

PRIVATE SECTOR AND PUBLIC SECTOR RISK MANAGEMENT: IS THERE A DIFFERENCE?

By

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Are there meaningful differences between management in the public and private sectors? This question rests at the center of a long-standing debate among management scholars. Almost invariably it is a debate laden with political overtones, which in itself is instructive as public and private management are never free from political influence. As a professor who has spent time in both public administration and business administration programs, I have had several opportunities to think about both sides of the debate. On one side, we have those who argue that management is management and that differences in the public and private sectors are modest and in any event are differences in degree rather than in kind (“if only government were run like a business...”).

For public risk managers and those concerned about public risk management, this point of view has a particular ring of familiarity. In recent years we have heard two arguments that reverberate with echoes from the “management is management” thesis. First, many observers have expressed the belief that public risk managers could import a great number of private-sector risk management practices, and that this effort would bring the public sector up to the level of private-sector practices. I, myself, have made this point from time to time, albeit in limited contexts. Second, both public and private sectors have been subjected to the outsourcing phenomenon, which at its heart is based on the argument that risk management is risk management and that knowing a particular set of skills is sufficient to be successful in any organization. Again, I have been associated with parts of this argument, and our MBA curriculum at St. Thomas (like most MBA programs) is partly predicated on a belief in a universally applicable set of managerial skills and knowledge.

Opponents of the preceding point of view argue that the public sector is so differently configured that it constitutes a distinctly separate thing and, thus, requires substantively different knowledge and management skills. For a very long time, I simply did not buy this argument. Politics exist in private and public organizations, as do multiple stakeholders. Some large private organizations have dispersed authority, while some public institutions have fairly focused authority. Some private organizations are very process-oriented and some public entities emphasize outputs. Further, increasingly, it is difficult to draw demarcation lines between public and private sectors. What do you call, for instance, an arrangement where a private transportation company is

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contracted to a nonprofit care facility for disabled individuals, which in turn is under contract with a county government?

In recent years, however, I have begun to back off my views on public vs. private management, and I now believe that while there are important commonalities and similarities, the “public” aspect of public risk management does present some important and meaningful distinctions. Further, I have grown a little less enchanted with the “management is management” school. With respect to the argument that the public sector needs to catch up with the private sector, I am not sure that is true in the case of risk management. For one thing, as the following discussion will attempt to establish, there are aspects of public risk management that have no private-sector analog — so there is a comparability problem. Also, when we survey the state of the art in private-sector risk management, we find much less advancement than you might expect. Indeed, the garden-variety public risk manager probably has a broader range of responsibilities than is the case for the average private organization risk manager. For another thing, leading management scholars like Peter Drucker and Henry Mintzberg have concluded (as have a growing number of graduate schools of business) that knowledge of the specific business you are in is as critical to success — perhaps even more critical — than your understanding of management principles and practices. With respect to outsourcing, this view does not mean that an organization cannot contract for technical services — but it does mean that the idea of outsourcing the entire risk management function is wrong-headed.

Many readers will respond to the previous paragraph by saying, “Of course government is different from business; business strives for profit! Do we really need a whole article to come to this conclusion?” I believe that a more subtle explanation is necessary, however, when looking at the question of publicness and risk management; and I hope, by article’s end, to have persuaded readers that the effort was worthwhile.

There are a number of ways to approach the subject of publicness. A political science-based approach would engage us in considerations of how societies formalize, institutionalize, and legitimize government and how government, once constituted, interacts with society. We might try to define publicness through legal reasoning; how does the law differentiate between the public and the private? A sociological/anthropological approach would ask us to consider how societies distinguish “the collective from the individual” and the “private collective from the public collective.” Other avenues of investigation are possible; for instance, in the public administration literature there is fairly extensive analysis of the differences between organizational structure and processes in public and private institutions.

For a publication like *Governmental Risk Management Reports* it probably is not the best use of ink to survey academic research as wide-ranging as that mentioned above. Therefore, I would like to discuss only briefly the concept of publicness, and provide readers with a framework for thinking about intrinsic differences between the public and private sectors. Then, readers will be

asked to think about whether risks can be separated into public and private categories. Finally, those discussions will serve as a basis for a general commentary of the characteristics of the public sector and of public risks that give public risk management its distinctiveness.

THE PUBLIC, THE PRIVATE, AND GOVERNMENT

The notion of publicness is a rather fuzzy one, demarcating as it does actions that are of private concern with those that have social or collective interests. Societies tend to specify the distinction somewhat broadly and resolve questions individually. In the United States we rely on national and state constitutions to set basic boundaries of the private and public (as well as government), and then look to social expressions, culture, and common law to identify specific characteristics of publicness.

Because this is so, it is probably not possible to draw a clear distinction between the public and private sectors. Additionally, since virtually every human activity has consequences for individuals other than the actor, we have to recognize that publicness is a matter of degrees. But what about the distinction between “public” and “government”? They are not, after all, synonymous terms.

In the United States we have been particularly mindful of the distinction between things that are imbued with a public interest and those public things that merit government involvement, and it has become a topic of great interest today. The following comments illustrate this point.

While many nations have pursued the belief that government has active responsibility for most, if not all, public activity, Americans have tended to adopt the view that public matters need not necessarily give rise to governmental activity. Indeed, since the 1960s, there have been several powerful trends that, cumulatively, have changed attitudes formed in the 1930s, 1940s, and 1950s about the centrality of government in the public and private lives of citizens. In particular, critics have raised questions about the relationship between central or national governments and local governments, and between government and the governed.

It would be misleading to state that antigovernment sentiment has won the day, but it probably is true that the political center of gravity today is found at a point in the electorate where misgivings about government are the highest they have been in 60 years. This antipathy to active central government is traceable not just to conservative politics but also to market-based economics (greater choice, greater mobility of capital, consumption preferences, technology), and a rising valuation of individual rights (the civil rights movement). Admittedly these forces have sometimes come to cross-purposes; the civil rights movement, after all, did require active national government involvement and advocacy. However, it is arguable that general social, political, legal, and economic forces have run in the direction of “the primacy of the individual” and

correspondingly, “the primacy of the private.” Since the influences come from across the political spectrum and from fundamental economic dynamics, the general direction of the trends is not likely to reverse itself short of a political crises or some other unforeseeable circumstance.

Having noted the general direction, we should not ignore completely the discomfort many Americans feel when we constantly place the individual before the group. Voices as disparate as William Bennett and Louis Farrakhan have expressed concern over the loss of community values. The Communitarian movement is striving to identify communal values and a clearer sense of publicness. In fact, if we were to judge our current state of affairs from the *New York Times* best sellers list, we might conclude that concerns about “public values” are in the ascendancy.

So, what can we say here about the distinction between the public, the private, and government that will move our discussion along? Well, first we must recognize that the threshold between public and private sectors is not a clear one (in and of itself a useful conclusion), and we need to think about human affairs as existing on a spectrum with most human activities exhibiting “degrees of publicness.” Second, we must recognize that while “government” is not necessarily popular in America, there is wide recognition that society is more than a collection of individuals; that is, we do believe that some things are imbued with publicness. Recognition of these points compels us to alter slightly the initial trajectory of this article. It seems that a critical issue for public risk managers is recognition that the public/private debate does not present us with an either/or proposition. Rather, a public risk manager will be more interested in the implications of increasing publicness, and most importantly of all, the implications of the distinction between public affairs and governmental affairs.

Let us finish this section with some thoughts on the public sector and on government.

Since we are operating from a basic premise that all human activity has some degree of publicness, we need to think about how publicness relates to government. Political scientists remind us that in the United States power to govern derives from consent of the governed. Powers may be enumerated or implied, but in a most fundamental sense, government exists to:

1. Protect individual rights.
2. Advance politically agreed-upon values and purposes.
3. Balance interests.

This view of government’s role is something of an amalgamation of two distinct philosophical traditions: republican and liberal. The traditional republican view puts the emphasis on the citizen’s responsibility to society, while the liberal view tends to look at government’s obligation to assure individual freedom.

When one considers this view of government's role at its fundamental level it is apparent that government is an instrument by which society imposes order on itself. Societies have basic desires to express identity, values, beliefs, and aspirations; and informal social mechanisms such as religious institutions or fraternal associations cannot always connect with communal expression. Thus, government may serve as a vehicle for expressing communal values (indeed, often serves to form them) when they cannot be expressed elsewhere, and value-expression and clarification can create order. Likewise, in the process of forming and expressing values, government serves the related purpose of balancing interests. Balancing interests is an imprecise science but a critical element of the democratic government's "ordering" role.

To put this in the context of the article, we might summarize the preceding by saying that government in the United States mediates republican and liberal impulses in the pursuit of social order.

Modern economists approach the role of government in a slightly different way. They maintain that fully functioning markets also can serve a public purpose in that they organize the desires of individuals and organizations, allocate scarce resources, and also can provide (like government) order to human affairs. They further assert that, everything else being equal, markets best coincide with the political values of democracy inasmuch as competitive markets rely fundamentally on individual choice — a distinctly classic liberal argument. However, it is widely recognized that the assumptions underlying free, fully functioning competitive markets often do not hold (see Sidebar 1.4). Economists call this phenomenon "market failure" and have developed a fairly elegant argument as to how government's role might be characterized as a response to the failure of markets.

Sidebar 1.4

Characteristics of Pure Competitive Markets

A pure competitive market is efficient, meaning that economic forces operate unimpeded. There are seven assumptions or conditions that must exist for a pure competitive market:

1. The number of firms (sellers) is large.
2. Buyers and sellers are price takers.
3. There are no barriers to entry.
4. The product is homogeneous.
5. There is costless, instantaneous entry and exit.
6. Selling firms are profit-maximizing organizations.
7. There is complete information.

Number 1 refers to the presence of a large number of competitors, none of which has any particular market advantage over the other. Number 2 means that no one party can set the price or unduly influence the determination of the price of the good. Number 3 is self-explanatory, and Number 4 means that the product is undifferentiated, or identical. Number 5 means that actions to move in and out of markets are “frictionless,” while number 6 means that suppliers of the good are motivated to maximize wealth. Finally, number 7 states that all parties in a market must have equal access to all pertinent information on the product and the market.

It is plain that these assumptions are stringent, and readers might readily conclude that many markets for goods and services violate one or more of these underlying characteristics. However, violation of assumptions does not devalue the meaning of the pure competitive market idea, since purely competitive markets serve more as an analytical benchmark enabling us to understand the performance and behavior of markets.

How, specifically, do economists explain government’s role? First, as mentioned above, they note that markets may be weakened when fundamental assumptions do not hold. Thus, if the supplier of some good were a monopolistic provider, economists would be concerned that the market may be inefficient. Thus, government might have a role in addressing the failure by, say, monitoring the monopoly.

A weakening of any one of the basic assumptions of efficient markets might prompt a governmental response, but there are other nonassumption factors that may lead to failure. Markets might fail because some goods or services are “public goods.” Public good is a status assigned to goods or services that are nonappropriable. Nonappropriability refers to an inability to restrict the use of the good/service to those who pay for it. The classic example of a public good is national defense. Even if you do not pay for it, you enjoy the benefits of expenditure for the common defense. “Externalities” might also be a justification for government. Externalities exist in goods or services where the cost and benefits cannot be captured entirely in the price. Pollution

is a topic of relevance, and it illustrates the characteristics of an externality. A polluting organization can damage the environment “costlessly” because the cost of damaging the environment will not be captured in the price (unless the cost is imposed by a party outside the market transaction, like a governmental regulator). Those bearing the cost of pollution (neighboring communities) are not involved in the market for the good produced and thus the buyers and sellers enjoy a transaction that does not incorporate the cost of pollution into the price.

The fact that public goods and externalities exist does not mean that aggressive government intervention need occur. For one thing, there can be “government failure,” suggesting that a less-than-efficient market with no government intervention might still be preferable to a similar market with ineffective governmental intervention. As a result, there is an implicit hierarchy of government responses to market failure — ranging from doing nothing, to providing information, to light intervention to restore the functioning of a private market, to absolute monopolistic provision by government of the good or service. We could connect the concept of market failure into the political science view by suggesting that it reflects part of a more republican view of government; that is, society is more than a collection of individuals and collectiveness gives rise to social obligations and responsibilities.

In further contrasting the economist’s view of government with the political scientist’s, we might generalize that economists look to matters of economic efficiency and private equity, while political scientists are more concerned with process and fairness, or what we might call social adequacy. While this statement glosses over the complexity of both points of view, it does serve a rhetorical purpose here. Government serves mixed purposes that may be in conflict with one another, and may not be entirely reconcilable. Most public administrators recognize that they manage in an environment where conflicting objectives prevail, and that the good ones realize that this feature gives rise to an important maxim of public administration: Managing in the public sector is the art of the possible informed by the science of the ideal. Squaring “efficiency” objectives with “social adequacy” goals is a common public administration challenge, and it illustrates plainly a previous point — balancing interests is a fundamental purpose of government.

Before we depart the subject of publicness, we must discuss briefly the concept of “subsidiarity” and its relationship to the public sector.

If we recall that government does not act in every part of the public sector, we have a very practical question to answer: on what basis does a society conclude that a public matter requires governmental involvement? For our purposes, the general answer is to be found in the concept of “subsidiarity.” Subsidiarity may be explained as follows: Individuals possess rights and responsibilities for control of their lives, and government’s role is to intervene in human affairs when individual action, choice, or responsibility fail to meet a test of adequacy or appropriateness. The concept of subsidiarity does not clarify the exact points at which the private

becomes public and at which point public matters become governmental matters, but it does provide us with a rough framework for analysis:

In democratic societies, the individual enjoys primacy in the general determination of his or her affairs. When individuals are incapable of managing personal affairs, a “subsidiarity hierarchy” is assumed to exist to resolve this incapability. The rank ordering of this hierarchy is:

1. The individual
2. The family
3. Informal/voluntary social institutions (including markets)
4. Local governmental/social institutions
5. State governmental/social institutions
6. National governmental/social institutions

Increasingly, we must toss in a number 7, international institutions (like the United Nations), which may be the only entities capable of addressing certain complex, multinational problems. In any event, we see in this rank ordering that government is, in principle, a social institution of last resort. It is also worth noting that within the governmental sector, the level of government most proximate to the problem/issue is presumed to be best positioned to respond.

Plainly, this rank ordering has a strong American flavor, and we should not let it go unremarked that cultural influences on democracy can produce different orderings (think how Japanese citizens might react to this hierarchy). Even in roughly similar cultures, with roughly similar forms of government, different ordering preferences can emerge. For instance, the United Kingdom and the United States have similar political and legal traditions, but one has a national government structure while the other operates under a federal system. Although attitudes are changing in the UK, it is evident that the subsidiary hierarchy mentioned above does not integrate as easily with such a system.

Additionally, subsidiarity principally arises from a liberal economic frame of reference and this seems to contradict the previous assertion that publicness in the United States involves a balancing of liberal and republican instincts. The clarification I would make here is that while subsidiarity appears inconsistent with social responsibility, it is not and we can still allow for a more republican view to emerge through the process of defining relationships in the hierarchy. For instance, we could look to individuals and families as having certain obligations to society rather than merely having rights to remain separate from society.

IS THERE SUCH A THING AS A “PUBLIC RISK”?

Set aside for the moment the more general discussion of publicness, and turn your attention to the matter of risk and uncertainty. Since we have known that risk is pervasive, we might assume that some risks also might become “public” when certain conditions hold. How would we organize our thinking about this?

We might begin in a manner similar to our discussion of publicness by noting that risks also exist on a continuum, and we would further observe that when the impact of a risk goes beyond the individual, we begin to see “public” properties emerge. These risks would fall in two broad categories: social risks and organizational risks. Social risks would be those risks that affect society in part or as a whole. Viral epidemics, foreign invasion, and natural disasters are illustrations of this type of public risk. Organizational risks are the risks that befall the public institutions themselves. Wrongful termination liability suits, fires in public facilities, and pension funding and other financial risks are examples. Of course, there is some overlap in these two categories; changing legal liability standards might present both social and organizational risks.

Economic theory implies that efficient markets manage risks; the efficient market allocates the cost of and responsibility for risks attendant to the product or service. However, while not yet articulating the reasons, we readily might imagine that public risks may not be suited to “market management,” and further we might speculate that the risk properties of certain goods are key contributors to their publicness. Pollution, once again, is a good illustration in that the risk of collateral damage to surrounding communities is a feature of the market that precipitates failure. If this is, in fact, true, it suggests that risk management is a fundamental, rather than peripheral, function of government. We will revisit this point shortly.

Earlier this article argued that the concepts of private and public are best considered as points on a continuum, and likewise we might consider that there is not absolute distinction between public and private risks. So, rather than asking what the difference is between public and private risks, it is probably more appropriate to ask: What are the properties of risks that introduce publicness? There seem to be two answers.

First, the exposure is different. When a public institution is exposed to a risk — what we called organizational risks — that risk is public by definition; the risk of a fire to a public school is a “public risk” because the exposure is public. This sounds obvious; however, we must appreciate the fact that this statement suggests an important point. Government’s authority is based on constitutionally derived powers, and the explicit relationship a government has with its citizens is not duplicated in the private sector. One is tempted to compare the citizen with the stockholder of a publicly held corporation but there are many differences, both obvious and subtle. Citizen “ownership” of that burned school building is definitionally distant from stockholder ownership;

there is no market for trading shares of “citizen ownership” and the financial obligation is different.

Also, the government’s taxing authority presents a risk-spreading financing vehicle not seen in the private sector. Additionally, intergovernmental relations complicate, but in many ways enhance, the risk-bearing capabilities of the local government, and statutory liability limits will have an impact as well.

We might contrast this illustration with a situation where a publicly held firm suffers a similar fire. Although employees, creditors, and customers will be a concern for the firm’s risk manager, the impact on the stockholders is fairly plain, and certainly measurable.

The second answer to the question can be found by revisiting the earlier economic and political discussions of publicness. Economists might argue that a public risk is defined similarly to a public good. So, a risk moves towards publicness when a private market is incapable of either managing it or distributing “efficiently” the burden of the risk. More precisely, a market’s “failure” to manage a risk would be attributable to:

1. The market inability to incorporate the cost of risk into the price due to nonappropriability, or to the presence of externalities, or other reasons
2. The market’s inability to distribute the burden for risk-bearing to parties with the responsibility for or the capacity to bear the risk
3. A sufficiently high level of uncertainty as to affect the ability of the market to function

Regarding point number 3, it does not follow that high uncertainty alone precipitates government intervention. However, the presence of high levels of uncertainty may be an accompanying condition of publicness when other factors are present. This third point suggests a fundamental tenet of public economics, which is that, in a market-based democracy, government has a basic role in assuring access to information since “complete information” is a foundation principle of market economics.

The preceding paragraphs give us some structure to thinking about the characteristic differences between public and private risks from an economist’s perspective. Risks move into the public domain when there is a high level of uncertainty and when the risk is either externality-producing or nonappropriate and/or when the risk cannot be distributed to responsible parties with the ability to bear the risk.

My version of the political scientist’s take on this would yield a somewhat different answer. Since government’s functions include protecting rights, advancing politically agreed-upon values and purposes, and balancing interests, the explanation for public risks might appear as follows: Public

risks are characterized as those pertaining to issues or processes that arise from the assertion of matters of public interests, those matters principally relating to the protection of rights, the balancing of interests, and the assurance of “fairness” in the political process.

Thus, we come to the culmination of this line of reasoning. Somewhere in the territory where the “private” begins to become the “public,” we see risks move to the public. While it is not possible to draw a distinct line, we can say that risks enter the public domain when they become characterized, to an increasing degree, by one or more of the following attributes:

1. The risk cannot be distributed, with recognition for political equity to responsible parties capable of bearing the risk.
2. The risk produces externalities (or is imbued with externalities) that cannot be meaningfully captured in market pricing.
3. The risk is made manifest by the political process (an extreme example is the risk of revolution).
4. The risk imposes significant concerns with respect to the protection of individual rights.
5. The risk, in addition to the characteristics above, has an associated high level of uncertainty.
6. The exposure is public.

We must remind ourselves once more that, like public goods, the fact that a risk is a public risk does not automatically presume active government involvement except in cases where the exposure is a governmental entity. A public risk only requires public “consideration” of a governmental risk management response. And, our subsidiarity rule influences the decision for government to become involved.

Sidebar 1.5 **Are Hurricanes a Public Risk?**

It is useful to test a sweeping assertion like the description of public risks given in this article. A very topical example is the exposure to losses arising from natural disasters. The formation of a catastrophic loss pool in Florida suggests that the state has decided that hurricanes are public risks. Why?

The six characteristics mentioned in the article are all met to varying degrees in the case of hurricanes — from the need to maintain public order, to the inability of citizens to bear equally their common exposure, to the problem of maintaining public infrastructure in the wake of a disaster. Knowing the risk is “public” does not tell us how it should be managed, however. That decision requires a critical analysis of the risk and the exposures (and the risk-bearing capacity of exposures). Subsidiarity is an important idea here, not just in support of economic and political values, but also because the financing of risk involves trade-offs between private equity and social adequacy. Financing risk based solely on individual ability to pay provides incentive for those who can pay to do so but it does fail to address the public issues (e.g., externality costs) that arise from those who cannot bear the cost. Conversely, tipping the balance toward social adequacy can create huge moral hazard problems.

Historically, this balance point between adequacy and equity has been hard to find in the case of hurricanes. For instance, the National Flood Insurance Program provides taxpayer-subsidized insurance for commercial and individual property owners in high-risk areas. Arguably, the presence of this subsidy (a social adequacy mechanism) has provided incentive for the construction of commercial and residential property in areas that would not be built upon if the risk were borne privately. For the public risk manager, the question is whether the public benefits derived from enhancing the exposure to catastrophic loss (subsidizing the building of private and commercial properties along the Florida coastline) are greater than the costs. Also, are the derived benefits being enjoyed by those who are financing those benefits, or is there an agreed-upon political purpose that offsets the privacy inequity of subsidization?

THE PUBLIC RISK MANAGEMENT DISTINCTION

The discussion thus far may strike readers as academically interesting, perhaps, but of uncertain relevance to the practicing risk manager. The risk manager rarely has the time or inclination to think about risks in broad conceptual categories, and the effort to detail the characteristics of public risks may not seem to pass the “materiality” test for most risk managers. However, I do believe the effort to draw distinctions is important.

To explain this belief, consider the following proposition, which summarizes the discussion thus far.

Public sector risk management differs from its private sector counterpart because:

1. Governmental entities, as social institutions, present an exposure to risk that is substantively different from a private entity.
2. The characteristics of risks that produce publicness present a set of risk management issues not fully present in the private sector, including:
 - a. Inability of government to avoid responsibility for risks within its purview
 - b. Frequent absence of markets as a risk management tool
 - c. Complexity of relationships between risks
 - d. The interaction of risks with governmental purposes
 - e. The breadth of the government's exposure to risk

Publicness does present public risk managers with a set of distinct challenges. If we accept the concept of subsidiarity, which rests on the principle of “primacy of the individual and the private” (but which also may incorporate social responsibility considerations), then we are subscribing to a belief that individual behavior — exhibited alone or in the context of a private market — generally precedes government action. This means that government involvement in public affairs arises when private behaviors (and markets) are somehow unable to deliver the good or service efficiently, if at all, or to manage a risk. Although we know there are degrees of government intervention, the main point here is that risks, goods, and services that meet the test of government intervention have done so because of characteristics that are not “market manageable.” Consequently, under the subsidiarity regimen, risks with strong public attributes (and thus the public risk manager's challenge) are substantively different from “private” risks. They exhibit characteristics of high complexity and high uncertainty (often), they are market-failure inducing, and their effects on the public are diffuse. The effects of these risks, often by definition, call into question matters of fairness and social adequacy, and thus may be impervious to tests of economic efficiency.

So, as was suggested in the previous section, one distinction between private and public risk management is that the risks are substantially different. It is true that numerous risks overlap, and it is also true that with the erosion of the distinction between the public and private sectors this overlap will expand. However, we must be reminded that even if the risks that public and private risk managers face become more alike over time, another important distinction remains. The nature of government and its authority and responsibility is different. Whereas government might privatize garbage collection, or the National Aeronautics and Space Administration (NASA), or

prisons, government's responsibility and authority for those activity areas remains. To put it even more plainly, government has very limited ability to avoid public risks that fall within its purview. So, publicness makes the risks different, and it makes exposure different too.

I think the preceding discussion suggests some other relevant lessons for the practicing risk manager. The first of these is implicit in the preceding discussion. To begin, the typical risk manager has responsibilities for a set of risks that can be characterized generally as falling within the "organizational risk" domain — property loss exposures, legal liability-based risks, workers' compensation exposures, and so on. While all these areas are important, we need to be reminded that public organizations may have responsibility for organizational and social risks, and that traditional risk management skims the surface and fails to attack risk comprehensively. Thus, the earlier introduction of the concepts of social and organizational risks provides us with a broader frame of reference for thinking about the responsibility of risk management — a frame of reference that goes well beyond the perimeter of present risk management practices.

Second, by raising the possibility that the management of social risks is part of public risk management, we extend the accumulated knowledge of the risk management field into the public policy arena, where — for my money — it has been woefully absent. For example, the systematic and critical analysis that risk managers apply to complex property and liability risks would be a breath of fresh air in the debate over public investment in professional sports facilities. This approach, based on economic and finance principles and integrated with actuarial analysis and judgment informed by an understanding of contingencies is a policy model with considerable relevance to many current problems and issues. It is sad to say that today's risk managers are rarely involved in public policy planning and execution, and I would hope that this article might begin a discussion on how public risk managers work their way past present barriers.

Third, this more comprehensive interpretation of risk management forces us to face a critical question: What is the purpose of risk management? Let us reflect on the question for a moment.

Risk imposes potential costs. A car accident inflicts economic and physical harm; a liability suit against a city reduces funds available for meeting public needs. Risk exacts costs other than losses, however. The mere presence of risk can cause fear, worry, and misallocation of resources. Thus, we might make the general claim that we are motivated to practice risk management by the cost risk imposes on us — costs that largely are deadweight; they serve no productive purpose other than to provide disincentives to undertake loss-producing activities.

Conversely, many risks can yield benefits. No doubt, risk certainly makes life more interesting. It also can produce a reward incentive and "reward" itself. An investment can produce wealth; the construction of a public marina can produce income for a municipality and can also contribute to the ambient quality of life in that community. There are risks that we do not wish to eliminate or reduce, but may wish to actively pursue. As a result, we could say that the motivation to practice

risk management is not to reduce or eliminate risk, at least not necessarily. The purpose of risk management is to develop a risk profile that best suits an organization's (or society's) goals and purposes. Some risk is worth taking, and the cost of eliminating or reducing other risks is prohibitively high. Thus, the traditional view that risk management is all about reducing or eliminating risk is one dimensional and too limiting for organizations today.

But a question (at least one!) still remains. Stating that the purpose of risk management is to manage risks in accordance with overall organizational or societal objectives is a little slippery. What specifically, readers may well ask, is the risk manager supposed to accomplish? What is the core objective of risk management?

My answer would be, in the furtherance of organizational objectives the fundamental purpose of risk management is to ascertain the organization's attitude toward risk and to reduce the long-run cost of risk while maximizing the probability that long-run benefits will be achieved.

Herein, we encounter a final important distinction between public risk managers and private risk managers (at least with private risk managers in publicly held corporation). In publicly held firms, the preceding objective statement can be translated into a decision rule that subjects all risk management decisions to a "value-maximizing" test. For instance, does buying insurance increase firm value or not? Unfortunately, for reasons discussed earlier, public activity often cannot rely on this type of market-based reasoning. In fact, although economic thinking supports the central contentions of this article, it is difficult to reduce public-sector decision-making to quantitative formulations, or to even organize qualitative analysis around a central decision rule.

CONCLUSION

I tend to look at this article as an "opening argument" in a debate, and fully expect that readers might have very different feelings about the nature of public risk management. I would encourage such readers to contact me as I think some "give and take" would be helpful in further developing these ideas. In anticipation of reader responses, let me summarize the central argument one final time.

This article has asserted that the public and the private are social constructs that are ends of a spectrum — that is, all human activities have some degree of publicness and privateness. Therefore, it probably is misleading to characterize public-sector management and private-sector management as discrete alternatives. Rather, each arises from a general structure of skills, practice, and knowledge that we might refer to as "management." The characteristic difference that emerges as we move away from the "private" is a thing we have chosen to call "publicness." In discussing publicness, the article has made two basic assertions. One, as organizations become increasingly "public" they represent an exposure to risk that has properties not found in mainly private organizations (the nature of ownership, legal rights/remedies, objectives, and purposes),

and as a result they establish an environment for risk managers that is qualitatively different from the environment in which private organization risk managers operate. So, public organizational risks differ from private organizational risks because the exposure (government) is different.

Two, as we move from the private to the public the nature of risks begins to change. Truly public risks exhibit characteristic differences (they induce market failure, they have political dimensions, and so on). Thus, social risks (and a number of public organizational risks) exhibit different characteristics from those that are found to be private in nature.

When we combine these two points, it is arguable that you have a type of risk management that is “risk management” but which is so substantively different in the particulars that it challenges our ability to compare public and private practices.

One final word. This article’s central argument is not meant to suggest that a public risk manager cannot adopt, say, a return-to-work program developed by a private organization. Obviously, at a day-to-day operational level, some aspects of management “are management” whether public or private. The article does contend, however, that publicness does intrude substantially on the public risk manager’s job and does create a distinctiveness that must be recognized and appreciated.