

**‘Private Risk, Public Service’: Using the Private Sector to Serve the Public Good**

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**[Slide 2]** 343 firemen and 21 police officers died at the World Trade Centre on September 11. And for reasons that are entirely understandable, there was an immediate upsurge in goodwill towards front-line public servants.

Three New York firefighters were pictured raising an American flag at Ground Zero in an image that echoed the 1945 flag-raising on Iwo Jima. Figurines of firefighters in a style reminiscent of Norman Rockwell appeared in shops across America.

In the United Kingdom, the general secretary of the First Division Association, a public sector union, drew a direct line to the debate in that country about whether private companies are capable of having a public service ethos:

The public service ethos is hard to define but easy to spot. In the USA in the aftermath of the terrorist attacks, it was emergency workers that the country turned to, not just for their practical help, but for their selfless and tireless courage which was an inspiration for all.

This is a powerful narrative, except that it leaves out the eight paramedics who also died at the World Trade Center that day. Three were volunteers who happened to be nearby. Three were from not-for-profit hospitals. . .

**[Slide 3]** Two were from for-profit ambulance services. The numbers were low, not because paramedics lack a public service ethos but because their job required them to be on the ground.

Fourteen minutes after the first tower was hit and three minutes before the second, 19 municipal units and 17 voluntary and private units were already at the scene or on the way. Two hours later, 55 municipal units and 42 voluntary and private units had been deployed.

There is nothing to suggest that the private sector was lacking a public service ethos on 9/11.

**[Slide 4]** Last year, private firms were also engaged on the front line in the fight against SARS. Here in Hong Kong, more than one-in-five of those infected by SARS were hospital workers. Serco has around 450 people working in a number of Hong Kong hospitals who were engaged in cleaning

wards and moving patients. In Singapore, the government turned a Serco-managed facility into a SARS quarantine unit.

Subsequent interviews have confirmed that our staff (and their families) were extremely concerned about the risk, particularly in the early days when so little was known about the disease. But with very few exceptions, they donned their masks and went about their duties.

**[Slide 5]** In the United Kingdom – where public-private partnerships are perhaps most advanced – there has been an active debate over the past two or three years about whether private firms, particularly profit-making firms, are capable of having a public service ethos.

Much of this debate turns on an unfair comparison between front-line public service workers on the one hand, and managers and support staff on the other. As human beings, we are naturally inclined to trust people more than systems, and people who work with people – doctors, teachers and police officers – than people who work with systems – managers and administrators. In the age-old struggle between the professionalism of front-line workers and the managerialism of back office supervisors, the public tends to side with the professionals.

This is not to say that systems and processes don't matter. To the contrary, effective management of the back office can do a great deal to free up scarce resources and empower those working at the front line.

**[Slide 6]** But it isn't difficult to see how you can construct a campaign around this gap between 'people' people and 'systems' people.

When they argue against private sector involvement in delivering public services, critics do not speak up on behalf of public sector managers and back office workers – the people often described in the media as 'fat cats' and 'bureaucrats'. They call up images of dedicated teachers, nurses and firefighters – front-line professionals engaged in the direct delivery of core public services.

And when they attack the private sector, they make no mention of paramedics risking their lives at the World Trade Center or hospital workers coping with SARS. They speak of corporate bean counters and well-paid company executives – back office workers who are engaged in reforming the systems that support the front-line.

**[Slide 7]** This is not to say that private firms are infallible, or that they are not self-interested, or that there are no public services that it would be inappropriate for the private sector to carry out.

**[Slide 8 ]** On the other hand, there are countless examples from around the world where private companies have been trusted to deliver public services.

The world's first public railway, the Stockton & Darlington Railway, which was established in 1825, was privately owned and operated. The Latin inscription on its corporate seal read: 'Private risk, public service'.

**[Slide 9]** In Denmark, a private (for-profit) company has delivered most of that country's fire and emergency services for around 100 years.

**[Slide 10]** In the United Kingdom, a private company has provided all of the technical and support services for the ballistic missile early warning system at RAF Fylingdales for almost 40 years.

So what are the conditions under which private interest can be made to serve public ends?

**[Slide 11]** 1. *Where private interest coincides with the broader public interest*

In the United Kingdom, private companies manage a number of public prisons, delivering the full range of services, including security and custodial care. These companies have delivered major innovations in the prison system, not only reducing costs but also making significant contributions to the government's 'decency agenda'. One of the best explanations for this is that it has been in their commercial interest. As it turns out, it is less expensive to treat prisoners decently than it is to treat them poorly.

Let me give one small example – in the privately-managed prisons, prisoners are given the keys to their own cells. This increases the prisoner's sense of self-worth, their privacy and security, but it has also brought down costs since officers do not have to spend as much time locking and unlocking cells.

There are many situations where the self-interest of the private sector and the wider social interests of the public sector are, in general, aligned and government can take full advantage of competition and contracting to achieve its ends.

**[Slide 12]** 2. *Where performance incentives work*

In the case of public-private partnerships, public sector organisations are able to use contractual incentives to align duty and interest.

At the end of the eighteenth century, the British prison system was under severe strain because of a harsh criminal justice system. The political philosopher Jeremy Bentham proposed that a large prison be constructed on the banks of the Thames, using the very latest technology. It was to be called 'Panopticon' and it would be commissioned by government and managed by a private contractor; indeed, Bentham thought that he would make the ideal contractor.

Bentham argued that well-written and well-enforced contracts could be used to align the self-interest of the contractor with the public interest - 'to join interest with duty, and that by the strongest cement that can be found'. He proposed that the contractor should be penalised for poor performance of his duties, including a £100 fine for each death in custody (a huge sum in those days):

Make my contractor's allowance large enough, and you need not doubt of his fondness for these his adopted children; of whom whosoever may chance while under his wing to depart this vale of tears, will be sure of one sincere mourner at least.

**[Slide 13]** Last year, whilst undertaking research on privately-managed prisons in the UK, I came across a real-world example of Bentham's 'sincere mourner'.

One of the prisons constructed under the 'Private Finance Initiative' (PFI) – a young offenders' institution - had suffered considerable financial penalties as a result of underperformance, and the leading financier, a major British bank, had appointed monitors to prepare quarterly reports on operational performance. These consultants were reporting to the bank's corporate finance division about self-harm and suicide intervention, anti-bullying strategies and purposeful activity. These are not the kind of matters that normally concern the corporate finance division of a city bank, so why were they taking an interest? Because they were exposed to greater financial risk if their client did not turn around this underperformance.

Last month, the chief inspector of prisons released a report on that same prison and after 12 months, she found 'an establishment that had made so much progress that it bore comparison with some of the best-performing young offender institutions we have inspected.' The outstanding success of prison contracting in the UK over the past ten years suggests that Bentham was right about the capacity of well-written and well-managed contracts 'to join duty and interest'.

Bentham seemed to assume that stiff penalties were the best way to ensure that the private firm was adequately concerned with the public good. In fact, harsh penalties can sometimes create perverse incentives, particularly if the performance regime is not fully aligned with the interests of the ultimate end-users of the service.

In the British rail system, the penalties for an operating company for cancelling a late train used to be so steep that train companies would insist on late trains completing their journeys, even when this resulted in greater inconvenience for the vast majority of rail users.

**[Slide 14]** At Docklands Light Rail (DLR) in London, the operating company also faces penalties for cancelled trains, but the rewards for superior performance are greater than the penalties and this creates a more positive contractual environment.



Delivery against key performance indicators is also published on a daily basis so that the company is accountable to the wider public. Looking good to the end-user serves as an important driver of performance improvement.

**[Slide 15]** 3. *When there is commercial value in having a reputation for public service*

In some cases, contractors can be motivated to deliver well beyond the performance criteria written in the contract. This is the case at Docklands Light Rail where, for example, Serco commits resources to keeping stations clean and graffiti-free in spite of that fact that there is no contractual requirement to do so.

Why would a company do that? Because of the reputation that Serco and DLR have developed in the local and national communities and the desire to maintain the customer's confidence when the contract is rebid. Serco Docklands has won a national award for its light rail operations each year for the past four years.

A company's stock market valuation consists of the sum of its asset value and its goodwill (or reputation). Public service companies tend to have little by way of tangible assets, so that to a very large extent, the value of the company is determined by its reputation. If it were to compromise that reputation, the company would fail to win new contracts or renew existing ones and the capital markets would quickly discount the value of its shares.

Reputation is particularly important in public sector markets where there are often repeat business with the same customer. When they create PPP markets, government's need to make sure that they award contracts to companies that are going to be sensitive to criticism of their performance, and to give the appropriate level of publicity to excellent and poor performance.

**[Slide 16]** 4. *When employees are motivated by a professional or service ethos*

One of the mistakes that PPP critics often make is to assume that front-line workers engaged by the private sector are strongly motivated in their day-to-day activities by concerns about profit and loss.

Several years ago, the Institute for Public Policy Research, a centre-left think-tank in the UK, conducted qualitative research with a number of front-line workers in public and private hospitals, in an attempt to get a better understanding of the public service ethos.

Nurses employed in private hospitals were deeply offended at the suggestion that they behaved differently because they were not working for the National Health Service: 'To me the patients were patients, that's it. You nurse them all the same.' 'It doesn't matter where we work now – a nurse is a nurse. You're a caring professional.'

It is this sense of public service and professionalism that motivates the nurse in a private hospital or the physicist working in a privately-managed government research laboratory. Good private sector managers understand this and seek to harness that ethos to deliver high quality services.

The self-sacrifice of private paramedics at the World Trade Center and hospital workers in Hong Kong during the SARS epidemic come from this same sense of professionalism. Governments need to understand the management culture of the companies with which they engage in contracting for public services.

**[Slide 17]** There is clear evidence that through well-designed and well-managed competitions and through well-designed and well-managed contracts, governments are capable of harnessing the self-interest of the private sector to serve the public good.

That this requires a considerable degree of skill is obvious. But then delivering high quality public services always did.

