, the hospital services are reserved for the public. By the end of this, the state has undertaken to pay compensation to the private investor by paying a daily hospital fee for each patient.

The PPP model has worked very successfully in Australia where by 2002 at least three new hospitals were delivered to the local government, available for rent. The two hospitals built in Melbourne and Sydney exemplify this approach whereas the reform of public healthcare services was achieved under a contract and financial management agreement with private investors (English, 2005). Mildura Base Hospital was built and operates under these conditions. The staff employed in the old public hospital was retained, while government compensation is based on the type of services provided and not their number. Another PPP model has also found application in Australia. These are cases where an individual investor creates a private wing
within the space of a public hospital. The government continues to administer and control the public hospital, providing public health services, while the private investor operates the private wing whose services are addressed exclusively to private patients (McKee et al, 2006).

In Brazil, on the other hand, another PPP model was routinely followed. There, the management of 12 new hospitals built by the local government was allocated to private investors. The state has the obligation to compensate individual investors for their services for the period of time the hospitals were placed under private management (La Forgia and Harding, 2009; Widdus, 2001). A similar approach to PPPs was adopted in Cambodia where the local government decided to allocate the management of regional clinics, providing citizens with primary healthcare, to private investors. The private investor indemnified by the public based on per capita services provided, and sometimes had the responsibility of recruiting staff (Brad Schwartz and Bhushan, 2004; Soeters and Griffiths, 2003).

**The European experience in Public Private Partnerships**

There are many examples of public private partnerships in Europe. In the UK, the government signed thirty-year term contracts with individual investors who undertake the construction and operation of the project and the Contracting Authority undertakes to pay compensation on an annual basis (Mur-Veeman et al, 2003; Holmes et al, 2006). In Spain (and especially in Valencia) local hospitals were built and operate entirely privately. The private investor has undertaken to provide all clinics and support services for patients (Acerete et al, 2011; Thompson and McKee, 2004). Finally, in Romania, individual investors operate CT scanners within public hospitals under a PPP approach, whereas the individual investor provides support services in public hospitals (Widdus, 2001).

In the case of Great Britain, which is considered a pioneer in this field, PPPs are not a new way of funding, but rather a new way of government borrowing by individuals. It is emphasized in the literature that under PPPs there is the danger of transferring arising debts to the next generations of taxpayers (Leathard, 2013). The counterargument towards this view is that PPPs are a new, modern way of financing and thereby achieving the construction of public infrastructure with the help of private capital. Moreover, it is noted that the number of private construction companies that may undertake the project is important to consider, as it affects the conditions of perfect competition. Competition that takes place between potential contractors companies raises the efficiency of the project, while ensuring better quality. In addition, the procurement procedures are so cumbersome that even if ultimately the construction time of the project is small, the total time required to complete a PPP project is equal to or even greater than the public investment programmes. Those, however, who championed the PPP model, argue that PPP projects are delivered within the allotted time, apparently pushing forward the idea that the quondam delays are not the responsibility of individual investors (Flinders, 2005).

During the first stage of construction of new hospitals, following the PPP method, exceedances of the original budget by 9% to 229% were identified. In contrast, proponents of PPPs indicate that projects are delivered within the limits of the initial budget (Parker and Hartley, 2003; Pollock et al, 2002). Construction costs compared with the corresponding public investment costs were up to 77% higher, accompanied by a reduction of hospital beds by 30% and staff by 20%. The counterargument to this estimate is that good governance guarantees the
presence of sufficient staff, ensuring maximum quality at minimum cost (Spackman, 2002). Likewise, identified defects and design problems in the construction of new hospital under the PPP model were identified (Parker and Hartley, 2003). Experience also shows that in case of default of the terms of the original agreement, fines were never charged. In contrast, if the project fails or goes bankrupt, the individual investor asked the State to undertake the preservation and handling of the project. This prospect is often not provided in the initial risk sharing agreement. However, the proponents of PPPs emphasize that the construction risk (delay completion of the project, increasing the original budget, etc.) and operational risk of support service is assumed by the private investors. Finally, some argue that PPPs are favourable to corruption incidence conditions (McKee et al, 2006; Pollock et al, 2002). This is the principle that, on the grounds of ‘commercial confidentiality’, there may be a lack of transparency in the procedures followed in the project.

Public Private Partnerships in Healthcare – The Greek paradox

Before attempting a detailed analysis of cases of PPPs in Greece, it would be worthy to mention one peculiarity in Greek healthcare reality, characterized as ‘the Greek paradox’. The ‘Greek paradox’ refers to the area of health and largely explains why the PPP model took so long to implement in Greece. Moreover, it may help us conclude that the PPPs applied in Greece may be much different to the PPP initiatives of other countries.

The ‘Greek paradox’ describes a peculiar situation in the Greek healthcare system, which is evidently the most privatized one between European countries, while the total population is supposedly covered by the social security system. According to a survey (Siskou et al., 2008), 68% of healthcare expenditure is directed at Greek households through outpatient services. Of these, 31.1% account for dental care. The main reason of this phenomenon is the lack of adequate staffing of primary public health services, mainly in isolated regions in the countryside. In these areas, residents have no other option, but to turn to outpatient care. Accordingly, the hospital sector is estimated for less than 15% of household expenditure invested in healthcare. The largest percentage of these costs incur as informal payments to medical staff within hospitals (20%) at a rate equal to the costs of institutionalised patient participation. On the other hand, only a small percentage of admissions to public hospitals (16%) ends up in private healthcare centers. This happens due to the rising level of public hospital services and improvement in logistics infrastructure, on one end, and the increased cost of private health services on the other (Siskou et al., 2008). These findings verify the argument of the peculiarities and inconsistencies characterising the healthcare sector in Greece.

McKee et al (2006) record in their study dozens of design problems and defects of the new PPP hospitals in Greece and the UK. These are projects where the private investor assumes the construction risk (construction delays, cost overrun) and operational risk of the support services within the new hospital. The transfer of risk presupposes proportionate penalties in case of breach of contract agreements, penalties that are never effective though. In case of failure or bankruptcy of a private public partnership project, it is the state that is called to rescue and carry out the rest of the work. The involvement of the private sector in the construction of new hospitals may trigger favourable conditions for the emergence of corruption. The lack of
transparency in the PPP agreement under the veil of ‘commercial confidentiality’, the movement of large sums of public money, the existence of financial consultants working simultaneously or sequentially in the public and private sector, are some of the factors creating favourable conditions for the emergence of corruption (Moschuris and Kondylis, 2006).

In the Greek economy, forging long and lasting agreements may be a challenge even for small-scale projects. In the case of PPPs in the healthcare sector, assigning public responsibility to private investors may be considered as conferring responsibility for a practice thought of as inherently social and universal to profit making entities at the expense of public good (Siskou, Kaitelidou, Kostagiolas and Liaropoulos, 2009). PPPs should be checked regularly and in accordance to the standards of OECD and EUROSTAT in order to ensure the reliability and transparency of resource management and financing of such projects. It is not possible to evaluate the effectiveness of any PPP initiatives in hospital settings without reliable data and assessment methodologies. It is clear that the deterioration of any socio-economic indicators in the healthcare sector - for example, the quality of services, equal access of citizens and general health indicators of the population -, can have a significant impact on the key features of the NHS. When assessing a PPP investment, it is necessary to take into account both the financial and social dimensions of the project. If the above conditions are not met, the massive recourse to PPPs for the development of public healthcare services (and improving the infrastructure of the NHS) is likely to result in the negation of their public nature, while increasing the private sector involvement alone cannot guarantee a substantial progress in socio-economic terms. There is the undeniable risk that healthcare is transformed from a public good into a commodity.

According to Moschuris and Kondylis (2006), the application of PPPs in the hospital sector in Great Britain reveals the effectiveness and efficiency of these programmes. They cost much more than traditional public investment programmes and may result in a huge financial burden on the shoulders of the future generations of taxpayers. He claims that PPPs involve more cutting in terms of services, hospital beds and staff costs rather than general clinical criteria, an approach, which ultimately affects adversely the quality of service of new hospitals.

Discussion

This discussion paper on Public Private Partnerships leads to some conclusions that can form the theoretical basis for suggestions as regards the improvement and application of public-private partnerships in Greece, especially in the healthcare sector. These conclusions refer to the maximization of the benefits of all parties involved. There are conflicting views on the present and future of Public Private Partnerships within the literature. These views, largely stemming from ideological and political approaches together with the short- and long-term goals around economic performance, constitute the agenda to be forwarded by individual governments and various economists.

The present note endeavours to reflect on the operation of PPPs on international level, problematizing the political concerns and expectations pertaining to their sustainability and mutation potential. This review of the performance of such initiatives worldwide is intended to draw some useful conclusions to be considered in future undertakings and hopefully provide effective suggestions for future planning. In particular, the experience in the UK, over the past few decades, has to offer useful blueprints for future action as PPP initiatives have dominated the
policy makeup of the country, especially in the context of the healthcare sector. Importantly, there is a wide range of researchers, even in this country, who treat PPPs with scepticism. Whereas at the onset, PPPs were welcomed in Britain with great enthusiasm, there is evidently growing concern about their impact on the British Healthcare System (known as NHS).

It is by no means an understatement that the economic crisis has hit the construction sector; one that is closely connected to PPPs. As public-private partnerships are riskier than other infrastructures, projects require more detailed and careful economic evaluation. The study of appropriate indicators for investors combined with an improved methodology for the economic evaluation of PPPs can ensure better results and reduce the related risks. A crucial factor involves determining the role of the government, which has to do with decisions about the economic viability of a particular work, and also about the ability to attract private funding. A common component of all efforts involving partnerships PPP should be the interests of the general public. Further research should be carried out exploring the entrepreneurial benefits of PPPs on innovation, aiming at providing a new insight into the identification of entrepreneurial opportunities that may emerge through public-private partnerships. Additionally, the ways and means by which governments innovate and participate in entrepreneurial activities should be further explored, studying the components of successful entrepreneurial innovation when governments work collaboratively with private investors and entrepreneurs. Finally, the potential of PPPs should expand on the European experience with particular reference to their changing role in the midst of the economic crisis.

About the Authors

**Konstantinos Biginas** is a PhD Candidate from Walden University of Minneapolis USA and has extensive teaching and research experience, mainly from his positions at the University of Central Lancashire, the University of London, and State University of New York Empire State College. Konstantinos has considerable experience in both the business economics and international management fields. Teaching has been an important part of his career, and he has teaching experience in first, second and third year business economics, management and marketing classes as well as postgraduate business and management classes in a number of academic institutions. E-mail: [Konstantinos.Biginas@waldenu.edu](mailto:Konstantinos.Biginas@waldenu.edu)

**Dr. Stavros Sindakis** is Assistant Professor of Innovation Management at Bangkok University - The Institute for Knowledge and Innovation SE Asia. He earned his PhD from the University of Portsmouth, UK. Stavros’ principal research interests include the dynamics of innovation and the investigation of the emerging opportunities in knowledge intensive industries. His main academic contributions relate to innovation and enterprise excellence, organizational sustainability and growth, coopetition and entrepreneurship. E-mail: [Stavros.s@bu.ac.th](mailto:Stavros.s@bu.ac.th)
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