

# Public and private interests – are there any clashes?

## The New Karolinska case

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### 1. Introduction

One of the most salient contemporary societal trend is the increasing amount of public-private collaborations; including public areas that traditionally have been considered as inappropriate to expose to businesses involvement and economic exchange (Sandel, 2012; Rider and Waluszewski, 2015) Besides the general complication of relating *civic or public goods*; which utilisation should reflect *collective interests*, to the *interests of private firms*, there is another important aspect to consider, of main interest in this paper. The motivation the political/policy encouraged public-private collaborations is resting on some specific characteristics that the latter setting is ascribed in stylised neoliberal economic models (Mirowski, 2011; Marglin 2008; Rider and Waluszewski, 2015). Based on neoliberal economists trust in the market as the most efficient information processor; including the understanding of economic exchange as a content-free reaction on the price mechanism, public-private collaborations and other market inspired arrangements are seen as means to make the public setting more efficient and innovative (Mirowski, 2011; Marglin 2008; Rider and Waluszewski, 2015). As an illustration, take following short example (which will be discussed in detail below).

In 2008 the county of Stockholm decided to invest in a totally new hospital, ‘New Karolinska Solna’, NKS, which besides giving advanced health care should put the regions academic research and industry related to life science and health care on the world map. In 2010 the county decided to utilise Public-Private-Partnership (PPP) for the procurement of the new hospital. Based on advices by a number of private consultancy firms; with Öhrlings PricewaterhouseCoopers (ÖPwC) in the foreground, the county politicians saw PPP as a mean to utilise “*the private sectors’ competitive situation to drive innovation and design forward*”,<sup>4</sup> and furthermore, to “*minimize time offsets and cost increases to the performers of the project, that is the PPP-company*”.<sup>5</sup> In contrast to a traditional way of ‘public procurement’, where the public actor is the direct counterpart to the bid winner, in this case the role of governing the procurement was is taken over by the PPP company, which, besides responsibility for building and financing, has been made responsible for maintenance for decades to come.

The accepted bid on Euro 1.3 billion <sup>6</sup> was presented by Swedish Hospital Partners AB (SHP), a Swedish-British consortium owned by Skanska (a large Swedish construction company) and Innisfree (the leading infrastructure investment group in the UK engaged in long term

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<sup>4</sup> <http://www.nyakarolinskasolna.se/globalassets/nks-rapport-1---beskrivning-av-ops-upphandling.pdf>, p. 49.

Author’s translation.

<sup>5</sup> <http://www.nyakarolinskasolna.se/sv/Bakgrund/OPS-upphandlingen/>. Author’s translation

<sup>6</sup> SEK 14.5 billion

investments in public private infrastructure projects). This bid was accepted as it was assumed to fulfil the demands on innovation, quality and cost control – despite significantly higher costs for loans compared to loans to the public sector in Sweden at that time). (Swedish communities and counties are allowed to take up loans from private financial institutions.) The PPP company has added costs of about Euro 30 million per year, or Euro 300 million per decade (Mellgren and Ennart, 2015, p. 37). This sum was motivated as being compensation for “constantly searching for and delivering innovation, quality and costs control”<sup>7</sup>

With all facts at hand, NKS proved to be one of the world’s most expensive construction projects ever. In 2015, the building cost was estimated to Euro 1.62 billion.<sup>8</sup> With costs for med tech equipment, the total hospital cost was estimated to Euro 2.25 billion.<sup>9</sup> Furthermore, it was criticized and condemned by the profession for being a standard building not well adapted to health care activities. To mention a few of the problems reported by the profession through the Swedish Medical Association<sup>10</sup>: Operation theaters not adapted for operation, medicines risking to be destroyed due to too warm medicine rooms, odors after patient investigations is impossible to ventilate since windows cannot be opened, medical students cannot take part in patient investigations due to too small investigation rooms, physicists that have to carry around administrative material in back-packets due to lack of space for administrative tasks, patient secrecy threatened of lack of insight protected meeting rooms, IT-breakdowns, seriously threatening patient security. This in turn produced a constant need for improvised re-constructions in order to adapt the building to health care activities – and to additional orders and running costs for these. To that can be added running consultancy costs due to the introduction a totally untried health care model delivered by Boston Consulting Groups (BCG) and, in the relation to the procurement of the BCG consultancy, suspicions of a non-correct procurement process. In early 2018 Sweden’s finance minister called for a governmental investigation due to massive operational problems and massive cost overruns: *“The government has taken part of reports concerning incongruities with extensive consequences for economy, patient security and work conditions at NKS.”*<sup>11</sup>

## ***1.2 Aim and research questions***

The politicians did actually succeed with putting NKS on ‘the world map’ – but so far rather as a scandal than a ‘top-of-the-top’ research hospital. But why did not the NKS construction project fulfil what the politicians had assumed: ‘cost control’ and ‘innovation’? Can the disaster be explained by a badly managed project? Or are there other, more fundamental reasons behind the private sectors inability to realise the political expectations?

The point of departure for this study; based on our research experiences on the interactive business landscape (Håkansson et al, 2009), is the hypothesis that problems of the NKS

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<sup>7</sup> <http://www.nyakarolinskasolna.se/sv/Bakgrund/OPS-upphandlingen/>. Author’s translation

<sup>8</sup> SEK 18 billion (Ennart and Mellgren <https://www.svd.se/nya-karolinska-tio-miljarder-kronor-dyrare-att-bygga/om/nya-karolinska>).

<sup>9</sup> SEK 25 billion (Ennart and Mellgren <https://www.svd.se/nya-karolinska-tio-miljarder-kronor-dyrare-att-bygga/om/nya-karolinska>).

<sup>10</sup> Dagens Nyheter, 2018-02-12

<sup>11</sup> <http://www.regeringen.se/pressmeddelanden/2018/02/statlig-granskning-med-anledning-av-fallet-nya-karolinska-solna/>

construction project is caused by a specific problem: *The political/policy expectations on the interaction pattern of the business landscape does not correspond to the interaction pattern that actually exist.* Although this issue is relevant for all types of public ambitions to utilise the private sector that is based on the same assumption about the interaction pattern of the latter, the paper is concentrated to one specific area; infrastructure/construction projects.

The research question we are pursuing are as follows:

1. What interaction pattern does the political expectation rely on – explicitly or implicitly?
2. What interaction pattern is the politically decided project facing – as it outlines in empirical research on the content and consequences of business exchange in general, and on the construction industry in particular?

The paper is designed as follows: In next section the research design is presented. Thereafter we present some different perspectives on PPP and what it can achieve; from a neoliberal economic perspective respectively from an interactive perspective.

## **2. Research design**

The contemporary societal trend to rely on a ‘competitive market’ as a mechanism breeding both innovation and efficiency is, as mentioned above, coloured by neoliberal economic thinking that assumes that the market is the most efficient information processor (Sandel, 2012; Mirowski, 2011; Marglin 2008). While context dependency and the existence of social and material investments in place (Utterback and Abernathy, 1975; Håkansson et al 2009) have been recognised on the public side, the market is approached as something opposite; a mechanism that breeds efficiency and innovativeness through rational economic actors that *are not* bound by investments in place.

A wide variety of heterodox scholars (for an overview see e.g. Lawson 2005), as well as IMP research (see e.g. Håkansson et al 2009) offer a different perspective on the working of the ‘private side’. One of the most salient *empirical findings* made in the latter research stream is that economic exchange has a content, affecting both the resources and the actors involved – on both sides of the exchange interfaces. This in turn results in interdependencies, stretching across organisational and national borders. Hence, both the public and private sphere are characterized by investments in place – but following different economic logics.

This implies that public-private collaborations are not a simple interplay between public investments in place and a market mechanism processing information without affecting the content of the resources exchanged. Instead, it is about the encounter between heavy investments in place – with different economic logics. The public resources involved will not only be affected by the business logic of the direct involved actors, but also become part of social and material resources related indirectly to the focal interfaces. The public resources will be affected by the historical and contemporary direction in these interaction patterns. Hence, given a business landscape characterized by interactivity and interdependencies, the complications described in the short illustrations above, are not odd deviations, but rather natural consequences of relating and combining public and private interests. (Håkansson and Waluszewski, 2013, Håkansson et al, 2009, pp. 235-260)

With an interactive approach as point of departure (Håkansson ed, 2009; Waluszewski, Håkansson, Snehota, 2017) and especially the distinction of what aspects of the business landscape that are recognized in this and related heterodox economic approaches (see e.g.

Lawson 2005 for an overview) respectively in neoliberal economic approaches, we investigate the political/policy expectations on PPP in general and in the NKS case in particular.

The case is based on original data from : 1) Stockholm County's SLL's description of the PPP procurement, presented in *NKS-rapport 1, May 2010*, Description of the OPS-procurement, 2) Stockholm County's motivation of the PPP decision, presented in the 2007 report *Evaluation of alternative solutions for financing and maintenance of New Karolinska Hospital*, 3) Öhrlings PricewaterhouseCooper's Supplement to the same report; *Evaluation of alternative solutions for financing and maintenance of New Karolinska Hospital*, and 4) Ernst and Young's *FINAL REPORT. Evaluation of PPP as investment and financing form for NKS*, presented 2008.

Four published studies focusing on different aspects of the NKS process have also been utilised: I) The journalist study 'Sjukt hus' (Sick house) by Mellgren and Ennart (2015), II), the organizational theorist study 'Allt görs liksom baklänges' (Everything is done backward's), by Öhrming (2016), III) the political scientist study 'Framtidens universitetssjukhus: Beslut om Nya Karolinska Solna' (The Futures University Hospital: Decisions concerning New Karolinska Solna), by Sundström et al (2018). and IV) the study 'Nya Karolinska – Ett pilotprojekt för marknadsstyrd vård?' (New Karolinska – A pilot project for market-drive health care?) by Meijling (2018).

### **3. Public-private collaborations and partnerships – what did the politicians expect?**

The studies mentioned above points at different aspects of the clash between public and private interests leading to the NKS disaster, or as summarised by Sweden's largest newspapers: "New Karolinska became a scandal instead of a show room":<sup>12</sup> Mellgren and Ennart (2015), show that the county politicians almost totally relied on the advantages to achieve with PPP in terms of innovation, quality and cost control possible as these were presented by private consultancy firms; Öhrlings PricewaterhouseCoopers (ÖPwC) and Ernst and Young being the two leading voices. Öhrming's study (2016) reveals that PPP did not only result in record higher costs of loans, but also that the traditional norm in the public health care setting; that the functional demand should precede and steer the design of the building, was not followed. Sundström et al (2018) has shown that the political vision that colored the NKS project from the beginning to date, was that advantages would be there through a closer cooperation between public and private actors engaged in health care including the private financing solutions. In a similar way Meiling (2018) found that behind the procurement of the Boston Consulting Groups (BCG) model is an idea of 'value based competition' between different diagnoses based on neoliberal economic ideas.

Before we discuss the political expectations of the interaction pattern that the NKS PPP solution should result in, let us consider the contemporary expectations of public-private

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<sup>12</sup> Peter Wolodarski, *Dagens Nyheter* 2018-02-12 'Nya Karolinska blev en skandal i stället för ett skyltfönster' (New Karolinska became a scandal instead of a show room'.) <https://www.dn.se/ledare/kolumner/peter-wolodarski-nya-karolinska-blev-en-skandal-i-stallet-for-ett-skylffonster/>

collaborations in general and economic assumptions these are resting on. These assumptions will then be examined against the findings based on an interactive perspective.

### ***3.1 Advocating public-private collaborations***

The idea that a closer interaction between public and private interests is beneficial for economy *and* society – without harming the content and direction of the civic resources involved is advocated by contemporary politicians and policy makers at various levels. It can be traced at the OECD and EU level but also in the single member states (Eklund and Waluszewski, 2015, Rider et al, 2013). Under the surface of the high expectations on public-private collaborations a great trust in the message from so called *neoliberal* scholars can be found. It concerns: a) the ability to transform civic/public goods to commodities and b) the ability to utilise the market's outstanding information processing capacity. This implies that politicians and policy should take a much more active approach to 'promote markets' and reduce rules that hinder market based exchange. In other words, policy makers and politicians are encouraged to break with the classical political liberalism's notion of a distinct border between public and private interests, and especially with the passive notion of a *laissez-faire* economy (Mirowski, 2011, p. 27). Instead they should both actively engage to blur the public-private borders and promote market in the public sphere.

During the second half of the 20<sup>th</sup> century, a number of neoliberal economists advocated the idea that civic or public goods could easily be transformed to commodities through a bundle of legal rights (with Coase, 1960, as main inspiration) and that the market is an ideal processor of information (with Hayek, 1948, as main inspiration).

*“Ultimately, a different cadre of neoliberal economists cut through the confusion by pledging their troth to two principles: 1) there was no such animal as public good, once you looked at this thing properly, and 2) all knowledge was always and everywhere adequately organized and allocated by markets, because the market was really just one superb information processor.”* (Mirowski 2011, p. 61)

Among these civic goods *scientific knowledge* was acknowledged as being of specific importance for economic growth, stressed, among others, by Arrow (1985). However, making use of the public scientific knowledge, required that it was transformed to a tradeable commodity; *information*, and made available for market exchange (Mirowski, 2011, p. 57-58). The political and policy interpretations of these and related scholars' contributions became important sources of inspiration to the idea that autonomous and independent private market actors – or public market-like actors that compete with each other enact the most economically efficient solutions.

### ***3.2 What if interdependencies and investments in place characterises both sides of the public-private interface?***

An important aspect of neoliberal market thinking is to utilise the basic 'mechanism' of the market to make also the public sphere more efficient. Firstly, this implies a break with the classical political liberalism's idea to steer the public setting on the basis of the agreement of certain societal values – through public agencies using hierarchical means to design activities and create resources in relation to these (Rider and Waluszewski, 2015).

Secondly; which is the main concern of this paper, it implies a belief in a business landscape characterised by market forces working according to some clear principles, resulting in a specific interaction pattern. A neutral mechanism – competition – is seen as creating a more

or less friction free exchange between involved and informed actors, forcing them into a continuous search for efficiency. Thus, all types of changes can according to this view be absorbed and reacted upon without any restrictions. Products and services can be changed without any obstacles due to market actors' absorbing of new information such as new commercial solutions or new market demands (Håkansson and Waluszewski, 2013).

Extensive research of business exchange shows a quite different interaction pattern: exchange has a content and it is context dependent (van de Ven et al, 1999; Marglin, 2011; Håkansson et al 2009). The basic remark is that resources are not, as assumed in neoliberal economic thinking, homogeneous. Instead, they are unknowable in any total sense, which implies that any change of an exchange interface has unforeseeable consequences. In order to deal with wanted and unwanted consequences of exchanging and utilising resources, business actors are forced to interact – something that drives the emergence of business relationships/interactions stable over time. This implies that resource combinations are embedded into larger resource constellations, and that social and material investments in place has a great impact the direction of efficiency and innovation measures (Håkansson et al, 2009; Waluszewski, Håkansson and Snehota, 2017).

In this view a 'market' is not a place where companies instantly can change exchange interfaces. Rather, this line of research sheds light over the intricate patterns of social and material resources in place – and the interdependency of resources, activities and actors they create. Hence, the private setting is as substantive as the public; it cannot absorb new information and new knowledge without efforts – across company borders. Furthermore, any such transformation is generating new knowledge – breeding reactions against or for the undertaken change (Håkansson et al, 2009; Waluszewski, Håkansson and Snehota, 2017).

One important consequence is that the interface between the 'market' and the public setting is intriguing. Besides being dragged into other interests than those publicly agreed upon, any public agency interacting with a private firm will be confronted with rather different sets of organised activities, based on different sets of social and material investments in place. In relation to infrastructure investments in the health care setting, the organised activities of the public and private sphere are of very different kind. The first is based on a public responsibility to provide health care based on professional experiences, the latter is based on constructions firms' private interests; embedded into social and material investments in place which furthermore are adapted to fit into those of other construction related firms.

#### **4. NKS and what is needed to make PPP dreams to come true**

The Stockholm County reliance on the ability to utilise the “competitive situation of private firms” to increase innovation, quality and costs control was resting on the ‘expert opinion’, put forward by private consultancy firms, with Öhrlings PricewaterhouseCoopers (ÖPwC) in the foreground. However, that the same private firms and their situation are utilised in a traditional procurement, where a public actor has a direct interface to the main entrepreneurs/suppliers were not discussed, neither by the Stockholm County nor by the consultancy firms.

The Stockholm County motivation of adopting PPP in NKS case follows closely ÖPwC's: *“PPP gives highest possibility to value creation since it gives incentives to innovation and optimised investments and operating costs over the life cycle”*. How these incentives are thought to work was however not explained. Furthermore, PPP is ascribed as *“decreased risk for running costs, since the risk mainly is transferred to the private partner”*.<sup>13</sup>

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<sup>13</sup> Öhrlings PricewaterhouseCoopers and SLL, Stockholms Läns Landsting (County of Stockholm) 2007, p. 7

#### ***4.1 Three basic requirements to fulfil***

In order for the presented promises to be achieved, the PPP company has to fulfil at least three basic requirements – regardless if the procurement is made in competition among three consortiums, as in the original Stockholm County plan, or if it is based on one bid, as became reality in the NKS case. (When the latter became obvious it was only the right-wing parties in Stockholm county that supported the PPP procurement process, the leftist parties thought and argued that competition, among at least three bidders, was necessary to achieve the expected advantages.)

Firstly, the PPP company has forced *others* to deliver innovation, quality and cost control. It is only a minor part of the total cost, often under 20 percent, that depends directly on the main contractor. Hence the PPP company can influence directly, in terms of innovation, cost control and quality, only this minor part of the investment. The main part of the investments stems from sub-contractors and their suppliers. The PPP company should therefore have means to force these to innovate and control the costs – without adding to the costs. However, for the sub-contractors and their suppliers there is no advantage to take an economic risk just because the counterpart is a PPP company. The question of what aspects that should motivate these sub-contractors and suppliers to engage in a more demanding economic affair for them much, compared to a traditional procurement, is not touched upon. It has not been an issue for the Stockholm County nor for its private consultancy advisors.

Secondly, the PPP company must, in order to fulfil the promise of cost control, be able to totally follow the standards and all clauses stipulated in the PPP contract. As soon as the basic standard is changed, for example through adaptation made in relation to medical equipment, added costs were created. A PPP contract based on standard solutions not adapted to specific health care activities – as in the NKS case – implies added costs, which ground furthermore are beyond the insight and competence of the public actor.

Last but not least, in order to achieve the benefits of innovation, quality and cost control promised by PPP, the value of these achievements has off set its significant higher costs from private borrowing. In the NKS case, the PPP company's ability must be big enough to compensate for the extra costs for loans – compared to public borrowing – on about Euro 30 million per year or Euro 300 million per decade (Ennart and Mellgren, 2015, p. 37).

Instead of an investigation of the realities of the business landscape related to construction, and of the advantages *and* drawbacks of PPP, the Stockholm county's ambition to utilise the 'competitive situation of the private sector' must be considered as 'magic wishful thinking'. Experience and competence from researchers and independent experts were not utilised. The trust in research was only instrumental and apparent: Research should be utilised to put NKS and the Life Science industry of the region on the world map. Not to scrutinize vague promises of innovation, quality and cost control.

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