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Identifying and controlling risk: The problem of uncertainty in the private finance initiative in the UK's National Health Service

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Abstract

Risk estimation and uncertainty recognition are key elements in decision-making. This paper analyses decision-making processes, highlighting the way quantitative risk estimation is given a privileged position in decision processes thus 'silencing' qualitative uncertainties. This we argue is because of the dominance of 'accounting logic' in decision processes. The paper explores these relationships through analysis of the decision-making processes in the Private Finance Initiative (PFI) in the UK's National Health Service (NHS). To undertake a PFI option, in health or in other areas, involves deciding whether to contract with a private sector operator to provide a range of services (including often an infrastructure element) in exchange for long-term regular payments. Four general propositions are developed and amplified through analysis of the PFI decision-making processes. First that PFI, like other forms of decision-making, is dominated by quantitative risk estimation. Thus PFI provides a unique and significant example of these processes with its emphasis on transferred risks to the private sector. This quantitative dominance, we argue, is because of the pervading power of 'accounting logic' and this is illustrated through our research in 17 PFI health projects. Second, that the result of this dominance is that more qualitative concerns, such as uncertainty recognition, are downplayed even though they may be recognised at the pre-decision stage, very largely because at that point there are maximum anxieties surrounding the process of deciding. The 17 PFI cases provide a number of key examples of this thinking through their introduction of what are referred to as 'shared risks', which we see as qualitative uncertainties. Third, that at the post-decision project evaluation stage only *some* of the quantification concerns in the pre-decision stage are given visibility whilst *all* uncertainties are ignored. Again we link this analytically to the dominance of accounting logic. Eight of

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the 17 PFI cases are analysed and provide a powerful illustration of this general characteristic. Their sophisticated measurement of facility management issues ignores all 'shared risks' and even some of the quantitative transferred risks. Finally, the paper argues that unless there can be a fundamental reshaping of the mind set and/or the removal of the dominance of accounting logic there will be little hope of allowing equal emphasis of risks and uncertainties in decision-making to occur. In the PFI case there is evidence of a small but growing concern for recognising the importance of uncertainty and non-quantitative analysis. The outworking of this and its combination with quantitative analysis has the potential to provide important leads as to how to bring these important considerations into decision-making more generally. The paper is equivocal as to whether this development will occur very largely because of the resistance of accounting logic to change.
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Keywords: Decision-making; Risk; Uncertainty; Accounting logic; PFI

1. Introduction

Decision-making often involves facing an unknown future. Decision makers often prefer to find ways to analyse and rationalise the future implications of pursuing a particular action before deciding to act. This process is easily achieved in a certain world. However as this does not exist we must make decisions in an environment that is fraught with uncertainty and so we have no certainty about outcomes and their implications. In order to mitigate this, consistent attempts have been made to develop sophisticated models to reduce or capture and express these uncertainties in more concrete ways. A key assumption of this paper is that this process has, in turn, been captured by what has been referred to as 'accounting logic' (Broadbent, 2002) or 'accountingization' (Power and Laughlin, 1992). This assumes that it is possible to find ways to capture everything of importance through measurement technologies. In turn, this leads to a reduction of the importance of everything that cannot be subject to these technologies. In other words a key role for accounting logic in decision-making is to shape key uncertainties into definable and measurable risks through an analysis of the past as a basis for projecting the future (McGoun, 1995). This analysis, based on accounting logic, is what Burchell et al. (1980) calls an 'ammunition machine' for decision-making. It provides a level of security and confidence in the actions taken since 'accountingization' gives a particular and seemingly more certain depiction of the outcomes and implications of any decision. Accounting logic is particularly influential in decision-making processes even though it is not always practiced by qualified accountants.[1] Accounting logic may, however, be misleading as it is informed by an implicit claim that it is possible to define measurable probabilities for a future state. A particular example of this is the increasing use of techniques of risk assessment which belittles or 'silences' (cf. Buhr, 2001; Young, 2003) those uncertainties that cannot be interpreted in this way. This paper analyses this complex dynamic teasing out the dangers of accounting logic in these processes.

[1] The distinction between what accountants do and 'accounting logic' is key in this paper. Professional accountants have been reluctant to venture too far into predictive technologies but our argument is that the implicit logic of 'accountingization' has permeated the thinking of society. It is therefore this way of thinking that is of interest in this paper rather than who specifically is responsible for the design of these technologies.

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