

# Exchanging Best Practices: What Can the Private and Public Sectors Learn From Each Other?

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## Forum

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### Chair

Andrew Ford, Government Leader, PricewaterhouseCoopers

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*This article is based on the proceedings of a recent meeting of members of the Criticaleye community. To encourage open debate, the meeting was held under the Chatham House Rule. This article, therefore, identifies no names or companies, but nevertheless presents the distilled insights and conclusions from the session.*

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## Introduction

Public sector services remain important to the vibrancy of the economy at large and, recently, an increasing number of people have started moving across the private-public sector divide. In effect, a process of learning has been initiated across the divide and, ultimately, the key lesson to be learned is how best to facilitate change in the private and public sector respectively. Is true learning extending both ways? This question was explored during Criticaleye's Forum on private and public sectors.

Historically, the public sector has had much to learn from the private sector but it is important to find out whether this is a two-way street where both sides learn from each other.

## Speeches

**Richard Gillingwater's** experience of 25 years working in numerous law and finance positions in the City has taught him never to stray far away from the client.

The civil service suffers from a problem according to Richard, which he refers to as 'rotationitus'. Civil servants take up positions which they leave after two or three years and this disrupts stability and continuity within the organisation. Further, in Richard's experience, the civil service often makes

poor use of advisors who take large fees without really delivering tangible services.

In order to foster change in the civil service, the Shareholder Executive was established with support from the Treasury. The approach was new including a mixed Whitehall team with 30 people actively managing the portfolio. It was initially imperative to build up professional expertise within government. Director level executive people and under secretary level executives were involved and, collectively, the team articulated a number of high level shareholder principles:

1. To ensure established shareholder objectives.
2. To create a shared vision between board and management.
3. To engage informed and financially literate shareholders.
4. To set up an incentive framework.
5. To advocate long term value creation linked to agreed business objectives.

The principles were substantiated through governance frameworks and agreed strategies. Attention was given to achieving the right board compositions including a chair with the right philosophy, tuned to a private-public sector balance. Issues concerning remuneration and evaluation were also made key. The Shareholder Executive continued proactively by scrutinising the entire portfolio, company by company, in order to find the right board members and to reshape strategies.

Richard continued by emphasising that, owing to 'rotationitis', building up institutional knowledge and maintaining it is a big challenge for the civil service. As the knowledge base rotates, core understanding is effectively lost. The nuclear industry serves as a case in point where a complex mass of knowledge is accumulated over a long period of time which cannot be adequately sustained by two year rotations. With regard to a separation of functions and clarity of roles, there is a need for separation within the civil service between the policy-making and the shareholder roles. Whereas the shareholder role is commercially driven, environmental policy-making has a different drive and the distinction must be maintained.

The Shareholder Executive is basically the government's in-house private equity fund manager which today has access to financial expertise with experience in cases such as the Airbus crisis, the Rover crisis as well as helping the MoD in formulating strategies for ship and submarine building.

Challenges remain and it has been difficult to facilitate change across government departments. DFID and DCMS have embraced the ideas of the Shareholder Executive rapidly, whereas other departments have been less cooperative. An additional challenge is that of ministerial attitudes in the sense that if a business is of no interest to a particular minister, s/he will be reluctant to deal with the issue.

Richard ended his speech by making reference to the issue of risk aversion within the public sector. Richard stated that only limited risk taking occurs in the public sector and this can have a profound effect in terms of value creation.

**Dame Sue Street** opened by inviting the delegates to imagine a venn diagram with the middle ground to be representative of where the private and the public sector converge. Sue has extensive experience from both sectors and she maintained that people with in-depth experience from both sectors remain rather rare.

Sue used to run the Top Management Programme in the early 1990s as part of the Cabinet Office training of senior managers. Trainees completed the programme in one month and, initially, participants were very much divided along private-public sector lines. The private sector participants viewed those from the public sector as indecisive, very risk averse, academic, theoretical and 'brainy' in the wrong sort of way. Conversely, the public sector delegates viewed their counterparts as immoral, in for a quick buck and stuck in an 'act first, think later' mentality.

The initial air was one of arrogance and contempt on both sides, however, at the end of the programme, arrogance and contempt were replaced by interest and understanding. In light of this observation, it becomes clearer that the private and the public sector have a lot to learn from and about each other.

Sue continued to highlight positives in the private and the public sector. You find intellect and integrity in the best of both sectors, yet conversely, in the worst of both sectors, such virtues are lacking, and this can of course be damaging. Generally, there is an increased focus in both sectors to get value for money with customer focus in mind. The need to recruit and retain talent is high in a time of increased pressure to keep pace with technological advance and globalisation. Ultimately, the constant challenge is to set the long term strategic agenda against short term goals. Sue continued to outline the Treasury's current five major strategic challenges facing the private and the public sector alike:

1. Demographic shift challenging both sectors
2. Rapid pace of technological advance
3. Globalisation
4. Climate change – on everyone's agenda
5. International security and terrorism

Concerning customer focus, the private and public sectors operate in different contexts. Public services, such as health care and education, are basic commodities and often not a matter of simple choice for the customer. The government cannot choose its customers and the public's sense of what they are buying is different from when interacting commercially with the private sector.

Yet, people want to be treated as customers. A recent poll suggests that 47per cent of the population demand public services 24/7. This cannot be sustained by the public sector but it is clear that the demands are fed by private sector service supply.

The government has to learn how to understand customer service and marketing better from the private sector. Sue stated that “the government has to interpret this set of skills with morality and ethics in terms of fairness, equity, social cohesion as well customer satisfaction and choice.” Further, the public sector handles large sums of money and thus requires professional help in achieving financial and commercial skills. In this sense, it is important to recognise what the government does not know. Similarly, project and programme management skills need to be improved in the public sector in order to attain greater efficiency.

While Sue concurred with the previous speaker in that the public sector sometimes is risk averse, she contends that the public sector is very resilient and always works on the principle of accountability.

Sue continued to speak on the issue of governance of government, advocating a Secretary of State–Permanent Secretary relationship which is modelled on the Chair-CEO relationship in which the CEO takes strategic direction.

While the public sector needs to look to the private sector for guidance on issues concerning finance and management, it must ultimately protect what Sue refers to as “the vein of gold in the public sector which is the motivation and commitment to serve the public”. The public sector ethos remains to serve the country, making it a better place for all and stewarding public money is a principle of which to be proud. The objectives of the public sector can be inspirational: the Home Office strap line is “building a safe, just and tolerant society” or, as a private sector manager once commented, “that is a brand to die for!”

Sue summarised by noting that there has been a discernable shift of power to the customer in the private and the public sector alike. In the private sector, companies have achieved massive success by interpreting this shift. In the public sector, the transfer of power has occurred from public administration to public impact, i.e. understanding what the public really wants. Here, the Chancellor’s statement is particularly resonant: “Fair to all and personalised to each” and to reach there, the public sector needs to understand market forces better.

Currently the Chief Executive at Swindon Borough Council, **Gavin Jones** opened by saying that he would never have contemplated working in local government three years ago. Being prejudiced about “local government type people”, Gavin “fell in by accident” and although he knows Swindon well, the first six months felt like a bad career choice, partly because Swindon was performing badly at the time.

Today, things are different as Swindon is doing much better and Gavin stated that he is part of “shaping a legacy”. In order to achieve this change, private sector expertise in programme management, performance management and risk management has been introduced in Swindon. The lessons learnt are difficult to discern but, chiefly, the private and public sector can improve enormously by working together and Swindon demonstrates a case in point where a successful private-public sector blend has been achieved.

A degree of concern must be raised in the potential clash of traits which may arise where private sector people are perceived as aggressive, whereas employees with a public sector background are seen as slow paced. The situation creates institutional tension which is imperative to deal with. Despite these challenges, Gavin suggested that Swindon got it just about right by creating a blend of private-public sector employees and, from that, a new form of dialogue has emerged.

In the context of private and public sector services provision, Gavin stated that the public sector is more complex as it is responsible for a “massively wide array of services” and it is up to local government to join them up with the public. Further, local government faces a great degree of complexity in managing the interaction with central government, which communicates with different voices and expecting local government to understand what it means. Complexity also stems from the amount of stakeholders in the public sector. As Gavin explained, “everybody wants to own you: everybody has got a view about what you should be doing and why their particular thing is important.”

The public sector is still struggling with what language in which ‘customers’ should be referred. In the private sector, you have to fight hard to keep the customer and you have to innovate and take risks to be successful. In the public sector, this is not required “because like it or not people come to you anyway - they are there”. Herein lies the essence of the relationship between local government and the public sector in the sense that a moral dimension is incorporated as people have the right to use communal services and the right to demand the best services. Public scrutiny around this creates a very risk averse culture because you are watched by so many people. In light of this, the relationship between local government and public sector explains some of the differences historically between the private and the public sector.

Gavin continued to highlight four areas for discussion:

1. Innovation and attitude towards risk (tied together)
2. Using incentives to change behaviour

#### **Innovation and attitude towards risk**

With regard to innovation and risk, Gavin stated that “you will not achieve great things if you are not prepared to take risk. You will at best only get ordinary results”. Historically, in local government, there was no real driver for innovation but recently the notion of ‘value for money’ has become a main driver to fuel innovation because local government is increasingly pushed to

achieve success with limited means. The problem in Swindon was that the space for innovation was not created. “The biggest frustration I have had is about benefits realisation,” Gavin said. Great ideas to achieve progress existed but they were incompatible with budget concerns and this ultimately hampered change. Further, Gavin found a lack of competence concerning risk management. Local government was also reluctant to take risks as a result of tactical politics. In short, annual elections fostered risk-averse politicians.

However, local government is beginning to catch up and there is a focus on what Gavin refers to as “the risk of negativity”, which is “about everything that can go wrong and how you can mitigate it”. Conversely, there is not enough of ‘opportunity risk’, which is more mature in the private sector.

### **Using incentives to change behaviour**

When joining Swindon Borough Council, Gavin was not offered a package but simply a basic salary. Today, Swindon has performance related pay - at the moment this is only for the top 30 employees in the organisation but it is changing to include more: a positive development as incentives such as these improve performance collectively.

Departmental competition is a key challenge to creating incentives and changing behaviour. Gavin’s experience in dealing with the board was that the various local departments were being fiercely aggressive about what they wanted to achieve for their respective services. It is positive they are driven by results but they fail in communicating with each other and to achieve success in a local community you need to integrate services such as health, education and planning and advocate a holistic approach. Here, the use of incentives, asking what the organisation will achieve in a year, has encouraged cross sector working in Swindon.

Another use is incentives for your customer to change behaviour: a practice employed very effectively by retailers through the use of for example loyalty cards. The public sector has struggled with this due to the issue of inequality, i.e. if you incentivise one form of service provision, it may cause inequalities between different public services. Gavin does not share this concern. In Swindon, a very strong customer access strategy is implemented through which the public can access services via the web and telephone. By incentivising this form of service provision, more conventional means of service provision, like people-to-people contact, may be scaled down, however, this is cost effective and not an issue for concern.

### **Questions and Answers**

#### **How do attitudes towards risk and accountability differ in the private and public sectors?**

Private and public sectors are indeed exposed to different types of risk tied to the notion of accountability. In public companies such as Tube Lines,

restricted financial means combined with accountability result in risk-averse behaviour. Risk averse behaviour is linked to the issue of public scrutiny.

Healthy risk taking can be stimulated by the use of incentives for success and occasionally for failure for doing the right thing. Training on programme and project management needs to be in place because it forces you to own risks. Essentially, top management must be prepared to take responsibility for risk. It remains difficult to change institutional structures and, until it is done, risk aversion will persist in the public sector.

The issue is also matter of having very different tolerances for risk between different categories. There is a particular sensitivity to what is described as reputational risk, which has very different meaning between the private sector, where the reputation risk drives customer choice, and the public sector, which is in essence a monopoly supplier and, thus the reputational issues are with different stakeholders. It is important to define and articulate risk but it is even more important to identify what actions you can put in place to manage risk. The greatest challenge is getting people to understand that doing nothing is not a risk-free choice.

A key challenge to people in both sectors is admitting what they do not know. Risk management must be controlled at the top level. The public sector is different from the private sector in the sense that politicians as opposed to civil servants are ultimately made accountable in public.

#### **Should civil servants have private sector experience?**

Experience from both sides is extremely valuable. One should not advance too high in central government without at least four to five years in the private sector and vice versa.

#### **Are we guilty of failing to herald the successes between the public and private sectors?**

Many positive examples of cross fertilisation in private and public sector actually exist. Importantly, there is a need to accentuate these examples in the public debate as it may accelerate innovation and spearhead more integration between the two sectors. There is a need to accentuate the success stories, and as an example, the New Labour government has gained a positive reputation worldwide for facilitating private sector companies to invest abroad. The public sector needs to be confident and know what it wants to achieve when engaging with the private sector. This is important as you want to create a win-win situation for both sectors, particularly when establishing long-term relationships.

#### **How do the public and private sectors view the process of decentralisation?**

The private sector has started to merit the logic of decentralisation and empowerment in local communities. In order to achieve this, the private and

public sectors alike have realised that they need the right people on the frontline. Decentralisation is a progressive development, yet politicians at the central government level remain ultimately accountable.

**Is change hard to achieve in the public sector? Are incentives a way forward?**

One should attempt to incentivise them on the end game result. In this sense, accountability for the community is created. Private and public sectors are different in regard to legislative frameworks as well as how funding is received and used. Here, the chief incentives for the public sector are not to accumulate personal gain but rather to obtain government funds to achieve project objectives. In light of this reiterated the point that the ethos of public sector services plays a key role in motivating front line staff and this ethos must be preserved by all means.

**What can the private sector learn from the public sector?**

Regarding what the private sector can learn from the public sector, the private sector ought to learn from the existing public sector ethos encapsulating the 'vein of gold'. The public sector ethos is laudable, however, it sometime becomes a hindrance in the sense that an adequate cost analysis is discarded. The issue of cost must not be ignored and the public sector ethos must always be realised on sombre financial grounds. The public sector ethos should never be used to put a halo on public service practitioners. Indeed, the cost analysis is imperative and idealism is always restricted due to the limit of resources in the public sector. Here, frontline practitioners must take ownership of the limited resources they have. Conclusively, the issue of value for money is key and the public sector must learn how to focus on outcome as opposed to process in this regard.

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