

ALEX MURDOCK

# PRIVATE ACTION FOR PUBLIC PURPOSE

Examining the Growth of Falck,  
the World's Largest Rescue Company



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World's Largest Rescue Company

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*This book is dedicated to Margit Physant*

# Preface

## Aim of Book

The book has two linked objectives.

The first is to examine, using the example of Falck, the provision by a private company for key public services. These are largely in the setting of Emergency and Rescue services which constitute the majority of the company's activity. However, the book also examines the wider range of the company's activity and aspects such as governance. Also, the book examines the internationalisation of the company. Four detailed case studies were developed for the book.

The second objective is to examine aspects of Emergency and Rescue provision and in particular, the issues around reliability and risk for such organisations. Innovation and culture are also explored in the context of Emergency and Rescue services.

## The Book's Background and a Brief Comment about Denmark

This book originally had its inspiration over 30 years ago when the author had occasion to visit and work in Denmark. This work was focused on aspects of the Danish Education system where he was asked to undertake an analysis of reforms involving new 'short cycle' programmes in business vocational education where the tertiary business colleges (the equivalent of community colleges in the USA or Further Education colleges in the UK) had been accorded a significant role.

The author commented at the time that he had limited knowledge of Denmark and an even more limited knowledge of Danish. The senior civil servant commissioning the work responded 'that also is an advantage'. The outside perspective was what was being sought as opposed to using one of the many well-qualified Danish business academics.

The relevance of this anecdote for this book is that even after some 30 years of acquaintance with Denmark which includes being married to a Dane and having lived and worked in Denmark, the author is conscious that he is still, to a significant extent, an outsider. His knowledge of the language is limited though the amount he possesses probably places him in a rare category of non-Scandinavian academic who has some acquaintance with both the Danish language and customs. He probably has some appreciation of *Hygge* (a familiar word translated imperfectly as 'cosiness') together with the tradition of the 'second thank you' of which few foreigners seem to have any awareness.<sup>1</sup> The perspective of an outsider is useful for this book which is focused on a Danish company, which in Denmark is generally very well-known. However, despite its presence worldwide, Falck is less well-known outside Scandinavia. This book will hopefully help to address this.

The image of Denmark is of an open and liberal country with a high standard of living and a high level of equality and strong (and moral) values. This in the opinion of the author is largely well-founded but it should not be taken as representing Denmark as utopia. There are always criticisms of any society and Danes would certainly accept this.

An openness to dialogue is part of the culture of Denmark. This openness was essential in the research for this book, and the assistance of key people is duly acknowledged at the end of this preface. However, any errors of fact or expression of opinion are the responsibility of the author (and the contributors listed for various chapters).

## Reasons for This Book

The area of Emergency Response and Rescue services is not well served by current academic texts especially from a business perspective. Falck, a Danish company, is the largest global private provider of Emergency and Rescue services in the world. It is not as publicly well-known in respect of its global reach as an equivalent in another sector or products or services (for example, Ford in cars or Microsoft in Information Technology). The services which Falck provides (in Emergency Response and Rescue) are perhaps of a different nature. But Falck has extended its reach to 44 countries and six continents, and the company has largely stayed close to the values of its founder set out in 1906.

The subject is well covered in terms of other media with a range of television offerings about the work of rescue services. There is also a considerable amount of literature which provides accounts of the history and exploits the well-known rescue services (such as the Royal National Lifeboat Institution). There is also a rich literature which covers the actual vocational and professional skills required in Emergency and Rescue services (especially with regard to aspects such as paramedics and fire responders).

The nature of such services is that they tend to be seen in the public space (both funded and delivered by public employees) and also are usually nationally or locally based in that the service is provided within the boundaries of a country or political entity. There is not a tradition of private provision in this sector which reaches across national boundaries as you may find in other industrial sectors such as Information Technology or business services.

## The Focus

The book examines key themes in the emergence of Falck, the worlds' largest global rescue company. The themes are approached from a structured academic perspective informed through close cooperation with the company. The analysis is especially relevant to all organisations involved in emergency response and disaster or crisis management. This sort of provision is common to all countries, and Falck is unique in respect of the number of countries in which it works in this area of service delivery. The book represents the first independent account of Falck published in English. The book draws not just on documentary sources but also involved interviews with members of the Falck family and senior managers and current and former CEOs of the company. The four case studies were all prepared following country and site visits and interviews with key staff.

As the book will engage in themes relating to areas such as internationalisation, public sector contracting, growth through merger and diversification and quality and performance management, it will have relevance to a wide range of organisations in both the private and public domain. It will serve to span across public, private and not-for-profit sectors as Falck has both taken legal forms and engaged in activity which has taken it across these sectors.

Thus, the book will operate well to support a range of programmes in Business and Management. In particular, it is intended for programmes which may encompass

- International and strategic management
- Analysis of organisational culture
- The interaction between the public and private/not-for-profit sectors especially around provision of core services and contracting
- The evolution of companies through different governance structures and both through growth and diversification
- Analysis of decision-making especially in terms of risk, collaboration and merger

The book has brought in the expertise of contributors to the various chapters and in particular researchers who have been involved in Emergency and Rescue services and organisational culture and public policy. This is described in more detail in brief accounts of the different chapters.

## Brief Outline of Book

Chapter 1 of the book examines the emergence of Falck. This chapter draws on corporate history and direct accounts from key company and family sources. It covers the development and evolution of the company during its family ownership, and also draws on the literature relating to family firms. This chapter was written with the invaluable assistance of Frederik Madsen of Falck.

Chapter 2, by Dr. Anton Bradburn, explores the nature of reliability and risk and its applicability to Emergency and Rescue organisations. This chapter utilises academic literature on highly reliable organisations and takes a general approach using sources from the UK but with some reference to Falck. There is also an initial examination of the extent to which there is a universal culture which is applicable to all rescue organisations.

Chapter 3 draws on the doctoral work of Christiane Stelling who is the chapter author. It examines in particular the concept of trust and in this regard is based on the extension of the work of Falck into 'return to work' of people who have been on long-term sick absence contracts in Denmark. This chapter gives an account of issues which emerged with these contracts, which illustrate attitudes towards private delivery in the public domain.

Chapter 4, written jointly with Prof. Stephen Barber, examines innovation in the rescue and emergency context. It draws on innovation literature and suggests that such literature has been significantly product based. Innovation in rescue and emergency services is seen as having a social aspect, and an approach to assess social innovation is utilised with examples to identify and describe innovation in Falck.

Chapter 5 focuses on the changes of ownership and governance in Falck over its 120-year history. The company has gone through considerable governance and ownership changes, and these are examined with reference to the literature on corporate governance. This chapter particularly utilises what has been described as the Nordic Model of Corporate Governance. The company has a continued aspect of familiness and a stated social purpose whilst being a clearly ‘for profit’ enterprise.

Chapter 6 analyses the development of the company up to 2004, which is a significant date as that was when the company was purchased by Nordic Capital (a private equity company). The development of the company up to 2004 is explored through diversification, and the early internationalisation is seen primarily through explanation using the Uppsala model.

Chapter 7 extends the development of the company to the current day (2016) and in particular its status as a global company with a presence on six continents. The current four business streams are described and analysed. The internationalisation is approached through various theories. In particular, where public service contracts and license arrangements are concerned, it is suggested that institutional theory has a potential relevance.

Chapter 8 identifies and explains key cultural concepts derived from academic literature, and then makes specific use of a widely used management tool, the Cultural Web, to evaluate the culture of Falck in terms of the history of the company and linking it to the current situation and in respect of how the culture may both be maintained and adapted in the future.

Then follow four chapters which represent individual case studies that were undertaken in different continents.

Chapter 9 examines the development in Latin America, specifically Colombia, where Falck entered through a substantial investment in Grupo EMI. Colombia and Latin America represented a very different cultural and language setting to Scandinavia, and the business model was not specifically that of Falck but rather derived from a different approach.

Chapter 10 examines the case of Responce in the Danish context and how Falck related to a strong local competitor. It also examines aspects of innovation and explores how private provision through public contract operates and whether emergency ambulance provision could be regarded as a natural monopoly or a contested market.

Chapter 11 examines Falck's experience in the Indian market. This market proved to be challenging and, in effect, Falck was unable to access the public ambulance market through tender bids or through partnership with existing providers. Rather, Falck developed work with industry partners and developed its insurance-based expertise.

Chapter 12 examines the complex nature of the US market for ambulance provision and the various ways in which Falck has accessed this market through acquisition and also through local branded providers and through development of its own brand. This chapter identifies both aspects of innovation and the importance of key stakeholders such as the public fire services.

Chapter 13 summarises the concept of private provision for public purpose with particular reference to the work of Falck and examines the factors associated with its growth to become the largest global Emergency and Rescue company. This draws upon the implications of the preceding book chapters and case studies. This chapter also identifies some key global trends which appear to have relevance for Emergency and Rescue services and briefly outlines some possible future scenarios.

The book is accompanied by and supported by four detailed case studies (Chaps. 9–12), which were carried out to represent the range of work of Falck in different contexts and different continents. We hope that these case studies may be useful for a range of teaching and training purposes.

## **Thanks and Appreciation**

A book of this nature merits a large number of acknowledgements, and the author wish to particularly acknowledge the support of Falck in terms of both furnishing corporate access and also in covering travel and

related expenses incurred in gathering material especially with regard to the international case studies. It should be stressed that the author has received no payment from Falck for his time. The only named contributor to the book who is an employee of Falck is Frederik Madsen.

In addition to the time and expertise of the book contributors, we acknowledge in particular the assistance and time of the following:

- Falck in Copenhagen (including former Falck employees)

Ole Qvist Pedersen, Frederik Madsen, Allan Søgård Larsen, Morten Pedersen, Lars Norby Johansen, Henrik Hansen and Kenneth Kronohage.

- Members of the Falck family

Poul Falck and Erik Falck

- Falck USA (and associated companies)

Bo Heffner, Ryan Alf, David Patterson and Mike Collins

- Falck India

Vaneet Bansai and Dinesh Chandra Malik

- Grupo EMI (Falck) in Colombia

Yann Hedoux and Bart Lambooj

We also acknowledge the assistance of Prof. Kurt Jacobsen whose history of Falck published in 2006 was extremely useful. Professor Kurt Klaudi Klausen of Southern Denmark University was also a valuable source of guidance.

There are numerous others associated with Falck, whose support and advice are acknowledged especially those who assisted with visits to research the case studies and who contributed during discussions both in Denmark and elsewhere. A number of these requested anonymity.

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Finally and most importantly, the author acknowledges the key contribution of Margit Physant whose project managed the book. Her knowledge of Danish was essential and she contributed especially with regard to the Responce case study and assisted in subediting generally.

London, UK

Alex Murdock

## Note

1. The Danish phrase ‘Tak for sidst’ is customarily used to thank someone a second time when you next meet them after having received hospitality. This is in addition to the thanks expressed at the time of the receipt of hospitality. See <http://thecopenhagentales.com/2014/10/30/typical-danish-thank-you-for-everything/> Accessed 18 Nov 2016.

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# Part I

## Key Themes

# EUROPE



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University of Alabama

Map of Europe, with permission from The Cartographic  
Research Laboratory, University of Alabama, USA

# 1

## The Emergence of Falck

Alex Murdock and Frederik Madsen Falck A/S

### Introduction

This chapter sets out the background of Falck from its creation in 1906 through to 1988 when the family sold the firm to Baltica and effective control moved away from Falck family members. The focus of the chapter is upon understanding the family and the dynamics of successive generations of the family. If Sophus Falck, the founder, is regarded as the first generation then Falck as a family enterprise continued under family control until the fourth generation. This account is important in understanding the nature of Falck. We believe it represents the first published account in English with an international publisher. It draws both on published Danish sources and, importantly, has drawn on interviews with the members of the fourth generation of the family together with interview data with a range of current and former staff of Falck who had direct experience of the family back to the second generation.<sup>1</sup>

The chapter shows how Falck evolved and developed through the perspective of the Falck family experience. It identifies and explores the nature of a family concern which is focused upon the provision of

rescue based services and in particular services which are strongly associated with a public obligation (such as fire and ambulance). Falck is unusual, possibly unique, with regard to the national image which it acquired in this particular sector. Understanding the history and ethos of the company is critical to appreciating 'Private Action for Public Purpose' which is the focus of this book. The chapter also introduces academic concepts relating to family business and—drawing upon the account of the family nature of Falck—identifies the extent to which various academic explanations of family business may be applicable in understanding the evolution and development of Falck.

The chapter is co-authored by Frederik Madsen of Falck who brings a long and critical knowledge of Falck and Alex Murdock who first researched Falck in 1989.

## In Family Ownership

### Sophus Falck

On the 3 Oct 1884 the seat of the Danish parliament, Christiansborg Castle in Copenhagen, caught fire. It was a serious fire which eventually left large parts of the building in ruins and incurred losses of national treasures. Among the volunteer rescuers was the 19-year old Sophus Falck on whom this event was to make a lasting impression and become the inspiration for his future work. Decades later he would recount:

When I entered the castle courtyard, I encountered a mayhem of shouting and screaming people, a lost and confused crowd who did not seem to do anything of note other than express their distress. However, lacking leadership of any sort, they started to rescue paintings at random from the collections, and I participated in this task until I was ordered by a fire fighter to leave the building without delay as the roof and staircases were about to collapse ... I will never forget the desolate sight presented by this dreadful castle fire, nor the grief felt by the highest and the lowest; it was indeed a national disaster. On this occasion, however, I became aware of the need for organization, calm, discipline,

trained personnel and proper equipment if such a fire is to be fought efficiently and if you are to succeed in salvaging what you can under such conditions. This has been a fruitful lesson for my later work (Dorset and Kjær 1981).<sup>2</sup>

Sophus Falck was born on 15 November 1864 in Copenhagen. As a young man, he trained as a rifle maker. Upon qualification and soon after the fire of the castle, he left for the USA where he stayed and worked for a few years. In New York he took a keen interest in the activities of the local salvage service. On his return to Denmark he set up a factory making garden furniture and light buildings which could be used for storage, greenhouses, and hospital barracks. However, he left the company in 1905 after a dispute with the other investors.

Having made further trips to Hamburg and London to study fire services, in 1906—on the anniversary of the fire of Christiansborg Castle—he established the ‘Rescue Corps for Copenhagen and Frederiksberg’. The purpose of the Corps was to salvage valuables and property in fires and flooding. Businesses and private individuals would pay a subscription to avail themselves of the services if needed. As a foray into human rescue, Falck’s Corps would provide first aid at large public gatherings. Soon after the Corps started transporting sick people and in 1907 acquired the first purpose-built ambulance in Scandinavia. Sale of products—fire extinguishers, first-aid boxes—were added to the company’s portfolio. In 1912 an enterprise department was set up to take on a range of tasks that need equipment that is too specialized to be commonly available such as for draining a lake, transporting very large and/or heavy objects, or rescuing a car from the harbor. In 1923 a training center—the Fire and Rescue School—was established, offering training in firefighting for staff at large, private estates. (Training is still one of four main business areas).

In spite of Sophus Falck’s enterprise, the company was slow to take off. In 1926 Falck still only operated in Copenhagen, Odense and Aalborg including a small number of affiliated fire stations, whereas the actual expansion as a nationwide rescue corps was long in coming.

Table 1.1 shows that the services that the Corps was originally set up to provide (salvage at fires, flooding and water damage) are the ones which grew least.

**Table 1.1** Number of activities 1906–1930

Type of activity	1906	1910	1915	1920	1925	1930
Salvage at fires	27	37	41	34	48	105
Flooding and water damage	22	70	52	82	100	129
Patient transport (private)	74*	522	817	989	980	1010
Patient transport (public sector)		281	2918	4139	3006	4434
Assistance to animals	7	76	259	125	79	115
Ambulance calls responded to	45*	355	603	1004	974	2099
All alarm calls	168	2170	6322	8923	8582	14,271

Source Adapted from Falcks Redningskorps (1931)

\*figure for 1908

Note Denmark was neutral in World War 1 (1914–1918)

Sophus Falck was acutely aware of the importance of a public image. From the early days, he was keen to emphasise that Falck existed for social benefits rather than for profit. Staff sported smart, military-style uniforms which gave the Corps a semi-public image. Ahead of his time, he understood the value of nurturing a good relationship with the media. Whenever the Corps was called out, the press was notified. In contrast to the police and other authorities of the time, he was forthcoming with information to journalists. He was to be seen at exhibitions, and turned rescue exercises into photo opportunities.

Before his death in 1926, Sophus Falck managed to obtain the official and public recognition of his rescue corps, which he had strived for since its formation in 1906. Not only did the Corps by then have contracts with several municipalities for patient transport and fire fighting. However, the icing on the cake was that in 1926 the passing of an act that made provision for municipalities to contract out fire services to private providers. This paved the way for Falck starting to expand its network of area-based ‘Zone’ fire-services that secured the many small, rural municipalities a cheap and effective motorized fire service on a subscription basis. His personal contribution to society was recognized when he in 1923 received the Order of Dannebrog from the King (Madsen 2006). This is shown in Fig. 1.1.

In the twenty years from the foundation until his death in 1926, Sophus Falck created the potential for a business that was to continue for more than a century and eventually become a global organization.



Fig. 1.1 Sophus Falck, the founder, in the 1920s<sup>3</sup>

## The Second Generation

Sophus Falck's three sons from his marriage were born in the 1890s. (See Fig. 1.2) Later, in 1913, he fathered another son, Einar, as well as a daughter, Grethe, with two different women.<sup>4</sup>

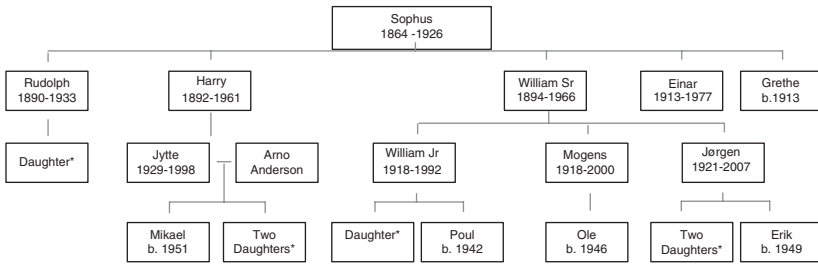


Fig. 1.2 Falck family tree<sup>5</sup>

On the death of Sophus Falck in 1926 Grethe was wiped out of the family's collective memory, partly because the obligation to pay child maintenance ceased on his death (Madsen 2006). In contrast, attention was paid to Einar. In addition to getting his fathers names, Einar Sophus Falck Schmidt inherited some shares in the Rescue Corps. He later established his own business in the blacksmith industry, developing and manufacturing rescue type vehicles and was main supplier to the Falck Group until the mid-1960s.

The eldest son, Rudolph, took over the running of the company after the death of his father. He had worked for the Corps from the very beginning. The historian Søren Mørch is not complimentary about him: "Rudolph had already in 1920 proved he was unfit as a leader, and he demonstrated his lacking sense of proportion in dealing with the estate of his father" (Madsen 2006, p. 126).

However, Madsen does not share the negative assessment of Rudolph's suitability for leadership. Sophus had envisaged that the Corps would do business with public bodies for the provision of emergency services, as well as through subscriptions with major institutions and stately homes but did not see any potential in the private market. He is supposed to have said: "How would we cope if they all call at the same time?"<sup>6</sup> Rudolf had recognized the importance of business with private individuals in respect of the growth in private subscriptions by families for a range of provisions: ambulance

transport, domestic medical service and fire salvage and other damage limitation. He had also consolidated the national presence of the Corps despite the emergence of a significant competitor following a split which led to the creation of Zone Rescue and had engaged in changes in governance and ownership structures, as can be seen in the following account. Arguably, though, the split which led to Zone Rescue emerging might be indicative of some leadership issues in Falck.

By the mid-1920s enterprising people had organized a zone-fire-watch in a rural area under supervision of the Corps, and soon after expanded to include rescue teams and also private subscribers. In 1930 it came to a break between the two enterprises, and the Zone Rescue Company was formed, becoming a serious competitor to Falck. With a business model based on private subscribers and network, rather than their own stations and own crew, it was possible for Zone Rescue Company in a very short time to make claim to national coverage. Faced with this ultimatum, Rudolph had no choice but to make a fundamental change in Falck's business organization. The many local share holding companies within the Falck Group changed to the Falck-name and adopted the falcon with outspread wings as a logo. The Corps entered the domestic mass market with subscription products for families and car owners, which secured help from Falck by a pre-payment. Not least, the cash flow from these schemes allowed Falck during the 1930s to develop into a national institution, which in the opinion of Madsen was to Rudolph's credit, although he did so in order to respond to a changed market situation (Madsen 2006).

After Rudolph died in 1933, the youngest brother William Sr took over the role of director of the parent company in Copenhagen. He held this post until his retirement in 1964 while the middle brother, Harry, remained in his post as director in Aarhus, the second largest city in Denmark (Meddelelser fra Falck and Zonen 1966).

Under the leadership of William Sr, Falck developed into a nationwide rescue corps with a very good public image, partly because it was good at communicating, and partly because it was able to deliver a

service that far exceeded expectations. The latter was associated with self perception. According to Søren Mørch in Madsen (2006), Sophus Falck had perceived his business as a social institution with associated rights and obligations, including the obligation to help and this self-perception was passed on to his descendants and the company as a whole. This analysis can be used to understand much about Falck, including its difficulties in dealing with competition, even to this day.

William Falck Sr was not regarded as a visionary leader in the way that Sophus was. Rather William saw his task to concentrate on the core national rescue business, keep up with demand and technological development, but nothing more. He did not seek to open up new business areas or to engage in foreign expansion. Notes from Board meetings of this time cover mundane issues and do not evidence a broader strategic vision beyond the core national business (Madsen 2006).

An issue for the second generation was the fact that neither William Sr nor his brother Harry held the majority shares. The private shares were held by a handful of individuals connected to Falck of whom Harry had the largest, individual holding of about one third.<sup>7</sup> The decisive shift of power in the company occurred in 1960, when William Sr and his family managed to acquire the majority shares and set up a holding company. This meant that William Sr and his sons could control the company to the disadvantage of Harry and his descendants: his daughter Jytte and her husband, Arno Andersson, who since 1951 had worked for the company with his father-in-law and succeeded him as director of in 1958.

Grethe's removal set a precedent for a Falck tradition to keep women from power, a tradition that continued in the third generation. As of 2016 Falck's management is still largely populated by men.

Largely through the efforts of William Sr, Falck succeeded in acquiring all the shares in Zone Rescue Company (ZR) in 1963 with whom it had competed since 1930 (Jacobsen 2006). Falck was about three times larger than ZR. However, the competition was ameliorated by the fact that Falck had focused on consolidating its position in firefighting for municipalities whereas ZR had focused more on ambulances, patient transport and road-side assistance to private subscribers but not firefighting. William Sr could retire now his father's dream

of a unified rescue corps had come true—an achievement that Kurt Jacobsen writes, also fitted with the family’s own perception of the role of Falck in society.

For three decades the Danes had been accustomed to reading about races to respond to calls between Falck and ZR, and as such the fusion was welcomed by all, also in newspaper editorials. Today such acquisition could probably have been impossible due to laws of competition.

## The Third Generation

William Senior’s three sons—twins William Jr and Mogens and their younger brother Jørgen—all worked for the company in their adult life. They had very different interpretations of their role in the company as illustrated by the following.

In 1975 they were both interviewed for internal staff newsletter *Hjælp*, on the occasion of the 40th anniversary of Falck. The interview with Mogens Falck was published first and consists of three pages with the headline: “Of course there are things that are annoying”. He is photographed in a business suit and in conversation with a station manager alongside a fire ladder. Mogens mentions generational change as “a large, long-term problem” (Hjælp 1975).

In contrast, the interview with William Jr a couple of months later has a more personal feel to it. He is photographed whilst gardening and feeding his sheep. “I want to enjoy life” reads a translation of the article headline. The account is of William telling the reporter of how busy he is with sheep, lambs, chickens and foresting, and the content of the interview suggests his engagement with Falck is less intense.

Frederik Madsen notes from his own knowledge and that of others that the way William Jr and Mogens are presented in the newsletter reflected the perception Falck staff had about the twins, with Mogens as the active and visionary business-focused one and William Jr as more focused on his private life. Falck staff perceived William Jr and Mogens relationship as twin brothers as unbreakable. The twins were reported as speaking on the phone every morning and there were accounts of

how they would conspire against Jørgen in the Directors' meetings. The meetings could become quite vociferous in nature. This is important in understanding the career pattern of the twin brothers in Falck.

In 1950 William Jr was appointed operational manager of the operations in Odense, a large city in Denmark. In 1956 he became managing director of Falck in Odense, a post he held until the sale of the company in 1988.

Also in 1956 Mogens was appointed director of Copenhagen A/S working under his father, William Sr. When he retired, Mogens and Jørgen shared the management of Copenhagen company in the years 1965–1970. In 1970 a reorganization was carried out with the effect that Mogens was appointed head of the The Federation of Danish Rescue Corps which resumed its old, coordinating role. Jørgen became head of Falck Copenhagen A/S, with consequent significant impact on the power of Falck (Madsen 2006).

## The Fourth Generation

As can be seen from Fig. 1.2 there were nine people in the fourth generation, five women and four men. The four male cousins Mikael, Ole, Poul and Erik were named in the Executive Board papers in connection with a restructuring in 1982, when all the old Falck companies were assembled under the Falck Rescue Corps A/S (Madsen 2006). None of their female cousins were so named.

In 1984 Falck won the Image Award of a leading business paper, *Børsen*. It scored on all the criteria including for quality of services and 'thinking not only about profit'. It was a proud moment for the family as it was a public recognition that Falck was viewed as part of the Danish welfare society with the associated rights and duties.

## A Sense of 'Feudalism'

In an interview years later, Lars Nørby Johansen, who in 1988 became first CEO after the sale to family firm, reflected on the culture of company in the 1980s:

Another loss of innocence occurred when meeting the men on the management floor. There was nothing bad or terrible in it. It was just an observation that you could own other people. It struck me that the directors had a feudal relationship to their staff, simply. ... and even if the lord or master can be kind and paternalistic to his employees, it cannot conceal the fact that he also feels that he owns them. (Lilleør 2006)

Former Falck staff tell tales of being asked to run private errands for family members or being called at night to give someone a lift home because they had too much to drink to drive themselves.<sup>8</sup>

Ellen Falck, wife of Mogens Falck, says in an interview in 1988 about life on a rescue station: "it has always been the same, regardless of the Falck Station we stayed at, I've been really happy to be there, and rescuers would wait on me hands and feet."<sup>9</sup>

A recent issue of Falck's staff association magazine reports an interview with Povl Bull-Hansen. He began as a rescue worker with the Company in 1966 when he was just 16. The article quotes him recalling his experience of the time. He explained that the station manager lived with his wife at the station, as was the custom. The wife found it quite normal to send the young employee to the grocery store or handle other private family chores. On one occasion he was called by the station manager at 11 pm at night. He was told he had to come immediately to fetch the mail and sneak it into the post office so it could be delivered the next day. On the other hand, he recalled the station manager as being also very generous and sociable, and when staff were off duty, he would give out beer freely. Bull-Hansen recalls that we were "like a family at the station" (Falken 2016).

The stories fit well with Lars Nørby Johansen's observation and with the chapter authors' own observations from interviews with family and with long serving staff that there was enormous loyalty and the family

was talked about with awe and respect. Later on after the sale to Baltica when occasionally a member of the family was present at a corporate event, it was clear that the old ties to the now retired staff continued in spite of their peculiar style of management. But it is, of course, also part of a feudal culture to look out for your employees, and the Falck family did indeed do so. It may also have been part of the nature of the epoch.<sup>10</sup>

## The End of Family Ownership

Throughout the time of the second and third generation of the Falck family, the Company experienced a largely calm and stable period of growth. This lasted until the mid-1980s. However, this was not to continue and the account of the fourth generation of the family now explores the next stage in the company.

The fourth is the last family generation to have a major role in the company and they were the generation which relinquished control. This part of the chapter is substantially drawn from published accounts of the company (in Danish) by Kurt Jacobsen (Jacobsen 2006) and Frederik Madsen (Madsen 2006), respectively, which were published to coincide with the company's 100-year anniversary in 2006. It is also drawn on direct discussion with members of the fourth generation of the Falck family.

There is an old English proverb about family firms which implies that they may not last beyond three generations: "From clogs to clogs in three generations". It implies that the first generation (the founder) starts with nothing and develops the firm; the second generation carries on the work and builds up the value of the firm and that the third generation (whether through lack of ability or application or circumstance) sees the decline of the firm. The account which follows examines how the fourth generation of the Falck family responded to the challenge and dilemmas which confronted them as they assumed the mantle of their predecessors.

As in the previous generation there were four primary actors and they were all male. The family tree (Fig. 1.2) should be consulted to remind the reader. However it is important to note that the four of

them—Mikael, Poul, Erik and Ole—were cousins. They grew up in separate homes. They are described to the author in a family interview as ‘very different with different personalities and educational backgrounds’. Possibly this represents a greater separation than their fathers who were brothers, and two of them twins.

The last key members of the family with direct knowledge of working with Sophus retired in the early 1960s and passed away not long after. In particular, Viggo Falbe Hansen—a key company member—and William Falck Sr both died in 1966. The fourth generation became substantially involved in the company in the 1970s and entered during a time of significant change and challenge. Key factors included:

- Pressures for more regulation and standards of ambulance services
- A growth in company turnover BUT a lack of a commensurate rise in profitability
- An awareness that the Company needed to become more professional and adopt management approaches. In particular, there was a need for more efficiency in operations
- A change in national culture which encompassed a move away from an acceptance of ‘paternalism’, growth of trade union activity and a view that workers should be represented on company boards. This trend is sometimes called ‘economic democracy’ (Poutsma et al. 2003).

The third generation showed that they were aware of this and were conscious that the Company had low profitability from the public service contracts especially for ambulance services. Indeed there were clear indications that the private subscription (vehicle recovery and roadside assistance, for example) were cross-subsidising the public sector work. In 1978 Mogens and Jørgen Falck made approaches to the Association of Local Authorities to see if the public sector may be willing to take over at least this aspect of Falck’s work (Jacobsen 2006). According to Jacobsen the fourth generation were aware of at least aspects of the challenge to the company and the implication that Falck had become ‘more impersonal’ that is less a family context where everyone knew each other.

Several factors operated to suggest that the continuance of the company under family direction might not be sustainable.<sup>11</sup>

Firstly, the growing impact of trade unions was clearly not conducive to the way forward being the 'status quo'. Trade unions in themselves are a factor that most employers can accept and some may even welcome as a single point of bargaining, for example. However, the challenge in the 1970s and 1980s was complicated by a degree of competition between unions and also by the fact that Falck operated in both the private and the public sector domain. In Denmark there is a cycle by which labour unions and employers negotiate terms for an agreed period of time which is typically 2–4 years. Falck was particularly affected by the inter-union competition in its sector and by the low profitability of aspects of its operations. The union issues and pay disputes were thus predictable but equally ongoing. The response was a mixture of simply giving in and 'paying for peace' whilst also trying with limited success to pass the cost of settlement onto the public sector who were the purchasers of fire and ambulance services.

Secondly there was a lack of clarity as to whether Falck was a 'for profit' or 'for service' company. There was discussion about whether a rescue service should be profit-based or not. There was a tradition handed down through the Company described by a fourth generation member that: 'we never talked about earning money for profit, the focus was on helping people'. However, the private subscription aspects of Falck—such as vehicle assistance and individual or household subscription—were profitable whereas the public provision aspects generally were not with reports in the early 1980s showing losses being cross subsidised. This was also reflected in public views and criticism of Falck which suggested that there were issues in private provision of core emergency services. This was linked to some concerns expressed about the level of provision and training and a leaked document attributed to a member of the family which implied a need to charge more through means seen as possibly less than honest (Jacobsen 2006).

Thirdly, there was an issue about a member of the fourth generation being involved in an unsuccessful business venture. Whilst not directly involving the Company, it nevertheless created both a great deal of unfavourable publicity and was quite unsettling within the family itself.

Another member of that generation had been involved in a road-traffic accident in which two people died, and he was accused of driving under the influence of alcohol. It created more unfavourable publicity around the Falck name (Madsen 2006).

Jacobsen aptly described 1987 as an *annus horribilis*—a disastrous year—for the family and indeed, at the end of the year, his account suggests that matters came to a head with a perfect storm of cash issues and a decision to seek a solution which involved a move away from family ownership (Jacobsen 2006). The disappointing outcome from an arbitration case possibly was the metaphorical straw which broke the camel's back.

An approach was made initially to the Association of Local Authorities then to a pension fund before a buyer was found in the form of Baltica, a Danish insurance company. The account from one family member suggested that it happened quickly without the duration of discussion and negotiation which might normally have accompanied a take-over where shareholders would need to be formally consulted. However, other accounts given to the authors suggested that, in fact, there had been some significant negotiation which had not included all family members until the decision was presented to the family as a *fait accompli*.<sup>12</sup> The deal was done in April 1988 so drawing a line under the history of Falck as a family company.

Though Falck was encountering significant challenges as highlighted previously, in fact the key family members were able to benefit financially from the sale. One family member kept his equity from the sale in Baltica perhaps thus showing a desire to retain a beneficial link with the company. However, history was not kind to his decision as Baltica later folded with a consequent impact on his shareholding.

As of 2016 the fourth generation have no active financial interest or involvement with Falck. One of the fourth generation, Erik Falck, went on to develop business interests in the hotel industry and from impressions gathered from interviews shows little inclination to retire but rather is, perhaps in the spirit of Sophus, seeking more opportunities to extend his commercial activity. The older generation of Falck employees—some of whom were interviewed for this chapter—have very clear personal—and generally positive—memories of the Falck family

members and the nature of the family dynamics. One such informant furnished vivid and personal anecdotes of the family over several generations which could have generated sufficient inspiration for a TV series.

## The Family Firm: Exploring the Literature

In classes with students from the public sector one factor which can be used to differentiate the private sector is not the obvious one of the 'profit motive'. Rather it is the 'origin' and in this respect the private and the 'charity' sector share some common ground. A public agency—such as any which may spring to mind—does not typically start with an individual initiative possessing no premises and no staff (and no income). Rather it tends to emerge semi-formed with a structure, buildings and employed staff. Sometimes—especially in service areas such as education, health or welfare agencies—there may have been prior private or voluntary initiative which then the state takes over recognizing that the need has been demonstrated and that public provision is both sought and appropriate.

The Family Firm is an established phenomenon in most countries and has been the subject of considerable academic research (Poutziouris et al. 2008). A key factor for academic comment is definitional and particularly in differentiating a Family Firm from one which is non-Family (Sharma in Poutziouris et al. 2008). In this respect factors such as family involvement especially in respect of creation, control and duration (over several generations) are seen as critical. This will be explored in this section of the chapter with reference to the account of Falck.

## Creation and Family Enterprise

The origin of many enterprises (and charities) is in a founder who reaches out to kin for either tangible or intangible support. In the case of commercial enterprise, a key motivation of the founder is often to provide for family not simply in terms of short term needs such as a roof and food but also in order to 'pass on something' in occupational

terms to the next generation (Morris et al. 2010). The very label above such enterprises sums it up: “Smith and Sons”. Perhaps significantly the gender issue emerges strongly in that “Smith and Daughters” is not so familiar to the ears. Some academics see a stakeholder approach as significant and identify the importance of the family as a key stakeholder in both the origin and development of a family business (Sharma 2004).

Such as stakeholder focus brings with it a different mindset to, for example, a focus on a theory of the firm as driven by profit maximizing (Vickers 1985). In the motivations at the origin perhaps can be seen a dimension which identifies a Family Firm.

Sophus Falck, when he set up Falck in 1906, had children who were clearly both employable in the emerging company and either of an age to be so employed or close to it. Jacobsen points out that Rudolf was involved with the company from the very beginning. From the outset Falck had the attributes of a Family Firm (Jacobsen 2006).

## The Dimension of Time

The academic literature on Family Firms lays stress upon the concept of time. The expectation that the enterprise will not only furnish employment for family members but also will pass onto the next generation brings with it a sense of long duration and a willingness to accept lower financial return as a trade off for a lower risk of failure. The actual capital—both tangible and human—in a Family Firm brings with it a degree of personal family risk in that the failure of the business impacts not just on the immediate owner but also potentially on the owner’s family. The family may actually live on the premises and a number of family members may be income dependent upon the enterprise. Falck certainly demonstrates this in that Sophus in fact did not achieve a great deal of personal wealth in some 20 years from his founding the company to his death. Rudolf, his son, was arguably more successful in building up the profitability of the company and displayed a significant degree of aversion to expansion beyond Denmark and beyond the services his father had devised. The family had expanded in terms of

numbers directly (or indirectly) dependent on the income security of the company. The literature on family business would predict that there would be a degree of caution in rapid expansion which might be seen as having a high degree of downside risk to a number of family members.

Furthermore, there was the question of the third generation and here the account of the family perhaps is illustrative of a degree of division in that the ownership and governance arrangements were changed to the distinct advantage of one part of the family. The tensions and dynamics of Family Firms suggest that this is not uncommon in family firm literature. In a non-Family Firm a difference of opinion or perception would be handled through either a shareholder mechanism or through a staffing route whereby a person who was seen as likely to contribute less would be 'encouraged' to leave or would be dismissed. In the case of Falck the reality of actually dismissing a family member other than for direct cause was not as feasible. The use of boardroom meetings or shareholder-based governance mechanisms applicable in public companies was less relevant for a Family Firm such as Falck. Instead the effective power was moved towards one branch of the family through the mechanism described above. The reality of power is applicable in Family Firms and indeed is possibly more characteristic of Family Firms where there are less legal and public structures to offset the use of power by family members.

## The 'Wealth' of a Family Firm

The value of a publicly listed company is (relatively) easily accessed by reference to the price of its shares. It is, in effect, what a properly performing stock exchange does. However, a private company which is not so listed requires more subtle means to assess value. These could include an assessment of the balance sheet or profit-and-loss accounts and an appraisal of the actual strength of the organization in terms of its customer base, market position and market prospects. The quality of management and staff would also be a factor and the use of 'key employee' insurance is evident of the concern about the risk of the loss of a key individual.

The death of Sophus Falck did not create a major problem for Falck in that the succession to his son Rudolf was both natural and accepted. This natural grooming of a family successor is a factor in Family Firms. A son (or daughter) is ‘waiting in the wings’ to use a stage analogy. If Sophus had no such kin ready and suitable to assume direction then, as a Family Firm, Falck would have confronted a major challenge with his death. The options would have been to either sell the company or to seek a non-family individual to take on the leadership. This step would bring into play the well known ‘principal agent’ dilemma whereby a person is employed to ‘act in the best interests’ of the family who are the beneficial owners. However, the person so employed is not the owner and may have interests such as maximizing salary or short term gain which are not commensurate with the family desire for a longer term view. Equally, an outsider may seek to replace family members employed in the company with new staff who are seen as more efficient or more in keeping with the desired strategic direction of the incoming manager.

## Familiness

This raises a question of the extent to which actual blood ties are essential for a family firm. Can a firm be described as a Family Firm when such blood ties are either weak or not actually present significantly in the strategic direction of the firm? This is a key concept to which we will return in later chapters when we examine the governance and subsequent development of Falck. Suffice to say at this point that very senior staff in Falck currently have a significant shareholding of 10.25%.<sup>13</sup> There is a substantial ownership of the company (27.73%) by the Kirkbi Family Foundation which has family-based ownership. This could be suggestive of an ongoing—or perhaps revived—element of familiness in Falck despite the lack of any bloodline in the company from the Falck family itself. The Lundbeck Foundation which is the majority owner of Falck with 57.36% has a strong element of social purpose in its mission and is described on the Falck Concern website as:

a Danish-based commercial foundation striving to significantly improve people's health and wellbeing by.

- supporting independent Danish research at the highest level, primarily within biomedicine and the natural sciences, and promoting the international scope of the research
- creating shareholder value within the Lundbeck Group and other internationally renowned companies—now including Falck—and helping them become world leaders in their respective fields.<sup>14</sup>

## ***Gender***

An aspect of Family Firms especially ones founded some time ago and which are focused on rescue services and the use of vehicles and heavy equipment is that of gender. The relative exclusion of women in the Falck family from significant operational roles in the Company is perhaps a measure of the nature of the culture of the times and also is reflective of the sort of business which Falck was in. The ownership of equity potentially included Harry Falcks' daughter, Jytte, but the effect of this was lost through the actions of William Sr as described above. It is perhaps of interest to speculate what might have been the case if Sophus' daughter, Grethe, had been born within his marriage and of equal blood line to his sons. A view of the author is that she would probably have been marginalized in terms of effective involvement and power within the company. The male-based pattern of family involvement and control in Falck is substantiated by accounts of the histories of the company (Madsen 2006 and Jacobsen 2006) and confirmed by direct interview data gathered for the book.

## **Loss of Family Control**

The loss of family control can be seen as something which did not occur suddenly but rather as a consequence of a sequence of events. The fourth generation probably did have within it a natural successor in the

person of Erik Falck but events rendered such a succession impossible. The approach to Baltica was made through a member of the third generation but the previous approaches to other entities indicated a clear recognition that the times for the family to run the company were coming to a close. Perhaps one option could have been to directly employ an outsider to effect the necessary management changes. Indeed, in one interview a comment was made that this might have been a possible option but was not really considered. Such a person would have probably have encountered significant resistance to major change both from family and possibly from other stakeholders such as the trade unions.

## Notes

1. The authors acknowledge in particular the contribution of Poul Falck and Erik Falck. The authors also acknowledge the key importance of previous published books in Danish by Kurt Jacobsen and by Frederik Madsen (Ed.) which have been extremely valuable and are referenced. However, the content of the chapter and any aspects of error or opinion is the responsibility of the authors.
2. Translated from Danish: Da jeg kom ind paa Slotspladsen, forefandt jeg her er et forrygende Virvar af raabende og skrigende Mennesker, en forvirret og raadløs Hob, som ikke syntes at foresage sig nævneværdigt udover at giver deres oprørte Følelser Luft. Uden Ledelse af nogen Art gav man sig dog efterhaanden til planløst at redde Malerier fra Samlingerne, og i dette Arbejde deltog jeg saa længe, til jeg af en Brandofficer fik Ordre til ufortøvet at forlade Bygningen, da Tag og Trapper var ved at styrte sammen ... Aldrig skal jeg glemme det trøstesløse Syn, som denne forfærdelige Slotsbrand frembød, heller ikke den dybe Sorg, som greb høje og lave; det var i Sandhed en Nationalulykke. Men jeg fik ved denne Lejlighed en klar Forstaaelse af, hvor nødvendig Organisation, Ro, Disciplin, indøvede Folk og ordentligt Materiel er, om en saadan Brand skal bekæmpes rationelt, og om det skal lykkes, under saadanne Forhold, at redde, hvad reddes kan. Dette har været mig en Lære I min senere Gerning, en Lære, som har baaret Frugt.'
3. Reprinted with permission from Falck Corporate Archives.
4. "Jacobsen (2006). Falck 1906–2006. Lindhardt and Ringhof. p 122".

5. Based on data from Madsen (2006), and Bogø (undated). \*Out of respect for privacy, only names and dates already in the public domain and relevant to the text have been included.
  6. Anecdote told to Frederik Madsen by late Falck manager, Aage Rørmark.
  7. “Jacobsen (2006). Falck 1906–2006. Lindhardt and Ringhof. p 122”.
  8. Comments made in interviews to authors by Falck staff.
  9. Interview conducted by Birthe Hermansen in 1988 <http://www.blindehistorie.dk/Dokumentarkiv/Blinde%20kvinders%20kultur/Interview%20med%20Ellen%20Falck.htm> (Accessed 15 Oct 2016) Translated by Margit Physant.
  10. Observation by chapter co-author Frederik Madsen.
  11. The authors acknowledge additional sources here from interviews in 2016 with family members Poul and Erik Falck. However opinions expressed are those of the authors.
  12. Interview with former CEO Lars Nørby Johansen in May 2016.
  13. The 10% threshold is legally significant in Denmark and confers rights on the shareholder for example that where shareholders holding more than 10% of the share capital so request, General Meetings must be held by physical attendance.
- Source: [https://danishbusinessauthority.dk/sites/default/files/danish\\_companies\\_act.pdf](https://danishbusinessauthority.dk/sites/default/files/danish_companies_act.pdf) Accessed 31 Oct 2016.
14. See <http://www.falck.com/en/company/owners/> Accessed 31 Oct 2016.

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# 2

## Investigating Reliability and Rescue

Anton Bradburn

### Introduction

In this Chapter we investigate the characteristics of high reliability and highly reliable organisations by focusing on emergency rescue services organisations. Our exploration is evidence-led drawing on a variety of sources for our data and information. We try to determine whether, or not, fire and rescue services and emergency medical (ambulance) services may be described as high reliability organisations. The chapter makes reference to practice in the UK and in particular to UK Ambulance and Fire Services and also makes reference to Falck. A number of the areas initially explored here are dealt with in more detail in subsequent chapters.

### Hazards and Risks

On 31st October, 2015, a Russian Metrojet Airlines A321 Airbus, flight 9268 took off from Sharm el-Sheik airport in Egypt carrying 224 passengers and crew bound for St. Petersburg. Minutes later flight 9268 disintegrated scattering wreckage into the Sinai Desert below. There were no survivors.

Clearly this incident was the result of a catastrophic failure of some kind. After the incident there was intergovernmental disagreement about the likely cause of the flight 9268 disaster. With around 20,000 UK citizens then on holiday in the Egyptian resort of Sharm el-Sheik the UK Government's position was that the aircraft was likely brought down by a bomb placed in its cargo hold. The Egyptian government initially disputed this claim but subsequently accepted it was a terrorist attack. As of November 2016 the Egyptian tourism industry had still not recovered.

## Hazards and Failure

According to James Reason (2000) there are essentially two sources of failure: systemic and human. When a potential hazard is not spotted it may lead to a risk of harm. When the harm becomes actual this represents a failure.

In the case of Flight 9268 the debate then revolved around an argument between a systems failure and a human one. Was there a fault with the aircraft and its systems accounting for its mid-air break-up; did an individual with terrorist connections manage to plant a bomb in the aircraft's cargo hold? If a bomb had been planted in the hold luggage then why did airport personnel fail to prevent this from happening?

What we seem to be observing here is that failures ascribed to human beings and to systems could be preventable. Earthquakes, hurricanes, volcanic eruptions and flooding from tsunamis are largely unpreventable. While failures associated with environmental events may not be preventable they might be mitigated by human intervention. We may have no control over the tides around our coasts, but the construction of a rock armour sea wall, for instance, might protect coastal communities and lessen the impact of waves on coastal erosion.

In order for national governments and local authorities to protect citizens from various kinds of emergencies, such as fires, crime and medical events, governments consider it to be crucially necessary for some organisations to be extremely dependable.

Organisations prepared to assume responsibility for dealing with extreme risk are generally referred to as high reliability organisations. These entities are those organisations responsible for protecting us from harm and safeguarding life and property. Air traffic control and nuclear power generation are frequently cited as examples of high reliability organisations.

## The Swiss Cheese and the Hot Cheese Models of Accident Causation

To aid our understanding of the high reliability concept we can model what high reliability looks like. There is the frequently cited Swiss Cheese Model of Accident Causation also known as the effect of cumulative acts advanced by James Reason (1990).

The Swiss Cheese Model suggests that systemic failures, or accidents, occur from a series of events within differing layers of an organisation. A system is similar to slices of Swiss cheese. There are holes which represent opportunities for failure and each slice is a layer of the system. When holes in the layers line up, a loss (or accident) occurs. Each layer of the system is an opportunity to stop an error; the more layers, the less likely an accident is to occur. The major layers of a system are:

- unsafe acts,
- conditions (for unsafe acts),
- unsafe supervision, and
- influences of an organisation.

Organisations can design-in additional layers in order to minimise the probability of hazard trajectories occurring when holes align. This is known as redundancy. Some of these redundant layers may never be activated, for instance a back-up on-site generator for use in the event of a power failure. But where they are used they provide an organisation with resilience thereby enabling it to resume normal operations as quickly as possible.

Li and Thimbleby critique the Swiss Cheese Model and propose their own more refined Hot Cheese Model:

...the Swiss Cheese Model (SCM) has proven extremely effective and powerful. It visualises incidents as the result of the accumulation of multiple failures in defences (represented as the holes in slices of cheese) that unfortunately align, creating a 'hazard trajectory' that results in harm.

The model is clear, insightful, memorable and justifiably a classic; it can be used not just in teaching, but also in helpfully focusing attention in accident investigations as well as in learning and planning defences against future harm. Despite some criticism, the simple model has been widely taken up in risk analysis and risk management, especially in safety critical fields where human operators play an important role in incidents, for example, in aviation, nuclear, petrochemicals industries and, indeed, in healthcare. (Li and Thimbleby 2014)

They propose their own more refined Hot Cheese Model for which they claim that the Hot Cheese Model creatively covers more issues than the original Swiss Cheese Model, while retaining its strengths. They also assert that it allows for a more dynamic and active interpretation of complex system component and help accident investigation through a whole system approach (Li and Thimbleby 2014).

## Reliability in Organisations—Some Criteria

Emergency services are required to operate to standards and targets set by national and local government bodies. In the UK ambulance services attendance time for life threatening events is set by the Department of Health (DH) and an ambulance is required to arrive within eight minutes of the emergency call being received. The target attached to this standard is 75% meaning that an ambulance service only needs to achieve a 75% success rate in order to satisfy the DH performance requirement.

In the UK there are two telephone numbers to make an emergency call for ambulance assistance—999 is for life threatening situations

otherwise known as ‘Red 1’ emergencies; 111 is for summoning medical help—fast—a ‘Red 2’ emergency. It is the responsibility of the caller to decide which of these two numbers to use. In November 2015 there was press coverage accusing the South East Coast Ambulance Trust (SECAMB) of manipulating its response time figures for Red 1 emergencies in order to meet the 75% attendance target (Donnelly 2015).

In Donnelly’s article in the Daily Telegraph she reports that thousands of life threatening calls made via the 999 emergency number where the attendance time exceeded the eight minute target were retrospectively reviewed and adjusted to make it seem as though they were within the target. SECAMB was able to do this by claiming that in these cases a defibrillator was available within 250 m. This protocol is within national guidelines thus SECAMB’s response to media accusations was that the Trust had done nothing wrong. Despite defibrillators being unsuitable for treating many medical emergencies, by using this protocol the Trust was able to claim it achieved the statutory eight minute response time on 75.3% of its call-outs.

Even with its use of this defibrillator protocol SECAMB’s performance shows the odds of failure as 1:3 in terms of the eight-minute attendance time target. Perhaps we think uncritically of ambulance services as high reliability organisations, but we should question whether a probability of 0.33 that an ambulance will fail to attend a Red 1 emergency within eight minutes is an operational performance that meets the criteria associated with high reliability. What we observe here is that the ability to provide a reliable service is variable. Moreover, there is an inbuilt tolerance to failure as ambulance services are seemingly allowed to fail, even expected to fail on 25% of occasions. However, perhaps the issue of the time response needs to be set against the issue of an expectation of response. A postal service may accept that a small proportion of letters are never received but an Ambulance or Fire Service could not justify some emergency calls never being attended at all. This point is reinforced by the definition of reliability which follows.

The Institute for Healthcare Improvement (IHI) (in the USA) view reliability in health care as the measurable ability of a health-related

process, procedure, or service to perform its intended function in the required time under commonly occurring conditions.<sup>1</sup> Reliability equals the number of actions that achieve the intended result, divided by the total number of actions taken. From the patient perspective, this is an all or none measure. That is, patients receive all of the elements of care associated with a process in order to be considered Reliable (Boston-Fleischhauer 2008).

With some minor amendments the IHI definition of a high reliability organisation as one delivering products, services, or a combination of both will serve for emergency services. We could define emergency services as ones:

...where the capability of an emergency-related process, procedure, or service to perform its intended function in the required time under commonly occurring conditions can be measured. Reliability equals the number of actions that achieve the intended result, divided by the total number of actions taken from which a failure rate can be revealed. From the recipient perspective, this is an all or none measure. That is, recipients must receive all of the elements of the emergency service associated with a process in order for the provider to be considered reliable.

Laying the blame for failure on individuals may be convenient, but it is less effective than examining critically the system in which they were operating. While it may not be possible to make an individual error-proof it should be possible to control the working environment to minimise the potential for a failure occurring. James Reason points to unsafe acts committed by individuals—the active failures—and to flawed design decisions in creating operating systems—the latent conditions—which underpin organisational failures. He says,

High reliability organisations are characterised by complexity, internal dynamism and intermittent periods of intense activity. Such organisations perform highly demanding tasks under relentless time constraints. What these organisations achieve, that other organisations of lesser reliability do not, is very low rates of incidents together with an almost total absence of catastrophic failure over a prolonged period of years.

## High Reliability Organisations

We now examine more closely the nature of high reliability organisations. If a definition of a high reliability organisation is that it is an entity associated with very few failures then we next need to ask what is meant by very few failures. This implies that an organisation qualifies as a high reliability organisation if it has a low failure rate. In which case what can be regarded as a low failure rate and how can failure be measured?

We can start our thinking by referring to Six Sigma, which was devised by an engineer, Bill Smith, and applied in Motorola in 1986. The Six Sigma process utilised statistical techniques and applied them to Motorola's manufacturing processes with the aim of reducing product defects to no more than 3.4 defects per million units of output. Contrast this with the SECAMB case where for every 2.8 ambulances that achieved the eight minute target time there was one that failed to do so. This gives us a risk ratio of 2.83:1, or for every 28 successes SECAMB's services recorded 10 failures.

Like other UK ambulance services SECAMB provides annual statistics of its operational performance.<sup>2</sup>

For the year<sup>3</sup> 2013–2014 a total of 862,466 emergency calls were received. Of these 5863 were classed as Red 1 emergencies (requiring a response to the scene within eight minutes). SECAMB reached these patients on 73.9% of occasions. This means that SECAMB failed to meet the eight minute standard in 26.1% of Red 1 call outs. Thus 1530 life threatening emergencies were not attended within the statutory attendance time. This response failure in greater than a quarter of opportunities in an emergency ambulance situation is clearly a matter for concern in a publicly accountable service.

SECAMB's performance may not seem impressive, but compared to the performance of all UK ambulance services it is better than the national average. According to an analysis prepared by Quality Watch<sup>4</sup> ambulance attendance times for Red 1<sup>5</sup> calls have been worsening over the past few years. In 2011 the eight minute standard was being achieved on 77% of call outs; in 2014 this had fallen to 69% (Thomson 2014).

In 2011 the risk ratio was 3.35 across all UK ambulance services relating to Red 1 emergencies; by 2014 the risk ratio had increased to 2.23; a difference of 1.12. In 2014, on average, we would expect that for every three ambulances called to attend a Red 1 emergency slightly better than two would achieve the standard. Three years earlier we would have anticipated better than three out of every four ambulances despatched to the highest level of emergency to be on the scene within eight minutes.

Thomson cites the increase in the number of calls as one of the principal reasons for the decline in ambulance service standards. In 2012 there were 2,609,675 Red 1 calls to ambulance services across the UK. By 2014 this figure had risen to 2,961,274 calls. This represents an increase of 13.47%.

In addition to the steep increase in the level of Red 1 calls Thomson also cites staffing levels as one of the reasons attendance times have declined. The evidence he presents shows that staffing levels have not increased in line with demand thereby concluding that ambulance service provision has failed to keep pace with demand.

Increased demand and insufficient staffing levels are two forces penetrating the defensive layers of UK ambulance services. Here are the combined effects of cumulative acts highlighted in Reason's Swiss Cheese Model. The impact is noticed in declining attendance times.

When we look at the data provided by London Fire Brigade<sup>6</sup> (LFB) we see that the statutory weight and speed of response in London requires one fire appliance to be on the scene of an emergency within six minutes and a second appliance to be there within eight minutes of an emergency call being received by the control room.

Looking at the LFB's attendance time statistics reported as percentages we see that first appliance arrival times were within the six minute standard on 66.9% of turnouts and the second appliance arrival times were within eight minutes on 74% of the callouts.

These LFB data also show that response times have increased between 2012–2013 and 2014–2015 by 14 s (first appliances) and 26 s (second appliances). These may not seem significant, but they are in a time-critical emergency fire and rescue service. What we also note from these data

is that the volume of emergency calls has decreased by approximately 5% between the two periods.

We might conclude from these data that LFB's service delivery is in decline; that the Brigade is showing less reliability. We might also be tempted to conclude that SECAMB and LFB are failing organisations in terms of being perceived as highly reliable. But we would be drawing the wrong conclusions.

Target attendance times and performance standards are efficiency measures where inputs are compared with outputs. From the published data we might be able to argue that both SECAMB and LFB services are becoming less efficient, but what we also need to consider is how effective they are. Here we are comparing outputs with outcomes. What is critically important to both organisations is their services from their paramedics or firefighters at the point of delivery.

We can see how misleading concern with standards for attendance times and the associated performance indicators can be. Failure to achieve the required performance levels may make for news worthy headlines, but they are not the whole story.

## Complex Organisations

At the centre of any debate about high reliability and highly reliable organisations is the recognition that they are complex entities, so we need to look at them in terms of their functions. We need to consider how one system, or sub-system, inter-relates with others and how elements of systems can affect the system as a whole. London Fire Brigade), for example, is not just concerned with fighting fires. In addition to fire and rescue services LFB is concerned with fire prevention and fire protection and rescue involving road traffic accidents. It is the second largest fire and rescue service in the UK. It is also a complex organisation.

Logically we might like to consider complex organisations as being composed of a multiplicity of complex systems tightly, or loosely, coupled together. However Ladyman et al. disabuse us of this notion and inform us that “there is no concise definition of a complex system, let alone a definition on which all scientists agree” (Ladyman et al. 2012).

Ladyman et al. notwithstanding, if we were to study an organisation like LFB or SECAMB, it would still be tempting to attempt to construct a model of the organisation. However, Cilliers (2001) points to the futility of this by arguing that it is not possible to construct a general model for complex systems, but he does say that it is possible to have a science of complexity.

The essential features of complex organisations are that they are open systems and they have within them any number of non-linear relationships, which makes it difficult to identify and track causal relationships between various component parts. This must have implications for the design of defensive layers in the Swiss Cheese Model. Is it possible to build in redundancy when there is uncertainty about what is being defended against?

## Measuring Reliability

We have qualitative descriptions of reliability in organisations, but we also need some quantitative metrics. Dr. Laren Cobb<sup>7</sup> of the University of Colorado, Denver, suggests a log-odds scale for measuring reliability. This is a 15 point scale ranging from +7 through zero to -7. At a level of +7 there is a 0.999999 probability of an event occurring and this converts to log-odds of  $10^7:1$ . At a level of +6 there is a 0.999999 probability of an event happening (Table 2.1).

Cobb ascribes metric names to this level and other levels, so that +6 is one Megachance, +3 is one Kilochance, zero is one Chance. Similarly -3 is one Millichance while -6 is one Microchance. At this level the probability the non-occurrence of an event is 0.000001, or log-odds of  $1:10^7$ . There is one level (-7) below one Microchance where the probability drops to 0.0000001. At this point there would be a failure rate of one in every 10 million operations.

High reliability for something happening starts at the level of one Megachance (scale value +6) where the log-odds are  $10^6:1$  equivalent to a probability of 0.999999. High reliability for something not happening such as a component failure begins at the level of one Microchance (scale value -6) equivalent to a probability of 0.000001, which would be one faulty component in a million components. But is even this low enough?

**Table 2.1** Reliability scale

Metric name	Scale	Log-odds	Probability
1 Megachance	+7	10 <sup>7</sup> :1	0.9999999
	+6	10 <sup>6</sup> :1	0.999999
	+5	10 <sup>5</sup> :1	0.99999
	+4	10 <sup>4</sup> :1	0.9999
1 Kilochance	+3	10 <sup>3</sup> :1	0.999
	+2	10 <sup>2</sup> :1	0.99
	+1	10:1	0.9
1 Chance	0	1:1	0.5
	-1	1:10	0.1
	-2	1:10 <sup>2</sup>	0.01
1 Millichance	-3	1:10 <sup>3</sup>	0.001
	-4	1:10 <sup>4</sup>	0.0001
	-5	1:10 <sup>5</sup>	0.00001
1 Microchance	-6	1:10 <sup>6</sup>	0.000001
	-7	1:10 <sup>7</sup>	0.0000001

When we start asking where the benchmark should be set, we very soon find ourselves moving into the fields of moral philosophy and economics as we question what the value of a human life might be and what the marginal cost of saving one additional life might be. Both of these fields are beyond the scope of this Chapter.

It is worth noting though that a UK study by the DH<sup>8</sup> revealed that “quality, as measured by lives saved from improved response times, grew faster than unit costs.” In this study the index for ‘Life Years Saved’ increased by 42% compared with associated ‘Costs’ of 13% due to improved response times.

If we begin to compile a list of what we could regard as high reliability organisations we might include air traffic control, nuclear power generating plants, hospital operating theatres, aircraft carriers and so on. Where nuclear power generation is concerned ten countries have reported accidents of varying magnitudes: Three Mile Island (USA), Chernobyl (Ukraine) and Fukushima (Japan) spring readily to mind. Commenting on the Chernobyl disaster Cobb says:

Shortly after the nuclear accident at Chernobyl, it was reported in the Press that the Russian assessment of the chances of a serious accident in this class of plant had been placed at one in 10,000 plant years. Thus, by

their estimation, the explosion at Chernobyl was an event that registered  $-4$  on the log-odds scale.

This suggests that the Chernobyl plant could not be included in the high reliability category as it was estimated there were 100 Microchances per plant per year of a failure of this kind.

Cobb's log-odds scale is appealing. At higher orders of magnitude it certainly aids in comparing the reliability of one organisation with another, or an organisation against a particular performance standard. In the lower orders of magnitude where the scale converges at point zero and where the odds of something happening, or not happening, are 50:50, Cobb's log-odds scale is less helpful in differentiating the performances of one organisation from another.

This is the case when we attempt to use attendance time targets set by governments against performance in seeking evidence for an organisation being highly reliable. When we try to assess emergency services as high reliability organisations our task is made difficult because of the lack of statistics and also by the way different countries collect and compile these data—or in some cases do not collect them at all. 24 EU countries participated in the Fire Research Report (2012). This Report was aimed at governments, fire services, the public, insurers, academics, research organisations and regulators to use in informing policy, raising awareness of trends, developing strategies and evaluating fire service performance.

The Report reveals that nine of the EU participant countries do not collect data concerned with firefighter deaths. At the time Denmark is reported as one of these nine countries. Assessing whether an organisation may be highly reliable, or not, is to examine it in terms of failure. Avoidance of failure is related to how well risk is managed.

Organisations face both internal and external risks. This is particularly the case of emergency services—fire and rescue, ambulance, police and roadside assistance.<sup>9</sup> Where fire and rescue services are concerned we might look at the number of firefighter deaths in action as a possible proxy measure of reliability, or of failure. We learn from *In the Line of Duty*, which reports on firefighter deaths in the UK since 1978 that in the 30 year period from 1978 to 2008 firefighter deaths in the UK totalled 44 killed in action (Fire Brigades Union 2008).

From this 2008 Labour Research Department report we can say that the average rate of firefighter fatalities was approximately 1.5 deaths per year. In 2002 the UK's firefighter strength was estimated in the press and other media at 58,000—that was 40,000 whole time firefighters and 18,000 retained.

These statistics indicate an odds risk ratio of 1.5:58,000, or  $2.58 \times 10^{-5}$  thereby putting the risk of a firefighter losing his/her life at an operational incident close to 1 Microchance on Cobb's scale. This is a very low risk, and it may be an indicator about the quality of training, the safe working practices and the resilience of organisational systems, but it does not put UK fire and rescue services in the high reliability category. This would require a failure reduction in the order of one, or two, magnitudes.

We can compare firefighter deaths with other groups in the statistics for fatal injuries in workplaces as reported by the Health and Safety Executive (HSE) for 2014/2015<sup>10</sup>. Deaths in the workplace are recorded as 0.46/100,000, or  $1:4.6 \times 10^{-6}$ , thereby making UK workplaces ten times safer than operational fire and rescue scenes. So the risk of a firefighter losing his/her life at the scene of an emergency is one order of magnitude higher than the risk to non-firefighters. This implies an increase in risk of death by a factor of ten.

These data would highlight UK fire and rescue services as comparatively highly reliable, but not as actual high reliability organisations at least according to both Laren Cobb and the Berkeley research team discussed below. We can also turn to other possible proxy measures of reliability. These measures relate to both fire prevention and to fighting fires.

A reading of World Fire Statistics<sup>11</sup> points out that 70–90% of deaths by fire in the general population occur in domestic environments. This report draws data from the World Health Organisation (WHO) showing human fire losses (killed and injured) attributable to fire, smoke and flames for the years 2008–2010.

We can extract from these limited data that fire related deaths in domestic settings in Denmark were 1.36/100,000 and 0.75/100,000 population in the UK. Therefore we can adduce that the probability of death from some cause other than fire is  $1.36 \times 10^5 : 1$  for a Danish citizen and  $0.75 \times 10^5 : 1$  for a UK citizen.

The evidence for emergency organisations of all types across the EU being classed as highly reliable is arguably too thin, too patchy and too inconsistent to enable conclusions to be drawn using the statistical criteria previously described.

What we can perhaps say from the WHO data is that Falck, along with many other emergency services organisations demonstrates a high measure of reliability. The dual roles of emergency services are to firstly manage their own internal risk and to assume responsibility for the latent risks present within the societies in which they operate. The outcome is to provide citizens with a society depending on highly reliable services, which serve and protect them.

## **Cultural Perspectives and Reliability**

Culture matters. All organisations have a corporate culture. Emergency services organisations are no different in this regard. Nuclear-powered aircraft carriers are cited in the literature as being examples of high reliability organisations. They do not function as emergency services. They do not have attendance targets, so what attributes do they have that make them high reliability organisations? Perhaps an anecdote might assist here.

### **The Cleaner and the Paperweight**

Visualise an aesthetically pleasing solid glass sphere of clear glass with air bubbles captured within it. It is used as a paperweight.

The desk is situated in an office which benefits from sunlight throughout the day. One of the cleaning crew notices a series of scorch marks on the papers beneath the paperweight.

This cleaner is alert to risks as a result of health and safety training. Noticing the arc of the scorch marks the cleaner suspects that the paperweight may be acting as a magnifying glass. It may be focusing the sun's rays from the window opposite and concentrating them to a point of intensity. A fire could easily be the result.

The cleaner moves the paperweight and its papers repositioning them to a safer place out of direct sunlight. The cleaner leaves a note for the user of the desk and informs the crew's supervisor of the action taken.

The supervisor praises the cleaner's action and shares the information with the rest of the crew and with more senior management. As a result an advisory note is circulated to the office staff cautioning against the potential hazards of glass paperweights and the associated risk of fire.

Weick and Sutcliffe highlight what they refer to as *mindfulness* as a fundamental attribute in the cultural paradigm of high reliability organisations (Weick and Sutcliffe 2001). They identify five fundamentals of mindfulness as follows:

1. A pre-occupation with failure meaning that the workforces in these organisations are constantly alert to any signal indicating a potential systems failure and consistently encourage the reporting of errors;
2. Explanations of errors are not simplified. Detailed explanations are encouraged;
3. There is sensitivity to operations and concern for the unexpected. Unexpected events are viewed as latent failures penetrating system defences via loopholes. Unexpected events can include imperfections in supervision, defect reporting and identification of hazards. These organisations respect, value and are attentive to their frontline staff;
4. Workforces in high reliability organisations are committed to resilience. They are pro-active in detecting and containing risks enabling these organisations to rebound quickly from adversity;
5. In these organisations there is deference to expertise wherever it resides. Experts are at a premium. Personnel are empowered to make decisions without constantly referring upwards. Decision making is devolved down to frontline staff, who are in constant touch with day-to-day operations.

The anecdote concerning the cleaner and the paperweight contains something of each of Weick and Sutcliffe's five principles. It is an analogy. Here is mindfulness in the sense that the authors employ the term by which they mean a typical style of cognitive functioning. Accordingly, mindfulness is a fundamental element of the foundation on which a high reliability organisation is constructed.

While it is not our intention to argue that the cleaning company is itself a high reliability organization, the cleaner demonstrates awareness of a source of risk. In this instance the cleaner's alertness is an outcome of

training. This incident was a simple one not requiring detailed explanation. But the matter was reported to the user of the desk and the cleaning crew supervisor. The paperweight represented a latent failure. It could have been an unexpected cause of fire. The cleaner had been empowered to take action and did so by repositioning the paperweight to a safer place thereby mitigating risk. Thus the potential for fire was detected and contained.

In popular usage today the term ‘mindfulness’ means having an awareness of the present moment. For Weick and Sutcliffe ‘mindfulness’ seems more concerned with projecting forward from something observed in the present to consider its implications for a future event—in the case of the cleaner from burn marks to causing a fire.

An anglo-saxon proverb resonates in the paperweight anecdote that advises *a stitch in time saves nine* meaning repair the small hole in your smock today before it becomes a much larger tear tomorrow requiring many more stitches. This principle applies to high reliability organisations. Thus for high reliability organisations the cost of such reliability resides in constant alertness and concern for safeguarding the fabric of the organisation.

We discover from the literature that neither fire and rescue services, nor emergency medical services are high reliability within the strict academic framework of qualitative and quantitative standards we have examined. Our findings here raise a number of issues. Perhaps the way some of the de facto standard(s) for high reliability appears currently needs to be reviewed.

## Reliability Redefined—Semantics, Scales or Perceptions?

Managers deploy a range of competences in their roles including planning, leading, organising, co-ordinating and controlling. Busby and Iszatt-White point to organising as the competence underpinning the achievement of reliability at any level. They write that “reliability is difficult and needs deliberate, assiduous effort to achieve it. It needs to be an object of organising in its own right” (Busby and Izsatt-White 2014).

The reliability principle, they argue, needs to be extended. What we see presently is a focus on organisations where failure could cause large scale catastrophic damage. This is probably why we are frequently provided with examples from the nuclear power-generating industry. These organisations are generally referred to as high reliability organisations. But according to Busby and Izsatt-White:

...there are good reasons for extending the principle of high reliability organizing more widely into more mundane settings. In particular, differences in outcome - mundane organizations cannot kill people on the same scale as nuclear power stations – do not rule out communality in means. (Busby and Izsatt-White 2014: 70)

Thus the actual means of achieving reliability can be seen as applicable to organisations which may not aspire to the level of outcome impact of a nuclear meltdown but where the impact may be more localized (such as a smaller loss of life due to a fire or a medical incident).

What we can infer, especially from Cobb's log-odds scale (Table 2.1), is that to be recognised as a high reliability entity an organisation needs to achieve a reliability rating of better than six sigma (i.e. less than 3.4 failures in one million opportunities). Thus, the bar to the high reliability standard starts at a magnitude of  $10^7$  in terms of operating reliability. We believe this de facto definition deserves to be challenged because other more commonplace organisations are regarded as highly reliable, but not as high reliability.

We can find in sources such as the Shorter Oxford English Dictionary *reliable* describes an entity that may be relied upon; *reliability* is a quality that enables an entity to perform its designated function under pre-specified conditions whenever required and with a long mean time between failures. So the semantic difference is that *reliability* relates to a set of criteria while *reliable* is not necessarily related to any pre-specified conditions.

Equipped with this semantic differentiation we are able to say that some organisations may be described as highly reliable, but not as high reliability. This is not necessarily a problem. It is just a matter of careful

**Table 2.2** Sigma table

Sigma level	Defects per million opportunities	% defects
1	691,462	69
2	308,558	31
3	66,807	6.7
4	6210	0.62
5	233	0.023
6	3.4	0.00034
>6	<3.4	<0.00034

distinction. Recalling our earlier reference to the six sigma classification we can set out a sigma table (Table 2.2).

Returning to Busby and Iszatt-White, the authors contend that the quality of reliability is inherently relational: it is the quality of the relationship between a relying-on subject, (an OHCA [out-of hospital cardiac arrest] patient say) and a relied-on object (an ambulance service) (Busby and Iszatt-White 2014).

We extend their contention to argue that what sits between the relying-on subject and the relied-on object is a set of pre-specified conditions under which the relied-on object is required to operate.

We are then faced with a dilemma. From a semantic perspective London Ambulance Service (LAS) can be classed as a high reliability organisation. But quantitatively from its attendance levels against the eight minute target time for Red 1 emergencies it achieves only a 2.2 sigma rating. A very long way short of even six sigma. How can we reconcile these two factors?

Perhaps the resolution lies in the attendance time target itself. To what extent is the ambulance response time in the UK a subject for revision as a key measure. Current response times have their origins in research by Eisenberg et al. (1979) concluding that there was a decreased survival in out of hospital cardiac arrests when advanced life support was commenced after eight minutes. Thus eight minutes became a baseline time unless measures such as cardiopulmonary resuscitation and mouth-to-mouth rescue breaths had been applied while awaiting the arrival of an ambulance.

These findings were updated by Pell et al. (2001) in an examination of the association between response times and survival in OHCA cases in the Scottish Ambulance Service. According to the authors a reduction time of one minute in response times would save 149 lives per year. In a later UK study (Turner et al. 2006) estimated the odds of surviving an OHCA incident through to hospital discharge increased by 19% for every one minute of response time reduction. This suggests that actually the 8 min response time should be reduced in critical situations.

A UK Department of Health study showed that<sup>12</sup>;

Improving response times to within 8 minutes for 75% of (Red 1) calls would result in 1,800 extra patients' lives saved, with an average of 12.5 life years per patient saved. 900 of these patients would be under 70 years old, with an average 15.9 life years saved.

## Risk Perception

We have seen that risk, failure and reliability are associated. Where risk is competently managed to ensure that negative outcomes, or failures are minimised, we confer reliability on the successful organisation. There are high reliability organisations where cultures within these entities share a drive to eliminate risk and failure. Thus they achieve high reliability status. Risk is measured quantitatively and described qualitatively. And this suggests a particular epistemological position.

Measuring indicates that risk is viewed as objective. An alternative perspective might suggest that any hazard is not in itself a risk. Placing lighted candles on a christmas tree might seem to some to be a hazard. Dancing round the candlelit tree might appear to some as insanity exacerbating a risk of fire until we learn that fresh pine needles are not flammable—only dry ones. Thus risk is mediated through some kind of social frameworks. Whether the candlelit christmas tree presents a risk depends on how we view the situation.

There are then differing epistemologies underpinning perceptions of risk. Slovic et al. argue that for some individuals risk is seen as inherently subjective (Slovic et al. 1985). This means that risk does not exist independently of our minds and culture waiting to be measured. Instead it is presented as a concept that human beings have invented to help them understand and cope with the dangers and uncertainties of life.

An alternative epistemological position has it that risk resides in objective hazards and is capable of measurement. This could be seen in Health and Safety regulations, for example, or in tangible provision to reduce the objective risk of car accidents through installing speed cameras and warning signs at locations, which are considered to be objectively high risk. The consequence of these can be measured through a (hopeful) reduction in accidents.

A possible aspect of whether the risk is seen as ‘dread’ or as unknown in nature. Nuclear power is rated as being both high on dread factor (as having possibly catastrophic, uncontrollable and inequitable consequences) and also high on unknown as people are not able to appreciate the nature of the specific aspects of the risk. Few people have direct experience of a nuclear incident or have witnessed the operations of a nuclear facility. For ‘ordinary’ emergency service situations such as fire and police the risk is seen as a more known risk as people have a high appreciation of the nature of the work often from personally witnessing it taking place in their community.

## The Concept of a Rescue Culture

Being part of a dedicated community of practice, such as firefighting, focused on high standards of performance would no doubt be attractive to many people. But searching for a universal culture to which all workers in emergency services could be said to belong is a fruitless task. There is no compelling evidence that such a culture is distributed worldwide. It is a cultural mirage—just when we seem to be getting

close, it evaporates and disappears before our eyes. However the reader is referred to Chap. 8 for a more detailed discussion of culture and in particular culture and values in Falck.

Accepting that a culture embodies shared customs, ideas and behavioural interactions then a statement like "... firefighters enjoy risk and danger ..." does not represent a culture. Shifting the focus to personality states Wagner writes: "Currently, there is little evidence for a distinct personality type that is reflective of emergency workers as a whole" (Wagner 2005).

But Wagner goes on to conjecture that there might be distinct personality types reflective of differing emergency services. Wagner's view holds out the possibility that through a process of socialisation individuals might develop a personality appropriate to becoming a police officer, a firefighter, a paramedic, lifeboat crew, air-sea rescue crew and so on. Alternatively it may be that individuals possess some inherent characteristic in their make-up that predispose them to become emergency services personnel.

According to Mitchell and Bray "... emergency workers are possessed of six qualities. These individuals are inner directed, decision centred, obsessed with high performance standards, traditional, socially conservative, and highly dedicated" Mitchell and Bray 1990).

Even so it remains unclear how these qualities might function as an underpinning platform for a universal rescue services culture. In further research Wagner conclude that there is little empirical evidence to support the concept of a universal rescue culture (Wagner 2005). However, there seems to be a growing literature concerning a first responder culture. Joel Fay<sup>13</sup> (2013) argues that police, fire and ambulance personnel have "unique cultural norms that allow them to function individually and as a team during high stress events".

In the UK in a radio broadcast the BBC recently referred to a *responder community*, but this may possibly have been a confusion with the term *community first responders*. Community first responders are volunteers, who "are trained to deal with a wide range of potentially life threatening conditions until the arrival of an ambulance".<sup>14</sup>

If an international rescue culture were to exist probably the most likely locus would be in Falck A/S as this organisation is the largest provider internationally of rescue services: through its four divisions—Emergency, Assistance, Healthcare and Safety Services. The word ‘services’ is key here. Definitions of ‘services’ abound, but drawing on Christopher Lovelock the characteristics of services include: intangibility; perishability; inseparability; variability (Lovelock 1988).

These characteristics distinguish services from products. Intangibility indicates that a service can not be owned. It can not be purchased over the counter in a store, wrapped and taken away. Perishability signifies that services can not be stored. When there is a demand for a service it must be delivered there and then. Inseparability means that a service provider becomes a critical part of the service. A specific service can vary depending on the supplier. Ideally a multi located service provider will strive to ensure that service quality is of the same standard universally so that there is no variability in delivery. This theme is picked up in Chap. 4 examining innovation where product and service innovation in the area of emergency and rescue is explored.

In their 7S model derived from the best performing companies in the USA Peters and Waterman place culture at the epicentre of the 7S: strategy, structure, systems, skills, staff, style and shared values (Peters and Waterman 1982). Central to the shared values is the notion of the cultural paradigm where the beliefs and assumptions of employees reside. Surrounding this paradigm are seven components comprised of: symbols, stories, power structures, organisational structures, control systems, rituals, and routines (Johnson and Scholes 1993) (This is discussed in detail in Chap. 8).

In addition to organisational culture helping new employees to integrate and understand how things are done, organisational culture can function as a social space where knowledge can be captured, organised, shared and utilised to generate returns to the organisation. This is the space where through individual exchanges, either via a formal process such as an after-action review or informal conversations, organisations come to know what

they know and equally what they do not know. Sometimes organisations are surprised when they come to realise what they do not know.

Human resource management can facilitate the process of knowledge transfer between employees by championing some form of knowledge management process within organisations. Nonaka and Takeuchi describe two forms of organisational knowledge. The first form they refer to as tacit knowledge, which is gained from the deployment of skills to workplace tasks; the second form is explicit knowledge, which is a knowledge concerned with understanding (Nonaka and Takeuchi 1995).

Cokes, Bradburn and Sugden investigated tacit knowledge, or process knowledge. It is gained by working day-to-day on the job and has two forms: sticky and fluid (Cokes et al. 2004). It is characterised as *sticky* because it sticks with the individual and may only be unstuck when the individual decides to share it with others. Once unstuck and shared this form of process knowledge is transformed into fluid knowledge capable of being exchanged and circulated.

Organisational culture is not only a vehicle for exchanging knowledge it can also serve as a forum for reinforcing and disseminating a brand. According to Kotler et al. a brand has four key components: attributes, benefits, values and personality (Kotler et al. 1996). Attributes may be expressed in terms of reliability, caring, or a multiplicity of other descriptors. Brand stakeholders do not buy attributes however. They buy benefits. This means the organisation must transform its brand attributes into functional and emotional benefits.

So, for example, in the event of accident, fire, or vehicle breakdown we, the stakeholders, should feel safe in the knowledge that we will be rescued. An organisation needs to ensure that its own values, this is to say, those values enshrined in its culture, are aligned with the values espoused by us its customers. And in terms of personality we will more readily identify with a brand when it reflects our own personality traits.

This theme is picked up again in Chap. 8 on Culture in Falck and in the application of The Cultural Web approach used in that chapter.

## Summary

The terms high reliability and highly reliable should not be conflated. These two terms denote two very different organisational species. We can argue that these two entities do not share the same organisational genes, nor are they members of the same family.

High reliability organisations are more individual. Nuclear powered aircraft carriers and power grid distribution networks do not share much of the same DNA except perhaps in terms of organisational cultures focusing on eliminating failure and of operating to pre-specified criteria.

Highly reliable organisations are more homogeneous. Their functions may differ—fighting fires is not the same as providing emergency medical intervention. But their missions are very similar. Roadside assistance, police work, firefighting and ambulance services may be different species, but at a higher level in the taxonomic hierarchy they all belong to the same genus of organisations.

The importance of organisational culture, sometimes referred to as corporate culture, is important in at least three respects. Organisational culture conveys a sense of belonging, it provides mores of how employees behave towards one another, it invokes a sense of community. However there is no compelling evidence for a supra-national rescue culture.

Organisational culture enables process knowledge to be shared. Steers et al. point to the importance of knowing, which all employees—especially front line staff—gain from day-to-day involvement with their work (Steers et al. 1992). After all, who knows more about the nature of water—the fish or the fisherman?

Organisations often declare their values. These corporate values become absorbed into organisational cultures. Workforces reflect these values through their shared culture and when they demonstrate these values in their service delivery to external stakeholders they reinforce their organisation's brand and in doing so add value to their organisation.

## Notes

1. See <http://www.ihl.org/>. Accessed 15 Nov 2016.
2. [www.secamb.nhs.uk/our\\_performance](http://www.secamb.nhs.uk/our_performance).
3. Refers to the 12-month period from 1 April one year to 31 March the following year.
4. Quality Watch is a joint venture between the Nuffield Trust and the Health Foundation.
5. Also referred to as A&E emergencies.
6. [www.london-fire.gov.uk](http://www.london-fire.gov.uk) > our performance 2014/2015.
7. 'A Scale for Measuring Very Rare Events', <http://www.aetheling.com/docs/Rarity.htm>.
8. Ambulance Response Times for Patients with Cardiac Arrest—[http://www.albacare.co.uk/files/dh\\_amb\\_resp.pdf](http://www.albacare.co.uk/files/dh_amb_resp.pdf).
9. Sometimes claimed to be the fourth emergency service alongside police, fire and ambulance.
10. [www.se.gov.uk/statistics/fatals.htm](http://www.se.gov.uk/statistics/fatals.htm).
11. <https://www.genevaassociation.org/media/874729/ga2014-wfs29.pdf>.
12. [http://albacare.co.uk/files/dh\\_amb\\_resp.pdf](http://albacare.co.uk/files/dh_amb_resp.pdf) Ambulance Response Times for Patients with Cardiac Arrest. Accessed 15 Nov 2016.
13. [www.commonwealthclub.org](http://www.commonwealthclub.org).
14. [www.was-responders.info](http://www.was-responders.info).

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# 3

## Trust and the Public Sector

Christiane Stelling

### Introduction

Health services have traditionally been the preserve of the public sector in most developed countries. Though there may have been an origin in voluntary effort, it usually is considered an inherently governmental activity (OECD 2005: 133). Thus, health services have come to be financed by the state and are often provided by state employees. However, there has been some change throughout the previous decades and health services are increasingly outsourced to private providers around the world. By outsourcing, the public sector has overall responsibility for the quality and the funding of healthcare services, while private for-profit or non-profit providers are responsible for carrying out these services.

Public sector organizations can to some extent use control mechanisms to assure that private healthcare providers live up to their contractual obligations. Yet, not everything can be controlled and it is impossible to foresee all future happenings. Therefore, a vast number of researchers have explored the crucial role of trust in contractual relationships as it enables actors to suspend doubts and form positive

expectations despite the possibility of undesired outcomes (e.g. Child et al. 2005; Krishnan et al. 2006; Poppo and Zenger 2002; Vlaar et al. 2007). Trust becomes especially vital in healthcare contracts, where undesired outcomes may have severe consequences for peoples' lives (Ahmad et al. 2013; Lewicki et al. 1998).

However, only little is known about trust building processes in public-private healthcare contracts and this Chapter aims to shed light on these vital managerial task. Denmark has a long history of outsourcing healthcare services to private for-profit providers and Falck is one of the most important private players within the healthcare sector. This Chapter therefore draws on two Falck cases in order to explore the role and development of trust in public-private healthcare contracts. The main focus is on the managerial dimension of trust building and thus draws on top and middle managers experiences. Yet, to begin with this Chapter discusses how healthcare contracts differ from other contracts between public and private actors such as facility management.

## Healthcare Contracts

Since the 1970s, governments all over the world have increasingly contracted out services to private firms. The range of tendered services is wide and OECD separates between three groups of services (OECD 2005). The first group includes blue collar support services, the second group consists of high-value professional services and the third group is concerned with mainline functions that previously were conducted by the government (ibid: 133/134). Healthcare services are usually viewed as inherently governmental and are therefore to be placed in the third group.

Typically for services in the third group is that they are directly concerned with *peoples' lives*. While cleaning of buildings of course also affects the well-being of people using the premises, it does not involve personal contact with others. In contrast, healthcare services are directly concerned with people and failures can have serious consequences. Therefore, the media as well as the public contractor usually monitor such services closely, rendering healthcare contracts open to public scrutiny.

Furthermore, they are also more vulnerable to failure. While it is generally impossible to consider every possible future eventuality in contracts, the fact that healthcare contracts essentially are about people, makes it even more complicated to write detailed input-based contracts. While the contracting partners can agree on output and outcome goals, the specific input needs to differ in order to accommodate the natural differences between people. Thus, healthcare contracts need to ensure that private healthcare providers have the flexibility to choose the best option in order to achieve the best output as specified by the public contractor. In other words, healthcare contracts need to build in enough room for flexibility, thereby also creating room for failure.

Hence, healthcare contracts differ from other contracts such as cleaning or facility management partly because they are more exposed to media attention due to the severe consequences in case of failure and partly because they are more vulnerable to failure because of the necessary inbuilt flexibility. This vulnerability is discussed below.

## Control and Trust in Healthcare Contracts

One way of dealing with the vulnerability in healthcare contracts is the introduction of a number of control mechanisms. Control can be defined as the ability to form positive expectations about someone else's future behavior because there are no alternative actions (Möllering 2005). Thus by eliminating alternative actions, public contractors can control their providers. Trust on the other hand can be defined as the ability to form positive expectations about someone else's future behavior in the future despite the existence of alternative actions and the possibility of being disappointed (*ibid*). Generally it is acknowledged that both control and trust are important in contractual relationships (Costa and Bijlsma-Frankema 2007; Inkpen and Currell 2004; Möllering 2005; Poppo and Zenger 2002).

There are a number of control mechanisms that are used to eliminate undesired outcomes. First of all, general law puts up some overall obligation for all kinds of healthcare services that have to be followed by any actor in the sector. A breach of these obligations has serious

consequences ranging from financial fines to imprisonment. Thereby the legislator ensures some important ground rules for the provision of healthcare services.

Furthermore, public contracts usually include a requirement to abide by law with further control mechanisms. For instance, emergency ambulance contracts public typically control response times by introducing fines if the the specified response times are not met (see also Chap. 12). This is relatively easy to measure as data can be automatically retrieved and stored. While fines do not fully eliminate the possibility of failing to perform within the specified response times, they represent a strong incentive to avoid failure as much as possible. Thus, the public contractor controls the private ambulance provider by rendering failure an expensive and therefore less likely option.

Moreover, quality in ambulance contracts is typically ensured by using independent accreditation processes to approve private ambulance providers. In Denmark, for instance, these accreditation standards are described in The Danish Healthcare Quality Programme. Private providers who fail to meet the standards will be excluded from tendering processes. Furthermore, if a private service provider fails to maintain the standards in annual follow-up visits or fail to improve in case of shortcomings, it is regarded as a breach of contract. Consequently, the contract can be cancelled and the public contractor can re-tender ambulance services and ensure quality with another accredited provider. Thus, in terms of quality control, the private provider has no alternative but to comply with the standards set by the public contractor—unless a breach of contract is desired.

However, as stated earlier, it is not only impossible to control everything but it is also important to ensure flexibility in healthcare contracts in order to enable the best outcome for patients and citizens. Therefore, some flexibility is needed for ambulance services in order to ensure that emergencies are handled in the best possible way within the framework of the above described control mechanisms. In other words, private providers will always have alternatives and public contractors need to trust their providers in order to form positive expectations about them despite the possibility of failure. In ambulance contracts, there is a high degree of control and still, trust is important because failure may mean the loss of lives.

In Denmark, Falck has a long tradition of providing fire services in a many parts of the country. The importance of building trust with their public sector customers is emphasized by two Falck directors, Allan Søgaaard Larsen and Ole Qvist Pedersen, who describe their experiences in Ejersbo and Greve (2002).<sup>1</sup> One case involved a municipality that wanted to explore whether its fireservice could compete with a private provider and invited bids. The requirements were set out to reflect the existing provision, but there was an option to propose solutions for a joint public-private enterprise. During the tender process there was ongoing communication between the parties, and staff at operational level were involved. Ultimately, Falck was unsuccessful in its bid, but described the process as

...characterized by a good dialogue, and the desire to reach a basis for a decision which would not be questioned later on. The result was not as hoped for but the relationship between the municipality in question and Falck is still characterized by dialogue and trust - also in connection with other tasks. (Ejersbo and Greve p. 102)

They go on to describe the experiences of cases where Falck had taken over fire service provision which had until then been provided by the the public sector:

...the initial reaction...was a certain skepticism and unwillingness towards the change to a private provider. However, in places where we succeeded in getting into a dialogue with the staff at an early stage, the transition happened calmly, and staff satisfaction grew steadily in step with the integration into Falck's organization. (Ejersbo and Greve, p. 106)

Internationally, Falck has also experienced the importance of trust in ambulance contracts when entering new markets. In Germany, for instance, the arrival of Falck as a new ambulance provider was seen rather negatively as public contractors had been working in a trusting relationship with private non-for-profit providers for decades while they had no trust in a new and to them unknown provider.

Thus, trust building is extremely important in healthcare contracts. However, there is only little knowledge about how trust is built and managed in public-private relationships (Brown et al. 2007; Edelenbos and Klijn 2007; Edelenbos and Eshuis 2012). The analysis below of data from the two in-depth cases aims to shed light on the process of building trust.

## **Alpha and Omega: Two Cases of Trust Building in Partnership Contracts**

Besides fire and ambulance contracts, Falck also cooperates with the public sector on a range of other healthcare services. The following analysis of trust building processes in public-private contracts will be based on two 3-year partnership contracts that aim to support people on sick leave to recover and return to work sooner and thereby reducing public expenditure to sickness benefits.

In both cases the public contractors are municipalities and the private provider is Falck. Having promised confidentiality to participants in the cases, they will in be called Alpha and Omega. Alpha was studied at the beginning of the contractual period, while Omega was studied in the end.

While some background material from steering group meetings and general descriptions were used to form a preliminary understanding of the cases, the analysis is based on the partnership contracts, interviews with relevant managers, and observations of one steering group meeting in each case. The interviews were semi-structured, open to exploring managers experiences and focusing on the relationship between the partners and how it developed over time. Since the responsibility for the contractual relationship shifted between individuals, both top and middle managers from the public organization and Falck were interviewed. In total, the study is based on ten interviews, as the middle-managers in Alpha were interviewed twice. All interviews were transcribed and analyzed using Nvivo 10 computer software in order to structure the data thematically. All quotations from case materials are translated from Danish.

## Managing Trust—A Central yet Difficult Task

The following analysis will study how trust is built and managed in public-private contracts. This will be approached in three steps. Firstly, the analysis focuses on the formation phase, followed up by, secondly, an exploration of the preparation of the municipal organization for the healthcare partnership. Thirdly, the partnership (contract) phase is analyzed.

### The Formation of Alpha and Omega: When Trusting Enables

In both municipalities, the decision to enter a healthcare partnership was as much an expression of the need for change as it was an attempt to create new solutions that would not be possible without a private partner. A partnership arrangement was perceived to be the most flexible, adaptive, and financially convincing solution to a problem that needed to be addressed anyway. Furthermore, the partnership concept was convincing because it left the exact details of how, what, and when to be decided jointly in the future, and to take the individual needs of the partnering municipalities into account while doing so. In other words, the contract did not aim to eliminate Falck's alternatives, but wanted to preserve alternatives in order to be able to adapt to the individual needs of the citizens as well as future changes. In this way these contracts differ from ambulance contracts that usually try to build in as much control as possible.

This is also expressed in the contracts of Alpha and Omega that not only describe obligations and rights but also emphasizes the necessity for committed partners, as illustrated by the following excerpt from Alpha's contract:

The partners shall participate loyally in the joint organization... The partners shall *ceteris paribus* [all things being equal] contribute to the fulfillment of the agreement in a *loyal* and *fair* way that is suitable for the partnership and a flexible solution of potential challenges related to the partnership.

By including such a passage both partners show and explicate that they are well aware of their future vulnerability and the need for collaborative commitment in order to choose the right option in their joint future. As identified earlier, trust is exactly the state that enables doubts to be suspended in the light of alternatives. It allows partners to operate as if the future were certain, while leaving alternatives in place.

But what were the indicators of trust that allowed the municipal managers to accept and believe in a successful public-private partnership outcome? Here, both of the municipal senior managers were open about the need to trust the competence and reliability of the private provider. In both Alpha and Omega the municipal managers already trusted their private counterparts in this respect due to previous experiences. Interestingly, this was not only important in choosing Falck as provider, but also played a decisive role in forming positive expectations toward daring to use a partnership contract in contrast to a different outsourcing arrangement for example one with more inbuilt control.

This is highlighted by the top public sector top manager in each of the two cases explaining their respective decisions to enter a healthcare partnership. One said, “It was the combination of the way of thinking, the product, the investment concept and then the relationship, the credibility. “while the other put it more directly, “I must say that it also to a large extent is based on the history and the trust I had with [top manager in Falck], that I felt entirely safe with this”.

Thus, the willingness and ability to trust the provider was very much based on positive past experience with their opposite numbers, enabling decision-makers to suspend doubts about a potential future failure. However, it would be hasty to think of this as nepotism. As the managers clearly stated above it was the previous experience of ability and reliability rather than a friendship that enabled them to eventually entrust Falck with a future partnership. Thus, it was a mixture of competence-based and knowledge-based trust between the top managers that convinced the municipal top managers that they could enter a partnership arrangement even though there was some risk of failure.

Moreover, the municipal top managers could not simply choose Falck but had to follow the Public Procurement Directive as defined by the European Union. The procurement process was valued as significant by

the public sector top managers, not least as a way of legitimizing their choice beyond trust, given that this is not officially a valid criterion. They explained:

This does not mean that we chose Falck because I knew [the manager]. There were objective criteria, which we had put forward and where they had scored, and therefore got the job...But I also had trust because I know the individuals that sit there. This, of course, also plays a part.

I am aware that there is something formal, that it should be advertised publicly, but if we forget about this dimension for now, the actual starting point was the relationship and acquaintance of a customer and a provider from earlier relationships.

In other words, the procurement process was important in order to ensure competition and to legitimize the choice of partner. Still, trust—competence-based trust as well as knowledge-based trust—was important in the decision to form a partnership and in choosing a partner.

## **Preparing the Organizations to Partner**

Thus far, the top managers in the Alpha and Omega-cases seemed to have coped easily with the need for trust in healthcare partnerships. However they were also aware of the need for mutual trust beyond their personal relationships, and here the two cases differed with respect to how the public organizations prepared for the partnership.

### **An Inclusive Approach**

In Alpha an inclusive strategy was followed: the municipal team involved in the healthcare partnership was included in the decision-making by having the right to veto the partnership. The manager explained the approach by referring not only to the general need to ensure that the partnership was approved by all levels, given that future changes were dependent on organizational collaboration, but also to the particular situation in his municipality, where previous experience with Falck in another area had been difficult.

This difficulty was also reflected in the words of the middle manager in the municipality: “When we suddenly heard it was Falck, it was far from a bed of roses because... [they] had been here before and it was absolutely no success”. Thus, the general skepticism toward the inclusion of private providers in municipal tasks on the middle management and employees’ level was aggravated by previous poor experiences with Falck.

Subsequently, there was an attempt to revisit past experience of working together, to convince municipal staff that Falck had changed since then, and to paint the joint future as something completely different from the past.

In the first instance, there was a great focus on labelling the past experience as a failure of outsourcing rather than a failure of Falck. It was not a denial of previous problems, but it was about changing putting the blame on the outsourcing structure rather than on the provider. Secondly, Falck presented itself as a learning organization that actively responded to past failures by changing.

On the bases of the above actions, the future was then presented as different from the past, since both the future structure of the partnership and the provider would be different.

In the end, these efforts succeeded, supported by the fact that the municipal team was desperate for help and aware that if they did not accept the outsourcing arrangement, the pressure be put on them.

Consequently, it may be argued that the team’s acceptance of the partnership reflected not only a suspension of doubts but also a perception that the future without the partnership would be “even worse”.

## **A Convincing Approach**

In the case of Omega, the public sector managers employed a convincing strategy, where the team involved was regularly informed about the progress of the partnership formation and the procurement process. At the same time, they focused on the many advantages of such a partnership, promising inclusion, easing the workload for employees, and the possibility of more education. A middle manager commented:

Well, they were regularly informed and I also think that they were somewhat skeptical in this phase... But we had so many problems with regards to the employees that somewhere I also think they thought: “Yes, that can also help us”. And then it was presented to them, the whole plan was rolled out, and they could see how much they would be able to be a part of this... At that point there were not many that dared to say out loud that it was a bad idea.

This quote highlights that the main focus was on emphasizing the downside of the present as the catalyst for future success of a health-care partnership with Falck. Even though some lingering skepticism was identified—at least retrospectively—this did not lead the interviewee to doubt that future collaboration and trust of his team was possible.

In neither Alpha nor Omega did the top managers express any doubt that the middle managers would be loyal and willing to collaborate. Thus, they all relied on the hierarchical structure of the municipalities, where orders would be followed, although those orders were supported by a general belief that the partnership concept was convincing in itself.

Thus, trust facilitated the formation of partnerships, and all organizational levels were prepared (or expected) to form mutually trusting relationships.

### **Entering the Partnership Phase: When Trust Is Challenged**

While the formation phase requires trust to set out a joint future, the partnership phase not only depends on a continuous demonstration of trust to meet the contractual obligations, but it is also the phase where initial trust can be affirmed or altered. Put differently, we now turn from words—be they spoken or written—to actual practice. It also becomes apparent at this time how the prepared teams and the supposedly loyal municipal managers will work together with the private operational manager towards the common goals.

As indicated earlier, both partnerships had difficulties with regard to trust building and maintenance in the partnership phase. The following four main challenges could be observed in both the cases:

1. Initial skepticism and generalized distrust.

In Omega, it became apparent that the team in spite of the preparations was not sufficiently convinced, as employees actively opposed the partnership from the beginning. This is illustrated by the frustration of Falck's middle manager, when he recounted that "there were always some of the older ones sitting in a corner and gossiping" while the public intermediate manager, also admitted that:

There was a lot of talk about us not letting Falck into the house. Well, to some extent this is right, there was some resistance amongst the employees that have experienced a lot of bad stuff and did not really get what we had promised them.

The latter quote also indicates that the team's skeptical and at times even distrusting attitude towards Falck was only reaffirmed when performance expectations were not met. Hence, the blame was immediately placed on the private provider and a spiral of distrust developed.

In Alpha, the cautious but positive expectations were already dashed in the introduction meeting after the partnership contract had started. Falck's middle manager, reflected that

The first introduction, well, it did not go too well because it was a little too concrete, too targeted and the employees thought it was totally wrong to start by checking on all their activities before getting to know them.

Hence, fears and worries may have been put aside when agreeing to the partnership, but it did not take more than one joint meeting to evoke them again. The introduction of a joint monitoring effort was perceived by employees as display of distrust with respect to their abilities to perform; this, in turn, created distrust about the role of Falck in this partnership.

The apparent disappointment at the early stage of the Alpha partnership shows how difficult it is to change the past and how fragile such a process can be in the absence of a common positive history.

As a result of this first challenge, both Alpha and Omega started out in a situation where the public organization—although still trusting on the top-management level—was filled with initial and reaffirmed doubts among employees about the private partner, Falck. Such an affirmation of doubts also points towards the existence of general skepticism about the private sector, which may also be labeled as generalized distrust (Tillmar 2009). While it has been shown that this is not impossible to change, it nonetheless complicated trust building in both Alpha and Omega.

## 2. Intra- and inter-organizational uncertainties.

At middle-management level it also proved difficult to build trust in a joint positive future as internal struggles about responsibility complicated joint decision-making.

In Omega, there was a newly appointed team manager who had to assume his new responsibilities simultaneously with the introduction of the partnership. Furthermore, responsibilities were not clearly delegated across organizational levels and that internal municipal uncertainty complicated the ability to cooperate with the Falck manager. A top manager in the municipality reflected in his interview that roles and responsibilities should have been clarified better.

The issue of role definition became even more obvious in Alpha, where both the public side and Falck had difficulties. The public sector middle manager was new in post and did not yet hold team manager responsibilities when the partnership started. The middle manager in Falck was also new and ended up in the position of partnership manager after the person that was appointed initially left having made a bad impression during the introductory meeting. The two new middle managers both expressed the worries they had finding their way, and the challenge of creating a partnership with those difficulties in the background. The public sector manager expressed such anxiety in his first interview:

It was recently during my summer holiday that I thought:...Now, I have just had some time to relax but knew that I was going back to a lot of things that needed to get started, and who decides what, and where do we do that and ... phew!

The multiplication of uncertainty in Alpha seemed to make trust practically impossible, especially because the middle managers did not really know their roles and scope for action. For a while middle managers had no expectations and focused purely on coping with everyday challenges.

While difficulties of delegating responsibilities across municipal organizational levels in Omega remained present throughout the partnership, the middle managers in Alpha reflected that the introduction of clear organizational roles as well as partnership structures eased the initial overload of uncertainty and made them more secure. Thus, the introduction of procedure and mechanisms to determine responsibilities proved an important factor that enabled trust to evolve.

This second challenge illustrates how fragile healthcare partnerships can be when additional uncertainty overwhelms the parties and in turn disables their ability to trust one another while they find their way through everyday challenges.

### 3. Differing rationales

The overall objective of these particular partnerships was to reduce cost. While this was primarily interpreted as financially by top managers in both sectors, there were clearly differing priorities at the middle management and employee level.

For the public side, improving healthcare services was the most important rationale, while saving money was a nice by-product. On the private side, the focus was clearly on creating solutions that reduced expenditures while simultaneously meeting the healthcare standards in the area. Thus, although the financial and healthcare rationales co-existed, they were prioritized differently. Yet, this difference in priorities was just as much a public-private sector conflict as it was a conflict between different levels of management in the municipalities. However, in the partnerships, the public sector middle managers and teams

attributed the potential conflict between the financial and healthcare rationale to the private nature of Falck. This also points to a general distrust towards any private provider by the public sector staff. Similarly, any proposal or initiative from Falck was critically examined for its motives.

In Omega, these public-private confrontations were further complicated by attributing disagreements to the difference between the country and the city. Municipal staff explained the failure to build trust at the team and middle management level by referring to the lack of improvement in the healthcare service, and the urban attitude of Falck staff who failed to acknowledge the cautious and down-to-earth manners typical of the area. A middle manager expressed this a little more bluntly,

You cannot take a smart city slicker and plant him here in this municipality. Well, of course you can, but you really need a humble profile.

The managers at Falck, on the other hand, interpreted the public sector distrust as obstructing improvement and performance. It is difficult to say which came first, distrust or the failure to reduce costs and improve healthcare, but they were experienced as mutually reinforcing. Consequently, the spiral of distrust further accelerated in Omega.

In Alpha, the conflict between commercial and healthcare aims was mainly embodied in a public-private debate. Subsequently, a Falck middle manager, reflected:

There are some attitudes that linger and wait and are never far away. And I am very much aware that I cannot make mistakes. If I initiate bad processes and move too fast, then they feel that I am focusing on my own world, or that Falck is only fulfilling its own mission.

This impression was also confirmed by his public sector counterpart who expressed the view that some of the healthcare concepts introduced by Falck were mainly about cutting costs. He said that

Falck only entered this [partnership] to make money on it. Of course, that is what they do. And when we, well, when we are holding back, I, of course, understand that they get nervous. I totally understand that.

Yet, he further elaborated that his team “would like these changes; we just need to do them at our own speed.” In other words, Alpha was able to develop some trust in the partnership and in the ability to somehow move forward jointly.

This third challenge highlights that differing rationales within partnerships continuously challenge managers when they form joint decisions that must be acceptable to all. Achieving this seems impossible when prior distrust colors any proposition negatively. This not only shows how difficult it is to build trust once distrust has become established, but it also illustrates how difficult—or even impossible—it becomes to manage a partnership if there is not a trusting relationship.

#### 4. The managerial wavelength

Finally, middle managers not being on the same wavelength also made it more complicated to maintain trusting relationships in both cases.

In Omega, the middle manager explained that the Falck manager had had a hard time communicating with the public sector team manager and that he had had to act as intermediary to avoid misunderstanding.

Similarly, the missing wavelength between the managers in Alpha was problematic, especially as the partnership grew. The following quote from the second interview highlights some of the consequences:

There is no doubt that [he] and I are still very far from each other... If you ask me whether I can be honest with him, then yes. But I don't think I always am, because it is difficult for me to be [honest], because we are so different.

Generally, not being on the same wavelength kept coming up throughout the interviews as obstacle to moving forward together. For one, it was used to explain that different possibilities were attempted on both sides; for the other, it made it difficult to be sure that common goals

was interpreted in a similar manner. This, in turn, made it difficult to suspend corresponding doubts so middle managers remained skeptical towards each other in both partnerships. However, in Alpha they seemed at least to be able to communicate their differences, while in Omega even this was difficult.

In sum, lack personal trust between middle managers complicates partnership practices and the actualization of a jointly agreed future vision.

Taking all the four challenges together, the partnerships may have coped with them differently but none of them was able to build strong, trusting relationships at middle management and employee level although all top managers were aware of the importance of trust. The cases show how extremely difficult it can be to build trust between public and private organizations where prejudices prevail. Thus, distrust is a dangerous challenge to partnership relationships. At the same time, the analysis shows that neither trust nor distrust are stable and that distrust can be turned into trust. While Alpha may not have succeeded in keeping up a trusting relationship, it showed that the right efforts could make a difference.

## Conclusion

Trust is central in healthcare partnerships as it enables the partnering organization to form positive expectations about each other's behavior in the future despite the possibility of failure and disappointment. The need for trust encompasses all levels of the partner organizations. As it cannot easily be transferred from one level to another, active trust building is necessary at all levels.

Analysis of data from two cases of healthcare partnerships between Falck and two municipalities identified challenges to trust building at middle management and employee level. The challenges are related to a generalized distrust towards the private sector, a perceived public-private conflict about commercial and healthcare rationales, missing procedural and responsibility structures, and—not least—the difficulties middle

managers have interpreting and understanding each other when not on the same wavelength.

Neither trust nor distrust are stable constructs and therefore trusting relationships need continuous efforts to stay trusting while distrusting relationships can be turned into trusting ones by actively interrupting existing negative patterns.

Building trusting relationship with public sector clients is a resource-consuming, yet important and necessary task in public-private health-care partnerships.

## Note

1. Søgaard Larsen, A and Qvist Pedersen, 'Udllicitering set fra virksomhedens synsvinkel' chap 5 in Ejersbo, N & Greve, C (Eds) Den offentlige sector på kontrakt. Børsens Forlag, 2002. Translated from Danish by Margit Physant.

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# 4

## Innovation in Products and Services

Alex Murdock and Stephen Barber

### Introduction

This chapter introduces innovation with a particular attention to the context of rescue and emergency services. Innovation is seen as both fostered and also potentially restricted by this context (due to a concern about service failure and a reliance on proven protocols). Innovation is also examined in the context of service and product innovation with a recognition that the literature of innovation has tended to take a product based approach. The importance of ‘social innovation’ is also a factor and brief innovation examples from Falck are provided and drawn significantly on in the case studies (Chaps. 9–12). The chapter starts by looking at Falck as an example of innovation from its inception and moves on to examine innovation in the context of a private provider of a service which has a strong public and social dimension.

### **Falck: Innovation from the Outset**

Rudimentary by today’s standards, the first purpose built ambulance in all of Scandinavia was, nonetheless, acquired by Falck as early as 1908. It was a pioneering move which saw the adoption of new technologies

of the age to transform emergency response and patient transfers. Indeed, committed to responding to all manner of emergencies, in those early days, Falck had limited financial means. Their only vehicle was required to respond to fires, lifting heavy objects and water damage. For Falck the solution was three different sets of equipment which were suspended from the ceiling of the station. Depending on the emergency and the required response, the appropriate equipment would be lowered onto the vehicle.

Rescue and safety organisations tend to be exemplars of innovation and Falck, as the largest global company in this sector presents a particularly exhilarating case. But more than that, Falck has shown itself to be the embodiment of innovation throughout its history, ranging from the novelty of a fireman's pole to the early use of the mass media to court good publicity. Indeed an illustration of this innovative culture is demonstrated by contrasting the early family owned and run Falck which adapted and experimented and blazed new trails with the stock market floated Falck which became more conventional and corporate. There are good reasons why and indeed how rescue organisations innovate and outsourcing has affected this area of public service provision (Andersson and Jordahl 2011) as well as political preferences (Elinder and Jordahl 2013). The chapter views Falck as an innovative organization and in doing so observes the nature of both service and product innovation and analyses the how it comes about and gets implemented. Theoretically, the chapter uses the literature on public service innovation (Brown and Osborne 2012; Radnor and Robinson 2000) also social innovation (Nicholls and Murdock 2012).

The chapter has a broader ambition still. The history of Falck also allows for a reappraisal of preconceptions about what is meant by innovation. After all innovation in the private sector is so often is focused around actual tangible products whereas the public and the not for profit sectors tend not to be seen to engage in direct product innovation. Service innovation, by contrast, is found across all sectors. Falck has shown itself to be unusual in this respect, representing both service and product innovation.

Innovation, as Falck shows, can be socially driven; motivated by social impact as opposed to profit. Emergency response has a clear social

purpose and is highly amenable to innovation in both product and service. These ideas are weaved through this narrative.

### **A History of Innovation**

Commercial and yet committed to public service is the contrast which has epitomized Falck throughout its history. And it could even be seen as a primary driver of its innovation. The history in Denmark of its outsourcing activities with the public sector has been one of continued growth and diversion into related activities. The initial beginnings in Copenhagen led first to provision of services to smaller local authorities which did not have the resources to provide a fire service. Falck provided a centralized fire service to service several municipalities at once.

Falck began in 1906 in Copenhagen with the provision of a service to rescue valuables in the case of fire (Madsen 2006; Jacobsen 2006). The company was from its outset a family firm which provided services on a subscription basis to customers. The company then evolved to move into services to provide ambulance (with the first purpose built motor vehicle for this purpose) and also entered into the business of extinguishing fires. It took on a quasi public persona for this using a model of uniforms and ranks. In 1988 the company moved from its family origins to being taken over by an Insurance company and the ownership subsequently moved to a shareholder basis (Jacobsen 2006). The company is currently largely owned by two foundations which have a social purpose in their mission and today the company is the largest private company involved in rescue services in the world.

In 1931 Falck was celebrating its 25th anniversary, an occasion which prompted Sophus Falck's son, Rudolf, to make the following comment:

In answer to the question 'Should the Corps rather not be a public organisation?' my answer is: As Falck's Redningskorps is organised, it can be compared favourably to the rescue corps of any country and I am convinced it combines all the advantages of a public organisation with the values private initiative always possesses. It (Falck) feels obligated in its responsibility as would a public service, and it is driven forward in its development and improvements as a private initiative because, in order to maintain public confidence and sympathy, it is vital never to stagnate but constantly to be in the forefront of development.<sup>1, 2</sup>

The sentiment expressed is quite central to the nature of Falck. Rudolf Falck is asserting that the organization possesses the public service ethos yet brings to bear a private sector advantages of initiative and innovation. This carried Falck through some 100 years of development which culminated in 1988 with the change of ownership from the family to first one insurance company (Baltica) and then to a group of insurance companies. Arguably the fire and rescue provision could have been undertaken by the municipalities themselves but Falck provided a more ready solution. In effect the municipalities preferred what was to them the reduction in risk from using an established though commercial provider to setting it up themselves (Murdock and Pedersen 2001; Murdock et al. 2009).

### **The Trusted Knave: Framing a Context for Innovation?**

LeGrand, in an article representing a series of pieces on the nature of public services, offers an insight into the situation of Falck in Denmark (LeGrand 2010). LeGrand suggests that there has been a diversity of views of those who deliver public services represented by the images of ‘knights’ who behave with selfless honour and ‘knaves’ who act from a selfish perspective. The image of the private sector as a public service provider is often attached to the concept of ‘knave’. LeGrand draws attention to four models which underpin public provision which he labels “trust, mistrust, voice and choice”. The image of Falck (especially during the period of its development under the family) exhibits the strength of the ‘knight’ element. Jolley, in discussing ‘public sector motivation’ in private sector contractors in public services also identifies the importance of the contractor having suitable values (Jolley 2008). Falck asserts that it does possess such values and perhaps this is demonstrated by the company having legal exemptions from Danish legislation preventing ‘cold calling’ to solicit customers. This exemption apparently is still in force.<sup>3</sup>

The Company possesses a high level of public ‘trust’ and indeed in 1999 when Murdock carried out research in Denmark on Falck this emerged strongly from surveys undertaken. (The Danish word is ‘tillid’).<sup>4</sup> Falck possessed (and to a significant extent still possesses) a high level of trust as behaves an organization whose prime purpose is

seen as saving life and engaging in socially valued work. In this sense it can be compared to the Royal National Lifeboat Services in the UK and the Red Cross in Switzerland. Falck's current ownership by two foundations (which have social aims) reinforces this.

As public provision in health grew and larger municipal entities (councils) were created to undertake hospital functions so Falck extended its ambulance provision and eventually became the sole provider of ambulance services across Denmark with the exception of Copenhagen. They saw the advantages of combined stationing of ambulances and fire appliances with the consequent reduction of overhead costs (Jacobsen 2006).

World War 2 presented a challenge as the country was under German occupation and Falck become a de facto part of the occupation in order to continue to provide emergency services. However, the company managed to deal with the commercial and reputational risk this involved by also becoming involved in the Danish resistance through its access to petrol supplies and its emergency vehicles which could pass through military checkpoints relatively unchallenged. Arms and resistance workers were moved using Falck vehicles. This arguably was both an innovative and risky activity which could have led to the arrest and even execution of company staff and certainly could not be the subject of the usual management records and formally recorded decisions. The option, however, of NOT engaging with the resistance was also arguably risky since it could have easily cost the company its reputation (and public sector business) post war (Jacobsen 2006). For a company well used to managing risk the decision to both continue its emergency services for an occupying army whilst also assisting those who sought to oppose the occupying army was probably not as difficult a decision as for a company less used to a risk environment (Madsen 2006).

Post World War 2 the company realized that emergency rescue provision for car and vehicle users was also a needed service and that the ambulance and fire facilities were both well situated and appropriate for this purpose. So from dealing with fire and ambulance services which were the subject of outsourcing contracts the company moved to individual contracts for vehicle rescue. The risk factor was still a driving element but the severity of consequences and nature of the

contract changed. It moved Falck, however, from being an organization associated with fire and ambulance response to one which, like the Automobile Association in the UK, become familiar as an emergency service to subscribing members of the public. The company became a household name in Denmark and synonymous with emergency response. The common public response to an emergency was to “call Falck”. In this respect it was similar to the brand concept of “hovering” a carpet (Madsen 2006; Jacobsen 2006).

The subsequent development of Falck has seen it grow into a global company which provides emergency and rescue services under contract (outsourced) in a large number of countries and the largest company of its kind in the world. As marketization of public services has developed this has moved to include ambulance services elsewhere in Europe (Reichard 2002).

Falck is the second largest provider of ambulance services in the US.<sup>5</sup> They have even been able to engage in ambulance provision to the National Health Service in the UK; an area where the political environment is not conducive to contracting out emergency services to the private sector. By November 2016 its activities span 44 countries and cover six continents.

### **Service and Product Innovation**

The history of Falck as both a product and service innovator is interesting if for no other reason there is a considerable bias towards product-based innovation in the innovation literature. This can be said to be true of outputs throughout the relatively short history of the subject from its beginnings with Schumpeter through the early focus on agriculture when that was the preoccupation of the post war West (Rogers 1962) to the new economy of the 1980s and continued interest on technology (Freeman 1987). In a very real sense this can be understood given the dominance of the productive process that characterised economic development and the corresponding attention of academics in the early to mid-twentieth century (Hounshell 1985; Lazonick 1990). Service innovation is not only under-researched in this respect but where it appears, there is a tendency towards viewing it through the lens of either product or product based metaphors. For instance the emphasis has shifted over

the decades commensurate with the changing nature of economic sectors. Much less attention is naturally given to manufacturing and much more towards financial services which have grown in global significance and innovative capability in recent decades and the move to services is reflected in academic studies (Metcalf and Miles 2012).

Allied to all this is the propensity among the leading scholars to concentrate on commercial activities with an emphasis on the behaviour of 'the firm'. Such emphasis is illustrated by the much cited studies of Alfred Chandler (1962 etc.), later Porter (1990) and into the application for high technology industries of the modern economy (Nelson 1990). It is even reflected in more contemporary avenues which link innovation to the 'learning organisation' and economy (Lam and Lundvall 2006). This bias rather ties in with the (not entirely substantiated) narrative about the public sector's disinclination toward innovation given that it comprises almost exclusively service based organisations and activities.

Consequently, even where there are significant studies around service innovation (Kuusisto and Meyer 2002; Martin and Horne 1993, 1995; Ngo and O'Cass 2013) there remains a partiality in favour of commercial activities, technology, science, service products and the more thematic analysis concerning the innovative or learning economy. And what is conspicuous is that while service innovation is under-emphasised when compared to product, there is a paucity of understanding around product and service innovation together particularly outside of commercial firms.

Falck in this sense presents a real opportunity to look afresh at innovation given the more under-researched areas not only of public services but also more specifically to the essence of a case study which represents a potentially useful contribution to the existing body of knowledge. Falck is a profit-making and indisputably innovative business which nonetheless delivers public services. It is argued that a prime driver of such creative innovation is the existence of a distinctive mix of both product and service. Sophus Falck can be acknowledged for recognizing that he was living in a time of great and rapid technological change.

The early twentieth century was witness to motor vehicles, increased traffic, new machinery, the increasing use of electricity and chemicals. This both presented opportunities to develop products but also drove

the service response since the very nature of emergencies was also changing. It was essential for an innovative rescue service to be able to respond to emergencies connected with this changing world. But having the right tools was a vital element of its effectiveness. Indeed, equipment needed to evolve to meet new challenges and this is illustrated by something as simple as when lifts came into common usage in office buildings and homes. It became clear that Falck needed to have equipment to be able to rescue people when trapped and that equipment was rapidly developed.

As the experience of Falck attests, unlike traditional industrial units, the nature of rescue is that it is a service which is incapable of being stored to handle fluctuations in demand. However this pressure sits alongside clear product innovation. For example the introduction of the small Falck fire truck and paramedic equipment to enable 'at the scene' treatment, simply might not have happened had the organisation existed either in a more traditional public sector setting or indeed one that was more industrial in nature. Here innovation, in product and service, is driven by the market in the sense that it is compelled by more than the public sector motivation of fear of failure. But where there is a clear ethos more akin to the traditional public sector motivation to satisfy to the needs of the vulnerable and where financial margins can be of a second order.

### **Innovation in the Public Services**

Falck now offers a long history which has spanned political, economic and societal change. With its origins in the early part of the century, it survived war, the mixed economy of the post war period and the market driven challenges of the 1980s. Throughout, Falck was a private institution but one committed to public service.

A core motivation behind the sweeping changes that restructured public sector bureaucracy from the 1980s onwards was to make it more like the private sector; an almost mythical place where the process-driven slothfulness of public services were contrasted with the dynamism and precision of private enterprise. With its origins primarily in the UK, the focus for Prime Minister Margaret Thatcher and those around her was to create new mechanisms for public sector

accountability (Oliver and Drewry 1996) but there was a clear idea that it was the private sector's market mechanism that could most efficiently allocate resources (McCourt and Minogue 2001) and that the public sector as it operated was largely incapable of innovating. It is a charge which still stands perhaps fuelled by the early recognition that what was described as New Public Management (NPM) did not achieve wholesale change in public management conventions (Hood 1994). Similarly, the concept of innovation has been adopted more recently as a central way to reconnect public administration to political priorities (Osborne 2010). Indeed there has been a consistent literature evaluating public sector innovation (Brown and Osborne 2012; Radnor and Robinson 2000) as well as social innovation (Nicholls and Murdock 2012). It is a topic to have gained currency as the traditional lines between private and public sectors have been eroded while new providers of public services located in the third sector have expanded.

This idea of innovative poverty in the public sector is not an entirely fair charge. Public sector motivations are not those of invention or commercialisation but even very large bureaucracies have responded to the evolving needs of citizens and adapted to changing circumstances in an attempt to improve services. Taken globally and in broad definition, it would be inaccurate to exclude the public sector from the realms of innovation. As Windrum puts it

Public sector organisations have played a significant role in the development of many of the technologies that surround us today, ranging from the internet and the World Wide Web to biotechnology. (Windrum 2008)

Universities themselves, something of a hybrid in terms of sectoral location in many countries, contribute to the dynamism of economies across the globe and in the United Kingdom have been challenged with the specific mission of driving economic success. The Witty review (2013) specifically claimed

Universities have an extraordinary potential to enhance economic growth. The full diversity of institutions have a role to play from local SME support and supply chain creation to primary technology leadership and

breakthrough invention. Incentives should be strengthened to encourage maximum engagement from Universities in the third mission alongside Research and Education.

Elsewhere, even the National Health Service (NHS) with its focus on handling patients has played its part in researching, piloting and implementing new treatments approaches and technologies. In a wider context, Moore and Hartley (2008) expand upon this by looking at innovative contributions to the governance process capable of improving service delivery. Furthermore there is the idea that unlike product innovation which is much more tangible, service innovations can be more qualitative in how they change elemental relations (Hartley 2005).

Nevertheless, there remains a widespread conception that the public sector if not devoid of innovation then at least finds that it is not something that comes naturally. And even the dramatic reforms of public sector management over more than three decades does not seem to have changed this as much as might have been anticipated. One suspicion here is that those reforms, while intended to make public services more market driven, responsive and dramatic, were not entirely conceived to cause innovation. As Lane (2000: 3) emphasised, “New Public Management) does not replace older frameworks but adds a new approach to public sector governance i.e. contractualism.” And it is perhaps the presence of contracts that generates key criticisms of the public sector’s ability to innovate; particularly when compared to analogous private sector organisations. Intended as a governance mechanism, a way that government can control or at least manage public organisations (Alford and O’Neil 1994) while unleashing private sector style freedoms, contracts as so far constructed appear to represent a limit on innovation. Perhaps there was, as Hood and Peters observed when considering “the middle aging of new public management” an “overconfidence in reform measures and failure to anticipate side or reverse effects” (Hood and Peters 2004, 277).

This observation opens up the discussion about the nature of the constraints on public sector innovation. Is it because of the character and nature of those who inhibit its management structures as was the belief of many reformers in the 1980s and since? Or is there something more endemically disincentivising about the accountability required

by government of public services; something which is bound up in the way that contractual arrangements are constructed? It is instructive that as academic discussion has moved forcefully on to the New Public Governance agenda with its emphasis on collaborative working, there is a recognition that (in the public sector at least) innovation cannot be expected to simply emerge and instead there needs to be specific management to allow innovation to take place irrespective of where the innovator is within the organisational hierarchy. It is something which contradicts with the structured nature of NPM where the emphasis is on public managers and their political masters.

It is here that the case study of Falck offers the potential to be so insightful since its observation advances the literature by exploring whether innovation is associated with outsourced or mixed provision. A near unique example of private provider of public services and products which has an historic connection with innovation, there are lessons to be learned about management culture, accountability, governance and contractual arrangements. Fundamentally this can be explained by the singularly social mission which Falck has given itself.

### **Social Innovation and Falck**

Falck embodies the concept of innovation with a social goal and this can be described as 'social innovation'. Such innovation brings with it a societal and often a political dimension. It is seen as 'correcting inequalities and injustice' and bringing about a better societal outcome. (Nicholls and Murdock 2012). The very essence of a rescue or emergency service such as Falck carries an implicit social purpose.

At the 25th anniversary of Falck, Rudolf himself highlighted the 'enterprise department', established in 1912 to tackle a range of challenges that needed equipment that was too specialised to be commonly available. And what were those tasks? Rudolph describes draining a lake in Tivoli; transporting a dead elephant and a dead giraffe from the zoo; rescuing a car and its four passengers that had careered off a pier; transporting a very heavy monument; felling large trees; demolishing a factory chimney; salvaging sunken ships; clearing a site after a fire.

Innovation which enhances such services can thus be described as having the attributes of social innovation even if it also represents a

**Table 4.1** Levels of social innovation

Level	Objective	Focus	Example Organization (Sector)
Incremental	To address identified market failures more effectively: e.g. negative externalities and institutional voids	Products and services	Kickstart (low-cost irrigation foot pump} AuroLab (low-cost intraocular lenses) Afghan Institute of Learning (female education)
Institutional	To reconfigure existing market structures and patterns to create new social value	Markets	MPESA (mobile banking) Institute for One World Health (“orphan” drugs) Cafedirect (Fair Trade)
Disruptive	To change the cognitive frames of reference around markets and issues to alter social systems and structures	Politics (social movements)	Greenpeace environmental change) BRAC (micro-finance)

Source Nicholls and Murdock (2012: 4)

benefit in terms of profit for a provider. The notion of rescue is perhaps encapsulated by the moment in the film ‘Schindlers list’ where the people he saved produce a gold ring for him on which is inscribed a phrase from the Talmud “And whoever saves a life, it is considered as if he saved an entire world.” Mishnah Sanhedrin 4:9; Yerushalmi Talmud, Tractate Sanhedrin 37a.<sup>6</sup>

Clearly not all rescue and response services are ‘life saving’ but they can be regarded as different in their focus from the broad genre of products and services.

In examining social innovation and drawing on Nicholls and Murdock three levels of innovation can be described (Table 4.1).

We propose to utilise and adapt the model of levels of social innovation to consider the situation of emergency and rescue services. This is set out in Table 4.2 and then explored in more depth.

In each of the headings below examples of innovation from Falck are to be found in an appendix to this chapter and the reader is referred to

**Table 4.2** Social Innovation levels adapted to emergency response

Level	Objective	Focus	Example
Incremental	To enable an improvement within the current response paradigm	Product or service improvement	An improvement in a product (such as a better stretcher) or a response protocol or procedure
Institutional	To reconfigure the institutional responder environment	A change in the nature of provider	Moving services between public to non-profit or for profit providers
Disruptive	To radically change the way in which emergency response is perceived and carried out	A fundamental change or challenge to the rescue/emergency paradigm	Enabling untrained citizens to be first responders with equipment e.g. defibrillators without emergency personnel being present

the appendix for details. The appendix is ordered under the same headings as below.

### **Incremental**

Rescue and emergency services are very much a moving target in terms of incremental change. Improvements in products and procedures is found in the same way that these are found in medicine, for example. However just as in medicine there is a caution around the introduction of new treatments until they have been shown to both be more effective than current treatments and also are acceptable in risk terms so also there is a caution in emergency and rescue services. Incremental innovation is seen as less risky.

### **Institutional**

The Danish experience with a long history of provision by a private company has led to an institutional context which is distinctly different. The first law to permit such private provision of a public service is thus found in Denmark in 1926. The institutional strength of the Falck brand in Denmark is such that the company was able to get a legal exclusion from a law preventing 'cold calling' to sell other services such

as insurance to their customers. The well established presence of Falck in public sector ambulance and fire contracts in Denmark has been associated with attempts by the government to both diversify into other providers and also to use regulation to try and reduce the impact of the brand through requiring that their vehicles on public sector contracts can only have a small Falck Logo about the size of an A4 piece of paper. This latter could arguably be viewed as a 'disruptive' innovation.

### **Disruptive**

Rescue and emergency services can be subject to 'disruptive innovation' which radically challenges a dominant paradigm. One such paradigm is that a person in need of rescue needs to be assisted by a professional responder such as a qualified ambulance crew. The growing development of technology such as defibrillators which can be used by unskilled people means that a first responder could be literally anyone able to read the instructions on the equipment.

Similarly the paradigm of expected equipment has been challenged with ambulances being matched by ordinary cars driven by paramedics or (in central London) by paramedics on bicycles. The traditional paradigm for an ambulance response is that a patient is 'taken to hospital' and that is also being challenged by greater assessment discretion being accorded to both ambulance controllers and to paramedics on the vehicle which may be an ordinary car or two-wheeled vehicle not suitable for transport of patients.

In fire services the dominant vehicle paradigm is of a huge multipurpose vehicle with a substantial crew responding to any fire call. Falck in Denmark developed a small van with a crew of two as a rapid response fire vehicle. A measure of the resistance of public fire departments to such a disruptive innovation is shown by the fact that it has taken some 15 years for even one UK fire authority to adopt it from the time when it was first presented by Falck at a major UK fire conference.

### **Falck and Innovation in the Nature and Types of Rescue Service**

In Denmark the contracting out of emergency and rescue services was permitted from 1926. Falck, had been involved in this work in Denmark from prior to this time and had extensive experience with

provision and creation of these services. Indeed it was the very involvement of Falck in pioneering this work which was associated with the first law to permit contracting out in this area of work (Hansen 1988). This situation, while remarkable is not unique and it is possible to observe broad international arrangements for the provision of emergency services which allow for an analysis about the nature of innovation and types of rescue provision.

In Table 4.3 we illustrate how Falck in Denmark is uniquely positioned as a private provider across almost the whole range of types of emergency and rescue provision. Denmark does not possess any hazardous mountain or wilderness areas so this area of rescue is not a factor.

The range of rescue and emergency types leads to a variety of provision. Some services such as fire response are heavily driven by public sector provision. They are seen as akin to police and military and as such are not viewed as amenable to being contracted out. However where such provision is on non-public space such as a factory or an airport then contracted out fire provision is quite feasible and indeed Falck has established a significant market in this area in other countries. However Falck is unusual in the extent to which it has also engaged in a high proportion of the public fire provision in Denmark.

Some aspects of rescue provision have a tradition of response by whomsoever is closest regardless of their status. This we call the 'Titanic' factor in that a ship in distress on the high seas can call for assistance from any vessel and this is an accepted 'law of the sea'. In water environments which are close to land then in UK and in Germany there is a strong voluntary tradition involving organisations such as the Royal National Lifeboat Institution (RNLI) in the UK. The organization in some respects is akin to Falck in the strong positive image it possesses (such that it is able to be independent of public funds).

By taking the mainstream conceptions about innovation and viewing these afresh through the lens of Falck and emergency services more generally, it is possible to make distinct observations about: Product innovation, Service innovation and Social Innovation. However this is important to see in the context of risk. The essence of an emergency and rescue service, whichever sector provides it, is the ability to both understand and manage risk.

Table 4.3 Type of service and provider

Type of service		Provider		Public sector delivers	Public sector contracts out	Voluntary sector	Citizen response (Good Samaritan)	Likelihood of private sector response
Fire	Private	Now only on private premises (airports, factories) where Falck provides fire services	Now generally public	Falck major provider in Denmark and other countries	USA/UK volunteer fire department	Not expected	Low—though some exception	
Ambulance	Mixed—of private provision esp. in USA	Strong public sector ethos esp. in UK	Falck major public sector provider in Denmark and many other countries	As a support mechanism (e.g. St John's, Red Cross);	Move to first responder model—some countries have a 'Good Samaritan Law'	Medium—depends on national context		
Sea/Coastal rescue	Falck as provider of offshore and maritime rescue esp. in oil industry	Military	UK Coastguard	RNLI in UK and Ireland; Seenotretter In Germany;	'Law of the Sea'—expectation of responder response from anyone near	Depends on availability of responder (coastal vs. deep ocean)		

continued

Table 4.3 continued

Type of service	Provider				
	Private	Public sector delivers	Public sector contracts out	Voluntary sector	Likelihood of private sector response
Mountain (wilderness)	Certain contexts such as ski resorts	Depends on access (use of military helicopter)	Can happen in some situations	UK—heavily voluntary sector	Mixture—but high voluntary/civil society focus
Roadside/vehicle rescue	Generally private providers on subscription basis <b>Falck</b> major provider in Denmark and Europe	Only in special contexts (such as a tunnel)	Some contracts for public vehicles	Membership organizations	<p>Citizen response (Good Samaritan) 'Samaritan' focus—expectation that mountaineers help each other</p> <p>Not expected</p> <p><b>High</b> Private</p>

### **Falck as Exemplar of Product and Service Innovator**

Bringing theory into the historical setting of Falck allows for the following case to be made in terms of product/service innovation, Where there is a clear market and where there is competition then innovation in product is likely to happen. Nevertheless, in the instance of public benefit/non-excludable public goods where there does not appear to be a readily contestable market (through lack of ability or willingness to pay) then the public sector or non-profit sector is likely to be involved. However, where there is an emergency dimension in that there is clear risk to life and limb then market is not the only factor. Generally, a person cannot be left to die on account of a lack of money to pay for an emergency rescue service.

In a setting of emergency rescue where the driver is not necessarily the pursuit of profit, innovation is often driven by crises or extreme situations. As an example, the building of lighthouses around the British coast was often based on revenue models that had little basis in reality (such as trying to charge passing ships for use of the lighthouse). Rather the lighthouse building—like Tsunami warning systems now—were driven by the experience of major or successive maritime disasters (Coase 1974). For Falck, that attitude can be seen to be present throughout the corporate structure.

The emergency and rescue context is driven by particular factors such as the assurance of response and a concept of potential or actual risk to the rescuer as well as to the rescued). There is also a public perception that such services should not be abused by citizens. However the reality is that the service cannot readily be withdrawn or sanctions applied. The use of negative sanction is not easy in such a service (Eisenkopf 2009). This presents some challenge in innovation where the innovation involves a change of the paradigm such as telling a caller that they don't need the service.

The providers of rescue services (whether public, private or not for profit) are resistant to the usual cost driven models of contracting out. The provider would prefer a 'cost plus' approach in which the provider is not constrained by contractual details over response times and service availability.<sup>7</sup> Rationalisation and efficiency measures by the charity, The Royal National Lifeboat Institute in the UK led to closure of some local

lifeboat stations. In at least one case (Caistor on the East Coast) this led to an angry response by the local station and a successful move to both make the station independent and to raise the necessary funding to keep it going. Rescue organisations take pride in their professionalism and resent being constrained by the terms of service contracts which are often driven by a perception of both cost factors and performance measurement based on over-simplified factors such as the time to respond. Innovation in such organisations is almost inevitably also social innovation.

Unlike other industries innovations are made available and patenting products or services does not seem to be the norm. Falck's rapid response small fire vehicle is available for purchase by other fire organisations some of which are potential competitors. It is not (as of November 2016) subject to a patent and the fact that it has almost certainly been copied by a UK fire authority did not appear to concern Falck when it was brought to their attention.

However the realities of competitive tendering for rescue services by the public sector may not actually encourage innovation. If the municipal contract calls for a response by a specified specialist ambulance then providing a first responder on a motor cycle may make no commercial sense even if it is a service innovation. In short, innovation requires that both the contracting partner and the contractor both work together to enable an environment conducive to innovation. Brown and Osborne found that public service contracts with not-for-profits did not necessarily generate the expected innovation (Brown and Osborne 2012).

Furthermore the very risk attendant on such services tends to promote caution in the adoption of new techniques or equipment until they have been fully proven. The consequence of service failure in emergency and rescue organisations through untested innovation is serious and can be potentially life threatening quite aside from reputational implications. This is not to in any way detract from the bravery of firefighters both in the Twin Towers and in Chernobyl who undertook tasks without regard to personal safety. The ethos is summed up by the former lifeboatman at Caistor in the UK in 1901 at the inquest following the death of his son and grandson on a foolhardy lifeboat mission: "Caistor men never turn back". This influenced the motto of the Royal

National Lifeboat Institute.<sup>8</sup> It would be acknowledged by many rescue and emergency services whether public, private or voluntary in nature.

## Summary

Falck, as an organization, offers a rare example of a private company which is engaged across the broad range of emergency and rescue services in a number of countries. It is an organization which has an expressed social purpose in its work (in keeping with public and not for profit emergency and rescue services).

The company espouses a strong value system and corporate image. Its governance which originally was family based has now reverted to governance through majority foundation ownership which has a strong social orientation. This underpins its success as an innovator throughout its incarnations, responding to the changing challenges of the times but also exploiting new technologies and techniques. Falck helps to illustrate and to develop the understanding of public sector innovation and social innovation. It also demonstrates that it is possible to engage in both product and service innovation.

The domain of emergency and rescue services is particularly instructive since it demonstrates the work of all three sectors. Though significantly dominated by the public sector the reality is of a similar ethos which shares factors such as an awareness of risk, a need for dependability of response which can be accessed through the literature of Highly Reliable/High Reliability Organisations (covered in Chap. 2). Such organisations need to innovate but it takes place in a context of risk. It also is affected by an environment of public service traditions and outsourcing contracts which may (possibly inadvertently) constrain innovation. However, the nature of such provision involving human assistance and equipment mean that both product and service innovation are critical.

## Notes

1. Original Danish text: “Og hvis man saa vil spørge: Burde Korpset ikke snarere være en offentlig Institution, saa vil jeg svare: Som Falcks Redningskorps er organiseret, taaler det at sammenlignes med et hvilket som helst Lands Redningskorps og forener efter min bedste Overbevisning alle en offentlig Institutions Fordele med den Værdi, som det private Initiativ altid frembyder. Det føler sig forpligtet i sit Ansvar som en offentlig Virksomhed, og det drives frem i Udvikling og Forbedring af det private Initiativ, fordi det er en Livsbetingelse for, at det kan bevare den almindelige Tillid og Sympati, at det aldrig stagnerer, men hele tiden er forrest i Udviklingen.”
2. Source: *Falcks Redningskorps 3 oktober 1906–1931*. De Danske Redningskorps Fællesforbund, 1931. Page 36 Translation by Margit Physant.
3. Author Conversations with Frederik Madsen of Falck and former CEO, Lars Nørby Johansen.
4. Work undertaken by Alex Murdock whilst Guest Professor at Copenhagen Business School 1999 (unpublished).
5. Source Falck Annual Report 2015.
6. Apparently the phrase was also found in Islam: Surah 5 verse 32.
7. Reinforced by author interviews with top management in Falck.
8. See <http://www.caisterlifeboat.org.uk/archive/1901.htm>. Accessed 18 Oct 2016.
9. See <http://airambulance.northflying.com/medical-flights-the-vision/years-of-air-ambulance-experience.aspx>  
<http://www.airlinehistory.co.uk/Europe/Denmark/Airlines.asp>. Accessed 20 Oct 2016.
10. See: <http://www.ambulancetoday.co.uk/wp-content/WinterLow2014.pdf>. Accessed 20 Oct 2016.
11. See Chap. 11.
12. See Chap. 9 for more detail.
13. See Chap. 10.
14. See Chap. 12.
15. Source: Personal interview, 26 Jan 2016.
16. See [http://www.hemmingfire.com/news/fullstory.php/aid/2677/Faster,\\_higher,\\_smaller\\_vehicles.html](http://www.hemmingfire.com/news/fullstory.php/aid/2677/Faster,_higher,_smaller_vehicles.html). Accessed 20 Oct 2016.

[http://www.dailyecho.co.uk/news/14307215.Will\\_new\\_small\\_fire\\_engines\\_help\\_firefighters\\_or\\_hinder\\_them/](http://www.dailyecho.co.uk/news/14307215.Will_new_small_fire_engines_help_firefighters_or_hinder_them/). Accessed 20 Oct 2016.

<http://www.twfire.gov.uk/community-safety/response/operational-response-equipment/our-fire-appliances/?entryid72=82771>. Accessed 20 Oct 2016.

## Appendix: Examples of Innovation

### Examples of incremental innovation

#### 1. Falck Air Services

In the 1930s the Zonen ambulance company had developed an air ambulance service with a special aircraft to service the Danish islands. In 1949 Falck Air Services was set up and acquired aircraft and also adapted them with a view to air ambulance transport. Air ambulance transport was not new and there was considerable discussion over whether this was suitable for the Falck given the prior engagement of Zonen.

However, Falck included air ambulance service as part of its subscription assistance to people travelling abroad who already had a subscription to the vehicle assistance policy. Partnerships were formed with other organisations and the fleet reached a total of seven aircrafts in 1959. The service met a need as tourism expanded and distressed travelers needed to be repatriated in situations which required air transport. It took over Zonen in 1963 and 1968 it was rebranded as Falck Air and operated until 1998.<sup>9</sup>

#### 2. Patient stretchers

The history of emergency medical services (EMS) is one of innovation to improve effectiveness, efficiency, speed or safety for patient and staff. Most new products and processes were not invented by Falck, but the organization has always been on the lookout for new ideas and incorporating them into their services.

International expansion has meant adapting to new environments: at some point Falck India provided EMS to a remote site in the Himalayas.<sup>10</sup> Any casualties would need to be carried along a narrow path for miles to a place accessible for vehicles. As existing stretchers was not suitable for this task, adaptations were therefore made in order to fashion a bespoke stretcher with a single wheel which could be operated by two people.

EMS also need to respond to changes in their client population. As the prevalence of obesity increases in many societies, it has been necessary to develop “bariatric” stretchers that can carry very heavy and large people comfortably and safely for both patient and staff. These use electrical power and hydraulic systems to manoeuvre the stretcher and patient.

### 3. Indian remote site medical services<sup>11</sup>

Falck India provides medical services to a number of industrial sites, mostly remotely located from quality medical facilities. Falck India provides a doctor and/or paramedics on site to help any member of staff who has a medical problem, whether trivial or serious, and whether work-related or not. On-site staff can consult with more senior medical staff centrally located in New Delhi.

The same medical team also support Indian residents travelling abroad and foreigners travelling in India who subscribe to Falck Global Assistance.

Naturally, there are peaks and troughs in that kind of work. Falck India has developed innovative new business opportunities that uses these resources at less busy times. These include occupational health services to companies such as screening staff at recruitment and monitoring for common chronic conditions such as high blood pressure or diabetes. Services may include random screening for recreational drug use by staff in high risk workplaces such as off-shore oil or gas facilities.

### 4. Grupo EMI and services at home<sup>12</sup>

Grupo EMI has developed a subscription-based medical service to individuals in Colombia and other Latin American countries. It has

developed beyond the provision of emergency ambulance and ‘doctor at home’ to include other services such as a dentistry at home. The medical service also enables subscribers who have a need—typically a long term condition—which is not urgent and does not warrant a home visit or transport to hospital to receive a support, advice and reassurance over the telephone.

#### 5. Music intervention in Ambulances during Patient Transport.

Falck worked with Aalborg University Hospital and academics (including a Harvard University academic) to see if music in ambulances would be beneficial to patients and ease distress in transit).

It is scientifically proven that patients experience severe distress during ambulance transport to hospitals in relation to acute illness.

Music intervention was added “on top” of the existing acoustic conditions during ambulance transports. Three evaluations were conducted. In the first study patients were interviewed with regard to their level of distress three times during transportation (at the retrieval site, during transportation and at arrival to hospital). All patients experienced severe distress—with noise from the vehicle and the siren as dominant eliciting causes. Human voice was on the other hand a significantly calming factor (and sound experience). A second study was established. In preparation for this the company SoundFocus developed loud speakers placed in the ceiling of the ambulance above the patient’s head enabling undisturbed handling of the patient during transport. Specially composed music was used for a short period and patient asked their opinion. A positive wish for continued music was given by 80%.

In the third and main study patient preference was clear: 3 out of 4 patients, who were able to express their opinion, preferred a music environment.

## Examples of Institutional Innovation

### 1. The Danish Firefighting Act of 1926

According to Jacobsen, by the 1920s Falck provided fire services by subscription to ‘zones’—a cluster of smaller parishes who had clubbed

together. Strictly speaking, this was not legal. Towns were obliged to set up a fire service and acquire the appropriate equipment. Smaller parishes could decide whether they wanted to invest in a fire equipment. This loophole allowed them to contract with a private provider (Jacobsen 2006).

By then it was becoming apparent that the old law was no longer appropriate as Denmark was becoming more urbanised and a new law was proposed. There was agreement in political circles that it was unrealistic to expect each rural parish to have its own fire-fighting equipment. Falck's zone-based services was highlighted in the debates as a proven, workable solution. The proposal was unanimously agreed and became law in 1926 (Brandpolitiloven af 1926).

This meant that parishes were required to prevent fire as well as to provide an actual fire service, but it was now legal to contract out to a private provider or to have an arrangement with nearby towns. Towns were also allowed to contract out to a private company. Not only did the Act allow Falck to continue its firefighting operations, but also to expand.

The Firefighting Act of 1926) was inspired by Falck but there is no evidence that Falck actively lobbied for it. Maybe the high visibility of Falck and its work made this unnecessary?

## 2. The 112 Volunteer First Responders<sup>13</sup>

In many countries, including Denmark, 112 is the emergency phone number equivalent to 999 in the UK and 911 in the USA.

Responce, a Danish subsidiary of Falck, is involved with implementing a pilot project for the regional health authority. It takes place in a thinly populated area at some distance from healthcare facilities. In order to reduce the time it takes to get skilled help to a casualty, a number of local people in the community have been trained in first aid including the use of defibrillators. Responce is also responsible for training the people and providing and maintaining equipment. When a 112-call is received from the area, and the emergency is likely to benefit from intervention by lay people, a text is sent to the three volunteers closest to the casualty with the aim of commencing first aid in advance of the ambulance arriving. Note that if the response was planned to be just by volunteers then it would be classified as a 'disruptive innovation'.

### 3. Out-posting of emergency response staff<sup>14</sup>

In the contracts for emergency response ambulances in the USA a number of Falck (and associated company locations) set up a range of satellite premises to accommodate both a vehicle and a response team to be closer to the location of likely demand and hence enable a fast response. This required a considerable degree of flexibility and imagination on the part of the operational manager. Such sites included a motel suite, a storefront and a unit on a business park. It was the location of the site which was critical and it was not practical to create purpose built or even significantly converted provision. The nature of the relationship with the local fire department also enabled out-posting into fire stations but it had to be handled with considerable diplomacy by both ambulance managers and staff.

## Examples of Disruptive Innovation

### 1. A Small Fire Suppression Vehicle

The conventional image of a fire engine is of a very large vehicle with a substantial crew of at least four firefighters and often with a large ladder on top. It is a sight familiar to people all over the world.

Around 1988, the later Fire Chief of Falck in Denmark, visited Australia and saw an example of a growing city which started rethinking fire provision on a risk basis as opposed to a provision basis.<sup>15</sup> They questioned whether the need was always for large, highly staffed vehicles. He brought the idea back to Denmark and working with firefighters he developed the concept of a small relatively compact vehicle with just two firefighters able to reach fires quickly and extinguish them without the need for a large vehicle. It incorporated new equipment such as advanced cutting equipment which could slice through the walls of buildings.

He encountered predictable resistance from the more traditional stakeholders in fire services. However, he persisted and the small vehicle was introduced on New Years Eve 2000. Soon after he presented the concept to a conference of fire chiefs in the UK where it was met with little enthusiasm (Hansen 1998).

However, the innovation took hold and vehicles were sold to other countries and copied by fire departments in the UK. Falck had not sought to patent the invention and were relaxed about the copying of the idea.<sup>16</sup>

In 2000 the concept of a small fire vehicle was regarded by many fire chiefs and firefighters as inappropriate (and maybe risky) as a replacement to the traditional form of fire response vehicle. By Hansen's account, where the vehicle is in use in Denmark it has proven to be able to extinguish some 90% of fires it is called to. By 2016 it is increasingly being adopted in a range of countries perhaps, in part, driven by economic pressures to deliver fire services in a context of austerity.

We regard this innovation as 'disruptive' in nature because it involves a change in both the provider and service recipient mindset over what constitutes a fire response.

## 2. Prehospital Treatment in Ambulance

Falck (in Northern Denmark) developed a system with the health authorities and an IT company which enabled continuous data exchange and monitoring information between the ambulance and the hospital. This meant that expert medical advice and assistance was available online within the ambulance using video conferencing and telemedicine.

This was combined with an electronic patient record system which enabled detailed patient information to be available to the ambulance paramedic such that, in effect, the ambulance crew had the similar medical record access that would have been available in the hospital. This enabled both a detailed analysis of the patient situation and informed decisions to be made as to whether the patient could be managed at home following an intervention in the ambulance or whether a hospital assessment/admission was indicated. It also enabled a decision as to which hospital facility was the most suited thus reducing the need for any later interfacility transport.

Though this could be viewed as an 'institutional change' it potentially is disruptive as it moves the medical evaluation away from the hospital and potentially can change the conception of what is involved in an ambulance call out.

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# 5

## Governance and Ownership

Alex Murdock

### Introduction

The governance of emergency services represents some significant characteristics which distinguish them from most other public services and, where they are operated by private sector providers, also furnish some particular aspects.

Such services as fire, police and ambulance share factors including clearly identifiable vehicles and staff. They are uniformed services and, if of any significant size, will often possess staff ranking which may be visible (in military style) on the uniform of the staff.

The nature of these services also lays a stress (as has been discussed in previous chapters) upon both speed and reliability of response. Thus, the governance of such services, whilst heavily guided by process and procedures, does not possess the luxury of time for a bureaucracy to process requests and to engage in deliberation about the appropriateness and scheduling of a response. Whilst some aspect of public services response (such as dealing with requests for planning permission) may be measured in weeks or even months, emergency response is typically measured in minutes.

Emergency services are often at the forefront of risk measurement. The decisions which are made about risk are often at the operational level such as whether an ambulance driver decides to drive through a red traffic light or to exceed a speed limit. The law regarding emergency vehicles and red traffic lights and speed limits is not always clear and indeed, in some cases, in reality emergency vehicles are technically bound by the same rules as govern all road users. This illustrates that in emergency services the nature of operational governance recognizes that circumstances may justify responses which would not be acceptable in other areas of public provision.

When consideration is given to private providers then an additional element is added which represents the actual governance structure of the provider. The case of Falck presents a fascinating opportunity to examine a range of ownership and governance structures over the history of the company. The company has, arguably, exhibited most of the governance options available to a company with the exception of total takeover by the public sector (as a public sector enterprise) or being run as a business co-operative or as a charitable company.

Falck has over the course of its history

- been family owned,
- had workers' representatives on the board,
- been owned by an insurance company (and later a group of such companies),
- been the subject of a very large merger ... and subsequent demerger,
- been listed on the stock exchange and then delisted,
- been owned by private equity (Nordic Capital), and
- is owned by a mixture of family trusts and senior management (as of 2016).

It is arguable that few still existing companies could offer such a rich tapestry of ownership change over a period of less than 30 years and yet also be a distinct and independent entity substantially adhering to the ethos of their founder from 1906. The Chapter will focus on the aspects of corporate governance and particularly a Nordic variety of this but will take account of the particular aspects relating to the image and

nature of emergency services described above and in previous chapters (especially Chap. 2).

## Corporate Governance and Nordic Governance

The nature of governance in companies is the subject of guides to good practice and is also often regulated by law. It is described as a 'vast subject' and reaches back to organizations like the Hudson's Bay Company (McCall 2016). A considerable amount of the literature is drawn from the USA and the UK. To an extent, during economic prosperity where share prices were steadily rising there was not a major concern as the benefits of prosperity accrued to managers, directors and shareholders alike.

In the 1970s the term corporate governance became more commonly used as a consequence of both acts of misrepresentation by company directors and instances of illegal behavior such as bribery. This, especially in the USA, led to a growth in regulation and suggestions for better board practice. There were various attempts to introduce regulation and the growth of institutional as opposed to individual investors led to a growth of takeover activity (and mechanisms to fend off takeovers). Essentially, institutional investors pressured for more involvement and were looking for ways to exercise power.

In the UK the concerns about Corporate Governance particularly following the Maxwell Scandal in which a prominent businessman plundered the pension fund of his company (Stiles and Taylor 1993). This to a large extent led to the Cadbury Report which marked a significant landmark in establishing good practice in corporate governance (Cadbury 1992). The report made a number of key recommendations about the role of the board, directors and non-executive directors and around financial reporting. There was a stress upon the independence of non-executive directors and their selection and length of term of office (three-year terms as a norm and only longer with shareholder approval). Also there were comments on the duty of the board to present a balanced and understandable assessment of the company position and establish good relationships with auditors including an audit committee

of the board. It also (following the Maxwell case) advised strongly against vesting the role of Chair and CEO in the same person (Cadbury 1992).

The Scandinavian setting involved a particular evolution of corporate governance which was identified and described (Lekvall et al. 2014). Indeed it has been regarded as a source of competitiveness.<sup>1</sup>

The respect accorded to Nordic countries by various surveys of ethical behavior also highlighted the importance of what was regarded as a ‘Nordic model’.<sup>2</sup> In an evaluation of this model Lekvall et al. identified the importance not just of statutory regulation but also of self regulation and of informal norms and practices. They noted that the latter were especially important in the Nordic region due to “the relatively strong and homogeneous norms and values systems, combined with the high degree of social control typical of the small communities that characterize these societies” (Lekvall et al. 2014: 16). The principles of the Nordic governance model have been described as providing incentives and tools for shareholders to act as real owners. These consist of the following:

- Strong General Meetings
- Board integrity
- Shareholder orientated auditors
- Engaged Owners.

Table 5.1 compares the Nordic model with two- and one-tier models. All models are characterized by General Meetings at the ownership level but the Nordic model possesses strong General Meetings which are

**Table 5.1** Nordic governance compared

Level	Two-Tier model	One-Tier model	Nordic model
Ownership level	General Meeting	General Meeting	General Meeting
Oversight and control level	Supervisory Board	Board covers both non-executive and executive directors	Board is non-executive directors
Executive level	Management Board	Executive directors	Executive Management

Adapted from Lekvall et al. (2014)

reinforced by a particular recognition of the rights of minority owners as discussed below. The oversight and control level in the Nordic model is separate from the Executive Management level.

## The Rights of Minority Shareholders in Denmark

- The protection of minority shareholders/owners enable shareholders holding over a certain proportion of shares (5% in Denmark) to require that an Extraordinary General meeting be held.
- 10% of shareholders can, in certain circumstances have a court appointed second auditor.
- A 25% shareholding entitles, in certain circumstances, a request for a court or public authority to carry out an in-depth investigation of the company and report the results to a General Meeting.

Minority shareholders generally in the Nordic model can expect:

- Equal treatment of shareholders
- Extensive individual shareholder rights especially of participation in General Meetings
- Majority vote requirements which can include total unanimity in some circumstances
- Minority powers to take action (as set out in the rights above)
- Rules for related party transactions
- A high degree of transparency and disclosure.

Taken individually, these factors do not distinguish corporate governance in the Nordic setting from what happens in other western countries. However, taken collectively they represent a strong model of corporate governance which, in particular, gives a high degree of protection to minority shareholders and also involves a clear separation of the Board and the Executive Management.

The other aspect of governance in Denmark is the representation of employees on the Board. This can enable a strong stakeholder orientation in Board meetings.

In the case of Falck these factors are important especially in the post-Nordic Capital stage when the two members of the Executive Management team had acquired a 10.25% shareholding so qualifying as minority shareholders with particular rights under Danish corporate law. It also means that the KIRKBI holding is of a level to entitle them to minority shareholder rights.

It also means that there is a separation of the Board from the Executive Management team despite the latter possessing a significant shareholding.

## Governance of Falck Over Time

### The Family Governance

The background of the company in respect of the family has been explored in Chap. 1. The influence of Sophus as founder was clearly highly significant and the ethos which he established still is very much part of the professed company values. Sophus were he alive today would almost certainly be regarded as an innovator and possibly he would find a current kinship with someone like Richard Branson. In governance terms Sophus probably flew close to the sun sometimes. There is a story (told by Falck itself with documented evidence) of how Sophus sought permission to exceed the speed limit from the Chief of Police. The reply was a refusal but was couched in a complicated and bureaucratic language which made it difficult to understand. However, it was a written letter with the Police Chief's signature. It is reported that Sophus provided it to his emergency vehicle staff to brandish if stopped by the police. By accounts this ruse was generally successful and the speeding driver was allowed to continue on their way.

The accounts of the period of the family (see Chap. 1) are indicative of a paternalistic style of governance in which there is an element of regarding the family and company as entwined so that, for employees, there is not a clear boundary between work focused on the company and task undertaken for family members. The legal situation of a holding company and various maneuvers within the family in effect

advantaged one branch of the family in respect of control. Such activities are not uncommon in family enterprises. However, it had de facto reduced the likelihood of the disadvantaged branch of the family having a major role in the control of the company. There is no suggestion in the family history that this was done due to a perception that the scions of that branch were incompetent, rather the motivation would appear to have been for William Sr to favor his own branch of the family.

There is a reluctance in governance terms to adjust to changing times and in particular to the emergence of workers' involvement on the board and trade union pressures. The response described as "paying for peace" was clearly a factor in the declining profitability of the company. This is covered in more detail below.

In respect of the work for the public sector the family attitude towards remuneration for work undertaken for the public sector was based upon a governance model in which the company decided on what was needed in terms of service and that the public purse would reimburse the cost. It was a model which was not atypical of public services of a "cost plus" basis of payment with a contractor being paid accordingly. It was this model which was displaced by compulsory competitive tendering and the adoption of new public management) approaches from the 1980s onwards. It should be noted that in respect of emergency services normally provided by the state—such as fire and police services—this form of "cost plus" and "provider decides the service" governance has only been challenged relatively recently with target setting for police services. There is also a growing concern (as is mentioned Chap. 12) that fire services are based on a provider model which is both very expensive and also seeking to maintain a level of provision despite of a demonstrably lower need in terms of actual fires.

The family governance also demonstrates a clear issue of succession from the third to the fourth generation. Circumstances associated with a bank failure rendered it impossible for the likely successor to assume the leading role. In discussions with both family members and key Falck figures from that time reference was made to what was in effect a governance issue affecting the family but not directly associated with the actual core provision of Falck itself. Perhaps here we identify an issue of

family firm governance in that ownership and management, if bound together, represent a clear risk which is not simply dependent on the firm itself. This we would argue was accentuated by the nature of being in a rescue business dependent on public funding. If Falck had been in a business where these factors were not present possibly the bank failure would have been less significant. Indeed, the family member so affected carried on to later have a successful career in the hotel business.

### **Governance Impact of Worker Democracy and Union Action**

From 1970 Falck, through taking over a competitor, had assumed a dominant position in Denmark and was potentially regarded as a monopoly which had regulatory implications (Jacobsen 2006).

The development of market share had not been associated with a commensurate growth in profitability and in fact the company was scarcely profitable in some years during this time. Jacobsen identifies various reasons—including the increase in oil prices—but highlights the increasing pressure on wage costs. The growth of the vehicle subscription market (car breakdown and recovery) enabled a degree of cross-subsidization but there was pressure from the public sector to reduce costs for the publicly contracted services. This was at a time when there was considerable pressure from public employees for wage rises and Falck, as a publicly financed provider of fire and ambulance services, was arguably affected by this.

The pressure for ‘workplace democracy’ led to Falck introducing measures for worker participation in 1971. In 1974 there were further legal pressures for workers to be more actively involved in company governance. After pressures to match the pay of public sector firemen there were a number of strikes which alarmed both the company and the media. The company was to some extent being ‘swept along by the times’ and it ended in major industrial disputes described by Jacobsen as “the war everyone lost”. The fact that the company set up governance mechanisms to consult with the workforce was not sufficient to avert the problems.

The governance challenges which the company confronted were a mixture of a change in the old relationships of the smaller company prior to the take-over of their competitor and the decline of a family loyalty focus. This was associated with the emergence of an active trade unionism which did not accept that rescue services should be immune from industrial action. Mogens Falck asserted that a strike does not belong in a rescue service. He commented that they transported with sick and injured patients not potatoes (Jacobsen 2006).

Accounts solicited by the Author from Falck family members and long served Falck staff familiar with this time are of a reluctance to directly confront the issues of low profitability and pressures from an increasingly assertive workforce pressing for salary rises. Several times the phrase “paying for peace” was used to describe the company strategy. There was a strong suggestion that there was a perception that the pay rises which were conceded could be paid for by passing them on to the municipal authorities who were commissioning the services from Falck. However, the municipal authorities were not prepared to continue the previous practices especially where ambulance transport was concerned. Eventually the attempt to get local authorities to pay more ended up in court and the company lost.

## The Sale to Baltica and End of Family Governance

The growth of the company to be a large de facto monopoly had been accompanied by changes in the management and control structures. In effect the Company had adopted aspects of a more ‘US style’ management which included one of the first mainframe computers installed by a Danish company. The computer was a mixed success and was associated with a number of implementation issues. However, the realities of cash flow and the final straw of the failure to win a case to get higher payments on public contracts led to the sale of the company to Baltica, an insurance company.

The Author has heard accounts directly from various people familiar with the time. One account is that the sale happened rapidly and was presented to the family as a virtual *fait accompli*. Other accounts

including published history indicate that there had been a recognition over some time that a sale would be likely. Indeed, there was an attempt to sell aspects of the company involved with public provision to the public sector. Though this was refused it led to an agreement that if a sale did take place that the public authorities would have the right of first refusal.

The actual valuation of the company was high despite the issues around profitability. This sudden—and possibly unexpected—high valuation may have come as a surprise to the fourth generation and certainly must have eased acceptance of the offer. The logic for this is covered in other chapters but was based on a perception of the value of the brand and also the access to a large customer base.

However, when the sale to Baltica did take place the actual timetable moved quickly. Baltica set up a professional board and employed a CEO who was an outsider to the family. The governance implications were rapid and significant. The legal requirement for employee representatives on the board meant that the employees on the Board were incorporated in the new structure. In effect the family was no longer there and the Board had professional membership with employee representatives who knew the company. Any vestiges of feudal or family deference ended.

The sale to Baltica potentially empowered the employee representatives. The incoming CEO, Lars Nørby Johansen, noted that the Board now included staff elected through their trade union who supported them with training. The staff Board members were substantially remunerated and were able to serve with no time limit. The employee Board members may be vulnerable to ‘capture’ through remuneration and separation from the actual workforce but they were not subject to the ‘family loyalty’ pressures which may have previously existed.

However, it was also described as a ‘loss of innocence’ in that Baltica was an insurance company who had a clear commercial focus. The orientation of Falck now was towards both business efficiency and also a clear aim to achieve a return on the investment. Board meetings were conducted in accordance with commercial objectives with a focus upon accountability and clear recording of decisions and responsibilities.

## Baltica Shares the Prize

The value of Falck as a brand as well as a means to sell products led to pressures on Baltica from other insurance companies. The income-positive aspect of the company was the vehicle breakdown market and in particular the potential to sell insurance products to the extensive customer base of Falck based upon the strength of the brand identity. There were concerns arising from the public and political perception of Falck becoming private and a comment was this would be like a private shipping company running the Danish Navy. The fact that Falck had been hitherto a private family company was not an issue demonstrating the strength of the 'public service' brand of Falck. There was a real concern that Falck might go bankrupt now it was owned by an insurance company even though Falck had been struggling to achieve profit under the family.<sup>3</sup>

The other insurance companies saw Baltica as possessing a clear advantage especially in terms of the roadside assistance based on individual subscription which Falck had developed. There was a clear indication that this particular market would be contested through the rival insurance companies launching a competing provision and it would involve a price war. It should be recalled that the roadside assistance was the profitable arm of Falck and had been cross-subsidizing the public ambulance provision.

The consequence was that Falck made informal approaches to the CEOs of the other insurance companies and then Baltica agreed to sell 55% of its ownership in Falck to the other insurance companies. This had obvious implications for both the ownership and the governance of Falck. The Chair of the Falck Board came from the largest of the insurance companies and the Board dynamics changed. The strategic focus moved away from the potential of Falck to benefit one company (Baltica) in improving its image and selling insurance products and shifted towards consideration of a possible stock exchange listing for Falck. The strategic ambition for the company expanded beyond that of being just an acquisition for one insurance company.

The then CEO, Lars Nørby Johansen, describes the years following as “the golden period”. Falck had a separate Board which was active and dynamic. Lars Nørby Johansen observed that his loyalty shifted from Baltica—who had originally engaged him as CEO—to Falck. In effect Falck had been freed from the constraints of family governance and now had been freed from the constraints of being under the control of one insurance company.

## The Move into Security: Walking on Two Legs

To explain how Falck became more involved in security—described in the Company as “walking on two legs”—it is necessary to briefly recount the background of another Danish company. ISS Securitas (ISS) was (and still is) a company focused on expertise in cleaning. It was set up in Denmark in 1901—even further back than Falck.<sup>4</sup> At its foundation, however, it was focused on security as opposed to cleaning and it formally entered the cleaning business in 1934. Having expanded overseas, in 1973 ISS focused on cleaning as opposed to security.

Falck, from its involvement in aspects of home and family subscription, saw a potential in developing into the area of security which had potential for commercial growth. It was attractive to Falck to develop the security aspect as a balance to relying upon the public sector rescue services not only because the latter were dependent on public funding but also because they held no potential to enhance profitability nor for further expansion within Denmark. The term ‘walking on two legs’ conjured up images of a more stable business model as well as the image of maturity and growth of the company.

There were accounts of discussions between the CEOs of Falck and ISS in which various possibilities were explored (ISS could have taken over the security aspects of Falck). However, the CEO of Falck persuaded his Board of the advantages of a take over of ISS. The argument was not simply based upon the balance of a ‘second leg’ but also that the rescue services infrastructure of stations and logistics offered the potential for synergy and that the security aspects of the business would enable a possible listing on the stock market based upon a clear potential for business expansion and income growth.

There was also a justification (provided to the Author by senior Falck staff later) that the 'rescue business' was primarily during the daylight hours when both ambulance and fire station demand was higher whereas the 'guarding business' was often about patrolling business and similar premises when they were unoccupied at night and the weekends. At the time this led to a discussion as to whether the culture of these two businesses were synergistic and whether the sort of staff involved in the two types of services were to any extent interchangeable. The values base of the two businesses had a similarity in protecting from loss but the ethos of those involved in the emergency business where the image was of public acclaim and recognition for a visible and valued trained and professional role. It is not the same as the image of a security guard with a large dog patrolling business premises at night. (This is picked up in the Chap. 8).

This led to the acquisition of the security aspects of ISS to enable the formation of Falck Securitas in 1993. The background of the two are summed up in an official document relating to the subsequent demerger of Falck and Group 4 S published in 2004:

The guarding business developed in the first half of the twentieth century, expanding into Sweden in 1934 and into the UK in 1950, and became known as Securitas International A/S. In 1981, this business was split: Jørgen Philip-Sørensen assumed responsibility for the European activities under the Group 4 name while his brother, Sven Philip-Sørensen, took charge of the Swedish activities under the name Securitas. The rescue and safety businesses, known as Falck, became a nationwide operator in Denmark and in 1988 were sold to Baltica Insurance A/S before being listed on the Copenhagen Stock Exchange in 1995. During the 1990s, Group 4 grew organically and Falck made significant acquisitions before the two companies merged in 2000 to form Group4Falck.<sup>5</sup>

The development into security represented a substantial source of both expansion and income. In its 1998 annual report Securitas, a competitor in this sector, highlighted the significance of Falck in this area of work listing it as a major competitor in most of the markets it operated. These sentiments were repeated in annual reports in the following years from Securitas.<sup>6</sup>

The governance significance of “walking on two legs” is important. The move away from family ownership represented a change from a governance style which was both family based and grounded in the perception by the family as a company which focused upon public service. Where the subscription aspect was concerned it was seen as related to the family security rather than to guarding business premises. “Walking on two legs” represented a conscious move into a security focused sector in which the prime customer was corporate in nature and where the prime driver was to enhance profits as well as to enable growth such that the company might move towards a stock market listing. The governance drivers are arguably quite different for such an entity. The “loss of innocence” referred to above was a necessary precursor to “walking on two legs”. The move into security provision as an equal (and indeed potentially larger) part of the company has obvious implications for the governance focus since the prime rationale is commercial and the customer relationship is primarily between two corporate and mainly private entities. There is not the same rescue element of rescuing lives or property from fire or flooding. Rather it is ‘guarding’ (the Danish word is ‘vagt’ meaning to watch out and guard ‘against’ something ... implicitly an enemy). The governance implication of such a service is different from that of an emergency rescue service.

## Stock Market Listing in 1995

The move into security and the acquisition of the ISS holding in this area was, according to Jacobsen, undertaken with a clear appreciation of the potential for a later stock market listing (Jacobsen 2006). The reasons for such listings can include enabling investors in a company to realize their holding and a stock market listing also means that there is a ready and relatively transparent means to assess the value of a company through the share price. The then CEO of Falck noted that there were two main objectives from the listing. One was to enable the investors to have a degree of liquidity (i.e. to be able to realize their investment). The second was that the ‘discipline of the stock market’ would be useful for the company.<sup>7</sup>

However, the transparency and requirements of a stock market listing also have governance implications. The business and financial activities of the company are subject to more perusal and, as there will (or should be) a market in the shares then the number of stakeholders are predictably higher. The company performance is subject to ready comparison in respect of both the overall stock market and also in comparison to other companies and to the 'sector' in which it is deemed to be located.

The stock market listing and analysts' appreciation for Falck would inevitably take account of the claimed synergies derived from the rescue side of the business which were mentioned above. The opportunity to maximize resource utilization in regard to buildings, equipment, support services and staffing is just that ... a potential. The key is whether that potential is actually found in the implementation of synergies.

There is also the question of reputation and image which in stock market valuation is sometimes described as 'goodwill' when the market valuation of a company exceeds the valuation of its component parts. The price Baltica paid for Falck, in effect, took account of the brand value and was not simply based on the company assets and current income stream from activities.

Here we need to take account of a profound image difference between rescue services such as fire and ambulance and the security and guarding industry. The former usually enjoys high public respect almost regardless of country. However, the latter does not usually enjoy such public acclaim and indeed often has a quite negative image with concerns about the employment of people of bad character and the presence of bad practices such as inappropriate use of force. This was the case in Denmark in the 1990s and indeed is found in the UK where, for example, security companies are negatively associated in terms of the public eye with service provision for asylum seekers and refugees.<sup>8</sup> In the UK in 2012 a failure to deliver services for the Olympics by a security company led to a great deal of negative press.

When, as in the case of Falck, rescue and guarding services are brought together under one corporate roof, it raises a question as to whether the guarding services acquire a better image from association with the rescue services or whether the potential is for the rescue

services to regard their image as being negatively impacted by the association with the guarding services.

The account of Jacobsen suggests that Falck envisaged that the security and rescue would blend together to acquire a common culture to the benefit of the company. This proved to be a challenge as the subsequent history of the company demonstrates.

## **Merger and Demerger with Group 4 Securitas (Group 4)**

The company grew in the late 1990s but the profitability came substantially via the security “leg” of the company. The “stock market discipline” which the CEO had referred to was one which would seek enhanced shareholder value. A number of employees of the company had also acquired (relatively small) shareholdings in the company. The potential for enhancing shareholder value was seen in terms of international expansion and in particular in the security side of the company.

### **Group 4 Falck—An Arranged Marriage?**

The clear strategic intention of the Company according to Jacobsen was to develop by acquisition primarily in the security area and initially in Northern Europe. Jacobsen also referred to early discussions with Group 4 in 1995–1996 which laid the basis for the subsequent merger (Jacobsen 2006). Group 4 was substantially larger than Falck both in terms of turnover and in number of employees. It also was entirely focused on security and not on emergency and rescue provision. It had Scandinavian roots with a Danish family CEO, Jørgen Philip-Sørensen. Jacobsen draws some meaning for the naming of the merger project as Caesar as possibly being an implicit reference to Jørgen Philip-Sørensen who demanded a substantial share holding and a key role in the merged company.

The merged company was listed on the Copenhagen Stock Exchange and a business report noted that:

The two companies announced their decision to merge and form Group 4 Falck in May 2000. The new company became the world's second largest security services firm in the world. As part of the merger agreement, Jørgen Philip-Sørensen was named company chairman, while Johansen became president and CEO; the company retained Falck's listing on the Copenhagen stock exchange. Group 4 Falck also quickly showed its intention to become number one, as the acquisition drive mounted by Falck continued into the new century.<sup>9</sup>

The new company, in terms of accounts in a contemporary business report, appeared to have a strong focus on security and moving into public-private partnerships in respect of custodial and related services.<sup>10</sup> The significance of the emergency services aspects which were arguably the core business of the original Falck received less attention and indeed, in income terms, Jacobsen reported that they had shrunk to 14.1% of the Group revenue. However, in shareholder value terms, the company had been a success as measured by a large and consistent increase in the share price from some 200 DKK in 1996 to over 800 DKK in 2000. This massively outperformed both the Industry and All Share Index (Falck 1999). In terms of the usual governance expectations for a stock market listed company Falck appeared to have fulfilled the expectation of having both achieved very substantial growth and also had, in share price terms, satisfied the "stock market discipline".

The increasing involvement in government business regarding custodial and custody-related work was enhanced by the development of what were described as public-private partnerships (PPP). There was ample potential to expand in this area both in Europe and in the USA (Greve 2003; Greve and Ejersbo 2005; Lethbridge 2009). This area of work came to dominate the activity of Group 4 Falck and Jacobsen commented that the traditional ambulance and fire activity was less discussed in annual reports and the core values associated with the ideas of Sophus Falck carried little resonance in the increasingly mainstream revenue from security (Jacobsen 2006).

The reality of the stock market model was that the focus was upon the security business which was generating the expansion and also the majority of the revenue and accounted for the strategic focus.

The cultural differences between the nature of rescue and security services was quite fundamental. The Danish word ‘redder’ meaning rescuer was a common term which covered personnel involved across all aspects of the traditional Falck emergency provision including those who went out to vehicle breakdowns. The term was not applicable to security guards in armored vans or patrolling business premises at night (where the term *vagt* or ‘watching’ [guard] was appropriate). In effect the envisaged logistical synergies between the ‘rescuing’ and the ‘guarding’ were not to be found and there were two generally inimical work and service cultures. Furthermore, there had been questions raised about the implications of some of the security work and the acquisitions of security companies especially in the USA where one such company (Wakenhut) had been involved in running prisons and had incurred a negative public image. There were aspects of the security business which sat uneasily with the core values of Falck as expressed in its history and brand image especially in Denmark.

### **An Amicable Separation?**

In 2004 Falck’s rescue business was formally separated in a demerger into Falck A/S and Group 4 A/S. Following this there was merger between Group 4 and Securicor (a security focused company). The demerger involved the transfer of the rescue and safety services to Falck together with Global Solutions work. The EU Commission report which described this was primarily concerned with the competition implications of a merger of two large security providers. The Falck rescue and safety services were not a significant issue.<sup>11</sup> The demerger can be described as an amicable separation following an unfulfilled marriage. A key geographical consequence was that Falck “came home” in that the offices in Copenhagen again became headquarters as they had been when the family ran the company.

The corporate governance of the new and separate Falck entity was described in the 2004 Annual Report as “continuing the approach adopted by Group 4 Falck” (Falck 2004: 31). However it is notable that the report also mentions the development of a new business stream of

Healthcare which involved rehabilitation work and also an extension into provision of training courses in rescue work. This arguably illustrates the development of business areas which are more consistent with the traditional ethos of Falck than that of the security and guarding industry which had dominated in Group 4 Falck.

Significantly, perhaps, the creation of the Danish entity with a focus upon the traditional rescue and emergency role meant that the workforce Board representatives—three rescue workers and a maintenance employee—probably felt much greater affinity with the activities of the company (Falck 1999).

Since 2008 there has been clear (and named) involvement of workplace representatives on the board in the Annual Reports. There have been usually four such members out of a Board of up to ten members).

## **Nordic Capital**

The shares of Falck A/S were listed on the Copenhagen Stock Exchange in July 2004 and in November there was a dialogue with parties interested in acquiring the company. Nordic Capital, a private equity company, made a tender offer and early in 2005 Falck A/S was substantially acquired by Nordic Capital and the shares delisted. The bid was viewed as a “friendly bid” and there was no political opposition especially as Nordic Capital offered public assurance of their positive intentions.

In governance terms the change was significant in that Nordic Capital took an active role as private equity owners who did not envisage a long term investment but rather were seeking a profitable exit which is the norm for such organizations. The ownership was again concentrated (as it had been with Baltica) but without the issues which had confronted Baltica leading to the changes described previously. There were no other private equity outsiders forcing Nordic Capital to share the cake. Under Nordic Capital the Board became active and strategic with a clear focus on developing the business. The development of Falck in international terms and business streams is explored in Chap. 7. However, in governance terms Nordic Capital/Falck organisation had a clear intention to grow the profitability and range of business

activities of the company. In the Annual Report for 2005 the growth strategy is laid out as involving:

- International growth primarily in North and Central Europe
- Growth in existing businesses
- Growth via acquisition

The 2005 stated corporate mission was to ‘develop a major international business working broadly within assistance, rescue and emergency management, healthcare and training’ (Falck 2005: 6). This still generally reflects the mission in 2016.

At the time of the acquisition by Nordic Capital 75% of the activities of Falck were based in Denmark with some expansion into adjacent countries especially in respect of vehicle assistance. The training and safety services had involved wider international expansion significantly through a Dutch acquisition. In governance terms this probably laid the basis for the continued international expansion via the business streams. The Executive Management Board consisted of just two people, Allan Søgaaard Larsen and Morten Pedersen. These two individuals are still in post as of time of writing (October 2016). The governance of the increasingly complex international activities involving a range of ownership forms has its basis in the structure set up under Nordic Capital which has a strong basis in the Nordic governance model described at the outset of this chapter. The Executive Management Board is small and takes a very active role in monitoring the range of activities.

## **Disposal and Acquisition by Lundbeck**

In Autumn 2009, ahead of the original time schedule for realising their investment, Nordic Capital was able to consider options for exit. The option of an Initial Public Offering (IPO) was by their account the initial choice. However, they were approached by a foundation interested in acquiring a substantial ownership in the company. This subsequently led to a sale to two major Danish organisations, the Lundbeck Foundation and the KIRKBI Group. Both are well known and respected Danish entities which manage large shareholdings. KIRKBI

**Table 5.2** The ownership of Falck A/S 2015

Owner	Ownership (%)
Lundbeckfond invest A/S (a large industrial foundation)	57.36
KIRKBI invest A/S Billund (a family holding company linked to LEGO)	27.73
Liberatio A/S Copenhagen (essentially owned by the executive management of Falck—the two most senior staff)	10.25
TryghedsGruppen smba, Virum (a Danish insurance company)	4.07
Senior Executives (of Falck)	0.59

Source Adapted from Falck Annual Report (2015: 35)

is particularly associated with Lego, a well known Danish company in which it holds a majority interest (Table 5.2).

In an account of the case Nordic Capital describe the process as follows.

The formal decision to initiate the exit process on Falck was taken in the autumn of 2009. A “one track” IPO process initiated in the beginning of 2010 with targeted launch in Q2 2010. Process was put on hold due to a sudden sharp rise in equity market volatility in May 2010 caused by the economic issues surfaced in Greece, Portugal and Spain. The owners were approached by the Lundbeck Foundation stating an interest in acquiring a “strategic stake” in advance of IPO on the basis of limited due diligence, and an agreement to sell of 36% of the shares in Falck was reached in December 2010. On April 28 2011, Nordic Capital entered into an agreement with an owner consortium led by the Lundbeck Foundation to sell its remaining shares in Falck. On July 13 2011, the transaction was completed and proceeds received.<sup>12</sup>

## The Internationalisation

This is, in business expansion terms, addressed in the next chapter. However, here reference will be made to aspects of governance. The period of time with Nordic Capital was critical to the expansion globally. In their own analysis of their experience with Falck Nordic Capital noted that:

**Table 5.3** Legal entities 1998–2008

Year <sup>a</sup>	1998	1999	2004	2006	2007	2008
Number of legal entities (approx.) <sup>b</sup>	7	9	58	72	95	126
Number of countries	7	9	13	13	14	16

<sup>a</sup>Selected years for which public data are available

<sup>b</sup>Note The entities were counted from the Annual Reports listing and included a small proportion which were described as inactive or dormant at the time of the report publication. However, they are represented in the table because they may have represented a governance obligation at some point during that year. Hence the number should not be regarded as a precise indicator of active entities

By applying a buy-and-build strategy coupled with a focus on a strong organic growth, Nordic Capital supported Falck in implementing its own strategy for international expansion and product offering expansion. Nordic Capital actively drove the strategic agenda throughout the six-and-a-half-year ownership period. During this time, significant value was created, including an accelerated growth platform, both organically and through strategic acquisitions, and a significant margin improvement. Also, Nordic Capital supported specific initiatives within each of the four business areas - assistance, emergency, training and healthcare.<sup>13</sup>

The international expansion under Nordic Capital involved an increasing number of different legal entities and countries served. Table 5.3 shows the growth of countries and approximate number of legal entities during the period of Nordic Capital.

The governance aspect could be regarded as complex given the number of separate entities and also the number of countries and the various different streams of business. The top Executive of the company consisted of two members of staff (Allan Søgaaard Larsen and Morten Pedersen) who have been with the company since before the acquisition by Nordic Capital and indeed were still in the Executive roles at the time of writing (October 2016). There was an enormously strong element of continuity in their tenure and engagement with the company. The previous CEO, Lars Nørby Johansen, held the office for some 16 years. Tracing the exact membership of the Board of the Company from 1998 to the present day (2016) there is no Board member still in place from 2004. However some of the longer served Board members are found in the workforce representatives.<sup>14</sup>

Also, it is significant to note in governance terms, that these two key members of staff have dealt with the increasing complexity of legal entities and number of countries without enlarging the Executive Management Team. There are aspects of culture here which are significant and the reader is referred to a more detailed exploration in Chap. 9. However, in purely governance terms the increasing complexity of legal entities and countries is dealt with in part by a structure which focuses significantly on the business streams and also by a very strong engagement of the Executive Management Team.

The actual ownership of over 10% of the company by the Executive Team represents an interesting example of how familiness might have been reintroduced into the company. The ownership was generally regarded by staff and other key informants interviewed as not representing a desire for personal gain but rather as a sense of personal engagement and commitment to Falck. Indeed, when asked when he thought the CEO might retire one member of staff reported that he thought the CEO would continue until he reached 80 years. The move from Nordic Capital to the current ownership represents a move towards a family focused ownership approach. The approach of both Lundbeck and KIRKBI views their ownership of Falck from a commercial perspective. However, their time frame is not as deliberate as that of a private equity investor such as Nordic Capital. The Lundbeck Foundation describes itself as:

... an industrial foundation that is striving to significantly improve people's health and lives by:

- Supporting research at the highest level within biomedicine and the natural sciences and with a connection to Denmark. Focus is on research into neuroscience, psychiatry and allergology/immune modulation. The Foundation particularly aims to support younger researchers and the internationalization of research.
- Creating shareholder value in the Lundbeck Group and other internationally renowned companies and helping them become world leaders in their respective fields.<sup>15</sup>

Indeed, the acquisition of the ownership by Lundbeck was favorable regarded by Allan Søgård Larsen, the CEO of Falck who said: “We are very pleased to welcome the Lundbeck Foundation as a significant owner of Falck. The Lundbeck Foundation’s social commitment is in every way consistent with our basic vision that Falck is people helping people.”<sup>16</sup>

The governance implications for the current ownership structure thus is to reinforce the social aspects of Falck’s mission. The familiness of ownership is also potentially revived through both the significant ownership of family-rooted foundations and holding companies and through the Executive Management team’s ownership (and likely motivation for that ownership). This governance reinforces the strength of the companies’ values and culture which are explored in more detail in the relevant chapter.

Also linking with the culture chapter is the change in Board Level membership in respect of gender. As Chap. 1 pointed out the culture of the Falck ownership and leadership was strongly male (even when there was some ownership with the female line of the family). This male orientation continued through the time of Baltica and of Nordic Capital. However, after the change to Lundbeck and KIRKBI the nature of the gender composition of the board changes.

Table 5.4 shows that both during the time of Nordic Capital and subsequently there was consistently worker representatives on the Board in accordance with Danish law. However more recently the Board has had a significant gender shift in terms of commercial members. These have not been necessarily from the Lundbeck and KIRBI companies though one Board member is the (female) CEO of the Lundbeck

**Table 5.4** Composition of Falck board 2008–2015

Member	2008	2009	2010	2011	2012	2013	2014	2015
Total number	7	7	11	9	10	10	10	10
Number of employee representative	2	3	3	3	4	4	4	4
Number of women	0	0	0	0	1 <sup>a</sup>	0	2	3

<sup>a</sup>In 2012 the female member of the Board was a workplace representative. She appears to have only served for one year

foundation. In performance terms some international research suggests that gender diversity on a company board enhances company performance and that this is more likely to be the case in complex environments (Terjesen et al. 2015). The issue of gender is thus a theme which, albeit only in the past few years, could be significant for Falck in governance and, by implication, in performance terms.

## Governance Becomes an Issue

On 20th December 2016 Falck announced that Allan Søgård Larsen was leaving as CEO with immediate effect. The Company Press statement noted that

The chairman of the board of directors in Falck, Peter Schütze, states that the board finds it adversary, in the current situation where the company experiences a number of challenges in several business areas, that Allan Søgård Larsen is both CEO while also a significant shareholder.<sup>17</sup>

The statement also announced that the deputy CEO, Morten Pedersen, also would be stepping down at the end of the year. The issue of governance was identified as a key factor in the decision with the Press statement quoting the board view that:

It is the board's view that the current structure is an adversary mix of the roles of executive management and co-ownership. This structure was natural during Falck's private equity ownership period, but the board now wishes the governance relations in Falck to be normalized.<sup>18</sup>

In the Press statement the CEO (and Deputy CEO) are reported as acknowledging the governance issue but disagreeing with the board over the shareholding as justifying their departures.

We recognize the governance issue and we recognize that we inherently constitute a very independent executive board due to our ownership. However, we do not agree with the board's decision, but we take note of it.<sup>19</sup>

Borsen, a Danish Business Newspaper, commented further on the departures noting that the Board and the CEO disagreed over whether his shareholding represented a problem but suggesting it might be the actual size of the shareholding which was also a factor.<sup>20</sup> The size of the shareholding gave the two individuals clear minority rights. Indeed it was reported elsewhere in a Danish newsletter specific to emergency services that Morten Pedersen may join the Falck board when his term of office as Deputy CEO expired. That same newsletter noted that Allan Søgaard Larsen's departure represented the end of an era for Falck.<sup>21</sup>

## Summary

This Chapter has explored the range of ownership history as Falck has evolved from the family ownership to the present day. This has implications for corporate governance and understanding the nature of the Nordic corporate governance model is important here.

Differences in ownership motivation as the company has moved through changes are arguably important. The original ethos of the family was professed to be public service as greater than a primary search for profit. The focus of subsequent owners was much more orientated towards commercial expansion and shareholder value and this involved a venture into the security business through acquisition and merger.

The nature of the core emergency and rescue business did not sit well as a subordinate part of a primarily security-focused company and the subsequent demerger returned Falck towards a focus on its original core business and values.

The culture of both the business area and the company itself was critical. The ownership and governance demonstrate an empathy for this with both a familiness in the ownership and a strong ownership commitment in the Executive Management team. The presence of workforce representation on the Board (and on the Board of the main owners also highlights the potential for a common approach to the company direction and values. The duration and strength of commitment of the Executive Management (and their investment in the company) has enabled corporate governance of a growing portfolio

of international business and business streams. The board decision of December 20, 2016 represents a clear expression of a change in the attitude to the governance of Falck and can be seen as consistent with the Nordic Governance model which seeks a separation of ownership and executive management.

The relatively recent changed gender balance on the Board potentially has implications for the image and development of Falck (for example into aspects of Health and Global Assistance).

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3. Ironically, Baltica did in fact go bankrupt a few years later.
4. See <http://www.issworld.com/about-iss/introduction-to-iss/fact-sheet> Accessed October 31, 2016.
5. Source: [http://www.g4s.com/-/media/Files/Financial%20Presentations/fa-040604-listing\\_particulars\\_final\\_document.pdf](http://www.g4s.com/-/media/Files/Financial%20Presentations/fa-040604-listing_particulars_final_document.pdf) (Listing Particulars for Group 4 Securicor 2004.
6. See <http://www.securitas.com/globalassets/com/files/annual-reports/en/ar-97.pdf> Accessed October 31, 2016.
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8. See <http://www.irr.org.uk/news/the-corporate-greed-of-strangers/> Accessed November 1, 2016.
9. Source: <http://www.referenceforbusiness.com/history2/87/Group-4-Falck-A-S.html#ixzz4P2hV0XSD> Accessed November 2, 2016.
10. "Group 4 Falck A/S." International Directory of Company Histories. Retrieved November 04, 2016 from Encyclopedia.com: <http://www.encyclopedia.com/books/politics-and-business-magazines/group-4-falck>.

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13. Nordic Capital *ibid*.
14. Note: It is normal governance practice for Board membership to be time limited so a long period would be unusual. However, some Board members of Falck have served for quite long periods of ten years' duration. The length of service of employee representatives is not subject to the Board or Chair decision and they may serve for as long as they are re-elected.
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17. Source: <http://www.falck.com/en/press/news/2016/allan-soegaard-larsen> Accessed January 2, 2017
18. *op cit* Falck Press statement dated December 20, 2017.
19. *Ibid*.
20. See Borsen December 20, 2016 [http://borsen.dk/nyheder/virksomheder/artikel/1/336950/falck-bestyrelse\\_fyrer\\_allan\\_soegaard\\_-\\_han\\_ejer\\_for\\_meget\\_af\\_selskabet.html#cxrecs\\_s](http://borsen.dk/nyheder/virksomheder/artikel/1/336950/falck-bestyrelse_fyrer_allan_soegaard_-_han_ejer_for_meget_af_selskabet.html#cxrecs_s) Accessed January 2, 2017.
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# 6

## Diversification and Growth

Alex Murdock

### Introduction

This Chapter explores the development of the range of services and products which Falck either developed or sought to develop prior to 2004. That year is one which Falck itself saw as significant in the development of the company and in corporate presentations it is used to mark the ‘start of globalisation’.

The chapter will utilise strategic and business concepts to explore the decisions and experience of the company. These concepts will be explained initially and diversification is a key initial phenomenon which characterises Falck from its early days. The 1907 Cartoon is an amusing depiction of this (See Fig. 6.1). The nature of diversification will be explored and academic business concepts will be used to explore this.

The chapter will also explore the business logic behind the development of the security (guarding) side of the business and this will link to the earlier chapter on governance and the latter chapter examining culture. The merger and demerger with the subsequent ownership and reorientation under Nordic capital will be examined through the lens of

internationalisation. The approach of Ansoff (1965) will be utilised to explore the nature of service, produce and market evolution.

## Diversification

One of the most cited articles on corporate diversification notes that in most models offered to students of economics firms are presented as 'homogeneous producers of single products' (Montgomery 1994). Though this article is widely cited it was written in 1994 and it is significant in that it uses the word 'product'. As we have noted previously in the Chap. 4 in respect of innovation this shows a tendency to view companies in terms of 'products' as opposed to services.

However, the argument Montgomery advances for diversification are a useful starting point. She identifies three perspectives which are as follows:

- Market power
- Agency
- Resources.

## Market Power

The market power perspective is based upon the ability to operate across a number of markets which enable more market power than if the company narrowly focussed on a single market. There is also a suggestion that a presence in several markets might enable such (possibly undesirable) factors as cross subsidisation whereby a surplus in one market can offset a loss in another and enable predatory pricing whereby a market is accessed (or defended) by deliberate pricing strategies which incur a short term loss. A presence in several markets may also enable competitors to come to an arrangement whereby they 'divide the spoils' through non-compete practices. For this to be effective the parties must actually be present in the markets or be viably able to engage in the markets. The implication here is that market power is contrary to the consumer

or purchaser interest. However, market power from participation in a number of markets can also enable business efficiencies. This is especially the case if the markets are linked and offer synergies.

## Agency

The agency approach is based on what is described as principal agent theory (Laffont and Martimort 2009). This in its original formulation explored the potential for different incentives between owners and managers. The interest of the owner (the principal) may not be shared by the manager (the agent). The former may be concerned with profits and with increasing the value of the enterprise. The latter may be focused on financial reward through salary. Sometimes this is resolved via managerial incentive schemes which have profit related bonuses or share options. Merger activity is seen as attractive to managers as it potentially enhances their earnings and enables the use of profits which could have been 'returned to the owners'. When a particular market space becomes less amenable to expansion then the manager seeks to invest in other market spaces. Montgomery, writing in 1994, describes this behaviour as 'empire building' and it is probably as true a phenomenon now as it was then (especially given the much higher remuneration available to CEO's of large corporate empires).

The implication of this viewpoint is that diversification might be motivated by managerial ambition and might not be in the interests of the beneficial owners of the company.

## The Resource View

This approach focuses on the possible presence of excess resources/capacity which the company possesses or is in a position to access. These may be tangible resources such as buildings or equipment or they may be less tangible such as the knowledge and competences of the company often as manifested through its employees. These available resources offer an opportunity to expand and this expansion can and often is

through diversification into new markets, products or services. A purist view of markets might suggest that such opportunities, if available, would have already been seized by other competitors.

This is somewhat akin to the apocryphal account of the two economists walking along the street. One economist comments that there is some money lying on the ground. The other denies this saying that if there was then someone would have picked it up. The reality is usually of imperfect markets and an organisation with spare resources may readily identify opportunities for them.

Rumelt (1982) suggests that diversification can be categorised using two dimensions of specialisation and relatedness. The specialisation dimension has the following categories and typically used standard industry codes (SEC) to measure closeness to the largest single business:

- A single business (high specialisation)
- A dominant business (where the large majority—over 75%—of the business is in the area of the largest single business)
- A related business (where the majority—over 70%—of the business is in this area but less than 70% is in the single business area)
- An unrelated business where less than 70% in a related business and less than 70% is in the single business area).

Rumelt tried to avoid some of the problems using the SEC measure by considering areas such as research or marketing expertise. This approach has some issues though as SEC codes are less useful for service industries and in particular for the emergency services which though both in rescue do not have SEC codes which are proximate.

Another theoretical justification for diversification comes from transaction cost economics and that making a more efficient use of company resources which may be underutilised or otherwise accessible for opening up a new product or market space. Such resources may not be physical (such as buildings or equipment). They might include competences and technical skills in areas such as research, marketing and professional services.

## Diversification and Strategic Direction

Diversification is often seen in terms of a new product and a new market. A well used matrix devised by Ansoff in 1965 looks at this (Ansoff 1965).

However, the market for emergency and rescue services involves both services and products and it is proposed to develop an amended version of this to deal with the specific services orientation of this industry.

Table 6.1 suggests that diversification involved a new service or product in a new market. However, rescue and emergency services typically also involve the use of specialist equipment and how does the matrix deal with the complexity of both a product AND a service provision?

Diversification is described in conventional strategy texts as a strategy which takes an organization away from existing markets and products (and services!). However, reality does not exist in ready-made boxes with clear-cut boundaries. It is messy and subjective often based on the perspective of the witness.

It is a question of perhaps looking at diversification as a scale rather than as a category. A service which is provided in a particular way in a particular area under a public service contract (such as an ambulance service). If the ambulance service is provided to a different area and in a different way, then is that a diversification or is it a service development? Similarly, if staff providing a particular service are encouraged to offer other services, it may be regarded as a service development. However, if these services are seen as quite different in that they challenge the staff culture or value set then is it a diversification or a service development? It may well depend on the perspective of the particular stakeholder (Miles 1993).

**Table 6.1** Product/Service growth matrix

		Product/Service	
		Existing	New
Market	Existing	Market penetration	Service or product development
	New	Market development	Diversification

Adapted from Ansoff (1965)

## Related and Unrelated Diversification

Diversification as has been described above may vary in the extent to which it is related to the current capabilities and focus of the organization (Markides and Williamson 1994). The extent to which a diversification is related could be assessed by looking at the value chain of the organization. The value chain can have an upstream and a downstream aspect. A university, for example, may get involved in running a high school whose students are potential university entrants—hence moving upstream in their value chain. If the university also becomes involved in employing its graduates or offering a career advice service, then it is moving ‘downstream’ in its value chain.

### The Early Falck Experience

The initial focus of Falck is set out in Chap. 1 and as we will recall was inspired by Sophus Falck’s experience of the fire at Christiansborg Castle. His initial concept was not the extinguish fires but rather to minimise the loss when a fire occurred through the rescue of valuables. There was already a form of fire service and indeed by account they prevailed on Sophus to desist from his rescue efforts on account of the real risk of him incurring injury or worse. His idea was not original but based on what he had witnessed abroad (especially in the USA, UK and Germany).

The income stream was initially a challenge and in the end he developed a mixture of a public subscription and a private subscription. In effect these were two products. Sophus would probably have preferred to have relied on an income stream from the public sector. However, at an early stage of the enterprise he recognised that there were in effect two markets for the service he was offering. The rescue service also required both equipment and trained staff which he needed to acquire. This included lifting equipment. The early focus on animals reflected the agrarian nature of the economy in Denmark and the large use of horses. Farm animals were often large and heavy and if they fell, lifting equipment was important to move them. In the days before motorised tractors with associated hydraulic accessories specialised

lifting gear was not an investment a farmer would make so a subscription or pay for usage facility was an important part of the Falck early business model.

At the time there were issues in respect of trams in Copenhagen which ‘jumped the tracks’ or were involved in accidents. They were heavy vehicles and lifting them back onto the tracks became a useful activity for the company. This also shows an awareness of the multiple uses of the lifting and recovery equipment which represented a capital cost and, whilst idle, was not earning income. Falck developed an expertise in lifting awkward or heavy objects. Falck soon developed a range of services and these were often charged for separately (that is as discrete services rather than as one universal subscription to cover all eventualities).

There was an early recognition that there were a range of services. Though they were related—often using the same skills and equipment—it was possible to distinguish them as separate services which could be differentiated even though they used the same resource.

## **Move into Ambulance Service**

The extension into ambulance provision occurred and this is significant in that it involved transport of people in need as opposed to the rescue of valuables from fire or flood, or the use of equipment to deal with a problem such as a heavy vehicle or other objects which need to be moved. The ambulance represented a need for a new vehicle specific for the purpose and Falck acquired one from Germany. It was the first purpose built ambulance in Denmark. The vehicle was part of a rescue service but was a differentiation from the existing rescue provision for goods in that it is moving people and it requires a specialist new form of vehicle. It also involved a specific partner—The Red Cross—which was a distinctly different kind of partner to those involved in the rescue of property and recovery of vehicles like trams.

There was also a change in the geographic location of services in that Falck, in partnership with the Red Cross, started to provide an ambulance vehicle at the location of large public gatherings such as snow

sports. This is different from the rescue vehicle being stationed on the premises awaiting a call for its use. In effect it was out posting the vehicle and also engaging in company promotion. Perhaps as a consequence Falck moved into selling health-related products especially First Aid kits.

The ambulance service then was associated with a move into providing medical services in addition to the actual transportation of patients. The involvement of a doctor represents a related diversification from the simple transport of patients. Also it raised the question of how the subscription basis for this might work. Hospitals and the public purse can be a source of patient transport funding. However, a doctor to the home is more likely to be a private subscription. The success of the ambulance service and the fact that it was differentiated from the rescue of valuables and vehicles led to it being housed at a separate address. This is clear evidence of a service differentiation taking place.

## Move into Firefighting

The next development was into actual firefighting itself. This in cities was undertaken by publicly provided fire brigades. However, Falck realised the potential to develop provision in rural areas. In effect this represent a two-fold diversification in that it involved a new service—that of extinguishing fires—and a new geographic area—namely rural areas. It also involved a new form of partnership in respect of working with volunteers in rural areas and providing training as well. The subscription basis for the service became increasingly established which is changing the nature of the service offer from a ‘payment for usage’ (akin to a taxi type provision) to a ‘payment for access’ which represents a more reliable and predictable source of income.

The legislation of 1926 referred to in Chap. 1 enabled the private provision of public emergency services. In the rural areas this increasingly involved the provision of equipment which brought Falck into the area of supplying specialist fire fighting equipment to customers.



## Our heritage goes back more than a century



Falck has more than 100 years of history within emergency, assistance, safety and healthcare services.



EMS in India in the year 2020 – Lessons learnt from other countries

2

Fig. 6.2 Falck timeline<sup>2</sup>

utilise Ansoff to trace the development of Falck over time. This has been viewed by key Falck staff and though it is regarded as an interesting and exciting way to trace development it is not seen as a perfect replication. In particular the view of some Falck staff is that the developments did not necessarily have a logical progression and that the Ansoff matrix seeks to possibly impose a sequential logic where this was not always present. The developments as presented in the Ansoff matrices below should be regarded as illustrative rather than fully accurate though they are based on historical data.

The successive Ansoff style matrices which follow endeavour to depict how the various elements of provision can be traced through successive developments. Hence the ambulance aspect emerges quite early from the rescue concept. Fire suppression and fire services in rural areas also develop. Then the move into vehicle and assistance services which are aimed at individual subscribers as opposed to a more public service provision. There is also the development of actual products for sale (such as first aid kits) (Tables 6.2, 6.3, 6.4, 6.5, 6.6, 6.7, 6.8).

**Table 6.2** Falck early growth matrix—rescue of valuables

Rescue of valuables		Service/Product	
		Existing	New
Market	Existing	Rescue of valuables from fire or flood	24 h provision for flood/fire response (including early alarm system)
	New	Animal rescue (using lifting equipment)	Ambulance transport

**Table 6.3** Falck early growth matrix—move from ambulance services

Move to ambulance		Service/Product	
		Existing	New
Market	Existing	Ambulance transport	Specialist vehicle Doctor on ambulance
	New	Sale of First Aid kits	Fire fighting equipment and training in rural communities

**Table 6.4** Falck growth matrix—move from fire fighting

Move to fire fighting		Service/Product	
		Existing	New
Market	Existing	Fire fighting equipment and training in rural communities	Post 1926 law move to provision by contract for fire services in towns
	New	Sale of firefighting equipment and fire training	Move to vehicle assistance and vehicle recovery

**Table 6.5** Falck growth matrix—move from vehicle assistance

Move to vehicle assistance		Service/Product	
		Existing	New
Market	Existing	Move to vehicle assistance and vehicle recovery	Further vehicle related services
	New	Increased individual subscriptions including travel related	Family package for protection (bundled service)

**Table 6.6** Falck growth matrix—move from family protection

Move to family protection		Service/Product	
		Existing	New
Market	Existing	Family package for protection (bundled service)	Extension of assistance products into other countries
	New	Private alarm provision (security) <sup>a</sup>	Move to security service to organisations

<sup>a</sup>A member of Falck staff views this provision as actually rooted more in the early flood response subscription

**Table 6.7** Falck growth matrix—move from initial security

Move to security		Service/Product	
		Existing	New
Market	Existing	Move to security service to organisations	Range of security focused products and services
	New	Development into adjacent countries	Development into merger with other security companies

**Table 6.8** Falck growth matrix—move from family package to air transport

Move to specialist air transport		Service/Product	
		Existing	New
Market	Existing	Family package for protection (bundled service)	Extension of assistance to other countries
	New	Private alarm provision (security)	Falck Air Services to get injured/sick people back to Denmark

## The Move into Security

The subscription services for both organisations and households which covered animals and damage from fire or flood and also vehicle breakdown and recovery extended into aspects of health care as people travelled abroad. The move into air services was a particularly significant development in terms of international coverage.

The earlier chapter on governance and the following chapter on culture explore the implications of the move into security. The subscription services arguably furnished a degree of logic behind this move and the potential of security services to utilise the company resources (especially buildings and logistics) also furnished a justification. The development of the security 'guarding' business described as 'walking on two legs' also carries an image that the two legs are joined and directed by a common mind set. The reader is referred to the Governance chapter for more detail.

However, as the accounts elsewhere show the move into this area of work was a diversification in that it involved a different culture and ethos from the rescue and emergency culture. Also, especially with the growth of this market and the mergers with companies wholly focused on the security industry, it actually moved the centre of gravity of the Falck Group away from the original core. Using Rumelt (discussed above) it could even be argued that the emergency and rescue aspects could, in revenue and growth terms, be seen as a diversification from what had become the prime revenue and market growth focus of the Falck Group (Rumelt 1982). The merger with Group 4 in simple financial numbers certainly suggests this.

The subsequent demerger in 2004 in which Falck returns to its core pre-security business recognised that there was not a good synergy between the two business areas. However Nordic Capital, in acquiring a controlling interest in Falck, saw the potential to develop both internationally and in the business areas which were seen as having both an empathy with the core values of Falck and which had potential for commercial development. These areas which figure prominently in the next chapter are:

- Assistance
- Emergency
- Healthcare
- Training

The following sections will briefly explore the development of the Healthcare and Safety & Training aspects prior to 2005.

## The Move into Safety and Training

Safety and training are key elements in any rescue and emergency enterprise and especially so in the case of fire services. The involvement of Falck in providing equipment and training to rural areas marks out a very early demonstration of the potential to provide training not just to employees of Falck but also as a commercial undertaking in itself. In 1923 Sophus Falck set up the first Fire Fighting School in Europe (Madsen 2012).

The brief timeline of Falck in the corporate presentation above identifies the engagement in training as a major activity in the company portfolio from 1997. Clearly the company had a long experience in offering training inside and outside the Company, partly also from the work in first aid which included training during World War 2.

During World War 2 Falck was involved in training a large number of volunteers to respond to the extra demands occasioned by the war.<sup>3</sup> The safety and risk side of the business was an unintended development as Falck, as a fire and ambulance provider, was inevitably associated with the service provision during the occupation of Denmark and this brought the Company into contact with the occupiers. However, the company was also associated, especially through its staff and access to vehicles and petrol, with aspects of the Danish Resistance. Falck staff were on occasion arrested by the Germans and Falck was involved in a range of resistance activities. This experience must have provided a not considerable learning experience in dealing with risk and security issues beyond that of those associated with the pre-war activities.

The post war expansion in the security activities such as burglar alarms and guarding work which was matched by a growth in vehicle breakdown assistance.

Since 1975 Falck had been involved in monitoring alarm systems using their call centre facilities. They were not at that point in the market for selling and installing alarms. However Falck's name was used by the companies who were in the alarm business (Madsen 2006). In 1979 this led to a joint venture with a Danish insurance company to deliver security services and to challenge Securitas, the major provider in the market. Falck's role was to furnish the monitoring. In 1982 Falck

announced that they were going to establish a patrolling function in security using their own staff as opposed to just a call centre monitoring function. Falck staff were not supportive of undertaking this role and the initiative did not develop. Regulatory issues were raised about the involvement of insurance companies in a joint venture and much of the business was sold to Group 4 in 1984.

In 1987 Falck looked forward whilst still under the family control with a plan called Plan 90. Product development was identified as one challenge. The potential for Falck in the burglar alarm market was discussed. This was seen as a means to seek extra income to address shortfalls in the public service income (see Chap. 1). Falck stations were seen as a potential resource as Call centres for such a provision. However, there were also regulatory issues and staff concerns which limited the potential for developing the service. In particular, there were questions about actually accessing protected buildings in order to assess alarms which had caused a call out.

The other issues Falck had (which were covered in Chap. 1) however prevented the family taking this forward due to the sale of Falck to Baltica. Under Baltica there were attempts to utilise the Falck brand in order to sell insurance products. However, the main justification was to develop the security and guarding side which was known as ‘walking on two legs’. Lars Nørby Johansen (who became CEO in 1988 after Baltica took over Falck) commented that he did view the family endeavours in the security sector as serious or strategically planned but rather more akin to a flirtation. However, Johansen did regard the security and the rescue sectors as complementary. Hence the analogy of walking on two legs. Falck’s brand name enabled it to achieve a 10% market share fairly quickly according to Madsen (2006).

## The Move into Healthcare

The early work with health (ambulance and doctor on call) was associated with some health promotion activity prior to World War 1 in which Sophus Falck started a health campaign about diseases and disease prevention (Madsen 2012). The Danish rival company, Zonen, had

been involved in a range of health provision as well as fire and rescue but Falck acquired it in 1962.

Until the formal emergence of healthcare as major business focus in 2001 the reference to health is linked to aspects of the security business associated with care alarms and psychological counselling.

## **The Move into Security and the Subsequent Merger with Group 4**

This has been discussed in the Chap. 5 on governance and will be picked up in the Chap. 8 on culture. Here we examine the perspective of business development after the company moved to Baltica and the subsequent change in ownership to include other insurance companies.

The logic of developing an additional and profitable income stream and prospects for growth were a clear driver for the development of the security business. Also the security sector offered greater potential for international expansion.

There was also a different logic driving the Baltica and insurance company ownership of Falck. That was the potential for a stock market listing which might enable the investment to be realised. In order for this to be viable Falck needed to seek a more profitable business area with the potential for growth whether via acquisition or by expansion. In terms of ambulance and fire services in Denmark the potential for either of these was limited. Security offered a solution and Falck had some history in this area already. The internationalisation which subsequently followed was summed up in the 1998 Annual Report:

Geographically the Falck Group's growth strategy is based on the Nordic region. Through the acquisitions in Norway, Sweden and Finland and the subsequent restructuring of operations, Falck has established strong position in the Nordic market (Falck 1998: 16)

This geographic proximity model of expansion is known as the "Uppsala Model" (Vahlne and Johanson 2013). It posits that companies expand initially to geographically proximate countries and in particular countries where there is a strong element of shared culture

and knowledge of the market. The suggestion of the model is that the knowledge of the adjacent countries and their market for the product or service encourages the company to seek to expand there and also that the nature of current activities also leads to market commitment in the proximate countries. Falck's involvement in security activities and some of the rescue activities enabled a conscious strategy to expand into adjacent countries. The geographic strategy was stated clearly in the 1998 Annual Report and also indicates an intention to extend into the Baltic countries and Poland as part of the geographic strategy.

However, the Annual Reports also identify that the main growth will be via acquisition and in the security side of the business. In effect though 'walking on two legs' the focus is more upon the security leg especially in regard to acquisitions. As the 1998 Annual Report acknowledges there is not the same opportunity to acquire safety (i.e. rescue) businesses in the Nordic area. Rather the opportunities in safety is through knowledge transfer through such aspects as fire protection and personal care alarms for the elderly.

The merger with Group 4—a company entirely focused on security—was logical in terms of both further international growth and also consolidating a larger presence in the security market. However, it served to both focus the merged company towards the security aspects of provision. The implications of the merger and logic for the subsequent demerger are explored in Chaps. 5 (on governance) and 8 (on culture).

In terms of the synergy of the safety and security aspects of the Falck group the experience was that the envisaged resource benefits were not realized. However, the security side of the business furnished an essential corporate experience in internationalisation and growth through acquisition. It also enabled Falck to experience a degree of diversification beyond that of the previous core of safety.

In effect the 'walking on two legs' could be seen as a preparation for the later internationalisation and for the development of the four business areas under Nordic Capital. It also provided the 'stock market discipline' which moved the company into a more commercial orientation. In short the association with security and the 'marriage' and subsequent 'divorce' could be seen as an essential precursor to the later success of Falck when it lost the security element with the demerger of Group 4 Falck.

## Other Non-rescue Activities

The experience of Falck over the period post-family from 1988 up to 2004 was also of ventures into other activities. The training and vocational focus which the service had together with the strength of the brand enabled the company to engage in rehabilitation work with both disabled and long term unemployed people.

There was also an exploration of developing a focus on eldercare which took account of the likely increasing need for provision in this sector. Arguably such a development could build on both Falck's reputation and the level of public trust in the company. Also it had links to the development of care alarms for elderly and vulnerable people which represented a significant established market. However, the eldercare initiative was not realised and this sector did not become a significant discrete service area for Falck (though older people are significant users of other aspects of Falck provision such as ambulance and patient transport).

## Conclusions

The development of Falck in terms of services, products and markets is remarkable. The 1907 cartoon (Fig. 6.1) though clearly furnished in a humorous vein, was more accurate than the author may have realised. The Company in its early days engaged in a large amount of service/product change and market development. Though much of this could be viewed (in strictly Ansoff terms) as development there were also clear instances of diversification.

Falck was perceived as a quasi public service and the reader perhaps should consider whether a purely public service such as the public fire brigade (which was in existence prior to Falck) has seen as much service and product development as has Falck. It is only in the past decade or so in the UK that the fire brigade has moved into areas such as provision of domestic fire and smoke alarms. The extension of the fire brigade (in the UK) into the area of health provision through first aid response and ambulance/paramedic services is still not established.

The development of Falck into security provision was an early development but this was largely a domestic subscription market associated with alarms. The ‘Guarding’ and Cash in Transit roles involved in security (not to mention things such as prisoner transport and prison contracts) which were associated with the mainstream activities of security companies did not fit well with the rescue and ‘caring’ image of the emergency response and assistance side of Falck. The rapid dominance of the security side of the company in both revenue and growth potential also led to an imbalance.

However, the experience of being part of a larger group with a security orientation (and the stock market ‘discipline’) was important in equipping Falck with the international outlook and capability together with the necessary commercial focus to not just survive but to thrive when it was separated from Group 4.

The development of the four business streams and the globalisation of the company as a Danish entity are the subject of the next chapter. It should be noted that the origins of the business streams and in particular the move into health care are found in the early 2000s and this will be referenced in the next chapter. However, the growth as a global company is regarded as having 2004 as the key date.

## Notes

1. Reprinted with permission from Falck Corporate Archives.
2. From Falck Company website [www.falck.com](http://www.falck.com). Reprinted with permission from Falck.
3. Denmark was occupied by Nazi Germany 1940–1945.

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# 7

## Internationalisation and Globalisation Post 2004

Alex Murdock

### Introduction

This chapter examines the development of Falck into a global company from 2004 onwards. This marks the time from when the company came back to a Danish setting and separated from the security associations from Group 4 Falck. The acquisition of the company by Nordic Capital is a critical event in this change. Nordic Capital acquired Falck in December 2004 and exited in July 2011 when they sold their interest. However, the strategy and the core business areas were established prior to the acquisition but then developed during the time of Nordic Capital which set the path for global expansion.

### Theories of Internationalisation

#### The Uppsala Model

In the previous chapter the Uppsala Model of internationalisation was identified and described. In essence the Model suggests that companies start to develop internationally in both geographically proximate and

culturally familiar markets (Vahine and Johanson 2013). The reader is referred to the earlier discussion of the model but in essence the development of Falck from its Danish roots is significantly explained through the application of this model. As the account in this chapter will show the model still has a degree of relevance for the development of Falck post 2004.

## Resource View

This approach to internationalisation was also explored in the previous chapter and again the reader is referred to this source for a more detailed explanation. It has relevance to the developments post 2004. However, in this case the focus moves increasingly international and away from the adjacent countries and cultural familiarity which the Uppsala Model sees as a focus. Here the focus is upon the application of the Resource View to international expansion. Peng in a review of the academic adoption of the Resource View saw it as associated with the development of the field of strategy and also linked to the area of multinational corporation management (MNC) (Peng 2001). The Resource View enables an exploration and understanding of how a company might both support international subsidiaries and also benefit from the resources of the subsidiary as well. It also can enable an understanding and explanation of strategic alliances which enable a company to enter a geographical new market and also perhaps a market where it needs local knowledge.

The Resource View is also useful in understanding international expansion through acquisition. The cost, time (and challenge) of gaining the local market knowledge (which may be tacit) and the barrier to entry for an outsider inclines a company to adopt a Resource View in which the Resource required is found in the country of interest but the company possesses both financial and knowledge resources which the company in the target country either does not have or would find it hard to acquire. The acquisition process may often involve a clear desire to retain the actual tacit knowledge in key people in the target company.

## Institutional Theory

Institutional theory focuses on social structures which can become embedded and influential on both rules and norms and organisational forms and practices. The approach has strong links to sociology and also to politics and has become popular in organisational theory (Scott 1987). The relevance to internationalisation is that as you move away from a familiar home setting (whether it is a geographical context or an industry sector) then the institutional environment can change. The institutional context for a local authority is different from that of a start up film production company. There are differences in history, norms of behaviour and the structures and reward systems. A person from one setting who seeks to move to the other probably faces significant adjustment challenges.

Some organisations are able to move internationally with more ease because what they do is well known and standardisation is expected—perhaps even welcomed. Thus McDonald's is a global fast food chain which has a similar product and business process in all the countries in which it operates. It did not need to 'acquire' local fast food restaurants or change its model dramatically to accommodate the local institutional setting (other than perhaps issues around religious stipulations about certain food products). It was a Business to Customer (B2C) model and so long as the customer was willing to buy the product McDonald's has a market.

Where the market is Business to Business (B2B) or especially Business to Government (B2G) and involves both large scale procurement and also relates to services which are seen as 'public' in nature such as fire or ambulance then the institutional context can be critical. The 'outsider' seeking to access such a market is confronting barriers to entry which involve both open and less visible institutional characteristics. The institutional setting of the outsiders' home country may (almost certainly will) have strongly influenced the outsider and quite possibly may have been socialised the outsider to certain patterns of belief and expectation of 'how things work'. In the target country the institutional context may be very different and much of that context may not be easily discernable. The context may be profoundly resistant to entry by an 'outsider'.

This is applicable not just between countries but also between sectors and different providers. In the not for profit (charity) sector there was an institutional mind set which saw funding for their activities as grant based. When government sought to change the funding focus towards a contract base then this represented a quite different institutional context. Some not for profit providers, in adapting to this new world of funding, started to take on structures and an ethos more akin to private providers than to the 'purely charity' format (Elkenberry and Kluver 2004).

Institutional theory is seen in the expansion internationally of Falck as potentially relevant in understanding the public sector contracting and licensing which is particularly the case in ambulance and emergency services. The local knowledge of the institutional context which is typically accompanied by experience and presence in the local market can suggest that market entry is via acquisition or alliance as opposed to a new start-up.

### **Nordic Capital and Logic of Internationalisation**

The Falck Group Annual Report of 1999 identified the business philosophy as to 'meet customer needs for services and security within Safety and Security' (Falck 1999). This reflects the 'walking on two legs' image from the previous chapters in which the security leg was seen as essential to enabling the company to expand from its Nordic base and become more profitable. That growth had been substantially via acquisition in the security area and through organic growth which was reflected in the reported structures in various countries which generally focussed on the Security and Alarm side and made less reference to the Emergency (in terms of Ambulance and Fire). Indeed, some of the security offer even included aspects which could have been classified under Safety (such as a rescue training centre in Holland).

The demerger of Falck and subsequent sale to Nordic Capital created a situation where Falck, having reached out internationally mainly through the Security side of the Group 4 Falck business, was in a situation where it could have simply returned to a prime focus on Rescue and Emergency in Denmark.

In 2001 an internal report in Falck examined the internationalisation of safety services (Falck 2001). The report explicitly considered the possibility of both organic growth and acquisitions and focused on the following:

- Value creation through core competencies
- Moving up the value chain
- Striking the optimal mix between organic growth and acquisitions
- Exploiting growth opportunities in new and emerging markets.

The internal report considered four key business areas: Fire, Ambulance, Vehicle Assistance and Medical Services. It made some specific recommendations briefly set out in Table 7.1. There were acquisitions in health care services which moved Falck into areas of psychological and counselling services.

There was also a proposal to develop a Safety Competence Centre which would work across the (then) Falck group supporting country initiatives.

When the merger/demerger occurred in 2004 there was an intention to place Falck on the Copenhagen stock exchange as a new entity separated from the security side of the Group 4 Falck business. The offer prospectus issued in June 2004 linked to this identified both the business model and the four business streams which Nordic Capital highlighted below in their rationale for purchasing the company (Falck 2004). The June 2004 prospectus also went into considerable detail in analysing the market in the four business sectors both domestically and internationally. By accounts internally Falck staff were already using the analogy of 'walking on four legs' which replaced the original 'two legs' image of safety and security.<sup>1</sup>

Nordic Capital are a private equity company and their aim, in purchasing Falck, was to take forward Falck in terms of both growth and internationalisation. Nordic Capital themselves stated the investment rationale for Falck which can be seen as having a close resonance with the internal thinking of the safety side of the company and which identified and empathised with the potential identified in the June 2004 prospectus and in the earlier May 2001 internal report.

**Table 7.1** Recommendations and countries by business area

Business area	Recommendation	Countries
Fire	<ul style="list-style-type: none"> <li>– To seek improvements especially in Denmark</li> <li>– To focus on industrial market (such as airport fire brigades)</li> <li>– To develop products for sale</li> <li>– To adopt a ‘wait and see’ approach to public sector provision in other countries but consider bids when opportunities arise</li> </ul>	Significant market in Germany for industrial fire services
Ambulance	<ul style="list-style-type: none"> <li>– Sweden seen as already an established market</li> <li>– Internationalisation through both acquisition and through bidding for tenders</li> <li>– Development of partnership activity</li> <li>– Exploit changes in institutional environment such as changes in government policy which encourages contracting out of services</li> </ul>	<p>Holland through acquisition (to obtain ambulance license)</p> <p>Germany through acquisition and tender</p> <p>Norway (to seek partnerships)</p> <p>Baltic countries and Poland (to work with local authorities to take over services)</p> <p>UK (problems of direct entry but possibilities through Public Private Partnership or Private Finance Initiative)</p>
Vehicle assistance	<ul style="list-style-type: none"> <li>– The main focus was seen to be in the B2B market and in countries where Falck could expect to be in the top three providers</li> <li>– Also to focus on specific car manufacturers with a strong European presence</li> </ul>	Finland
Medical services	This was seen as a market with great potential both in the B2B and B2C market especially where there was already a market presence in the safety area	Northern Europe Eastern Europe

Source Adapted from Falck (2001)

Nordic Capital's own assessment of their purchase is a key statement which serves to illustrate the globalisation and subsequent development of Falck under their ownership. We have highlighted [in bold] some key points which will be explored further.<sup>2</sup>

Falck had a number of attractive investment characteristics; **a unique business model** built on a **strong brand**, a **unique asset network** supporting the **various service offerings** as well as **very professional employees...**

It enjoyed a strong regional market position within automotive assistance, the provision of ambulance and fire fighting services and, rescue and safety training to maritime and offshore sectors...

Falck also had a **strong platform for add-on acquisitions** and a unique **business model that could be adopted in other markets.**<sup>3</sup>

The points which are highlighted in **bold** are significant in that they represent the strengths which had not been able to fully be exploited under the previous ownership and particularly when the Rescue, Emergency and Safety (especially Training) had been the lesser part of an entity primarily driven in both revenue and expansion terms by the Security side of the Group. The particular business model in which rescue and Emergency services (Fire, Ambulance, Vehicle and home assistance) is described as 'unique' and indeed for a private company to be capable and effective in all these markets is arguably unique. The strong 'home base' both in Denmark and in the adjacent countries furnishes clear evidence that the model has potential beyond Denmark. The Safety training to maritime and offshore sectors is, in part, a reference to the oil and gas industry which was expanding in the North Sea and elsewhere.

The experience Falck had gained within the Group 4 Falck period was of international acquisition activity which had primarily been in terms of the Security side of the Group. However, this experience of acquisition is unusual in a sector (Ambulance and Fire especially) which tends to be strongly public sector and within national boundaries. In effect Falck had become experienced in both identification of

acquisition targets and in the actual acquisition and integration process. Arguably acquisition was in the original DNA of Falck (as witness the acquisition of Zonen) but now it was a potential core competence going forward.

Nordic Capital clearly saw Falck through the lens of private equity. They summarised it in words that are very much couched in the premises of the way in which such entities seek to invest their money and time:

The investment thesis was a combination of (i) identification of an under-managed company; and (ii) a view that a changed strategic focus can accelerate growth and expand profit margins. Since Group 4 had managed Falck as separate national businesses, the potential for capturing organic growth and add-on acquisition opportunities in a structured and efficient manner had been neglected. At the time of acquisition, Falck had a lot of untapped potential.<sup>4</sup>

The strategy going forward was stated quite simply by Nordic Capital as ‘a buy and build’ one combined with a focus on strong organic growth and supporting Falck to implement its own international expansion. This overall strategy of expansion through acquisition and organic growth could readily be found in the earlier Annual Reports from 1998 to 1999. However, the reality then was that the Security leg was heavily dominant and there are little specific references to the ‘unique business model’ or the potential of the Falck Rescue and Emergency components in the Group for international expansion through acquisition or growth. The then CEO does not recall any significant acquisitions on the Rescue and Emergency side of the business during the time of Group 4 Falck. This aspect had all been on the Security leg of the business or in areas of Safety which were not emergency or rescue related.<sup>5</sup>

However, a key strategic difference under Nordic Capital compared to the previous ownership situation was that the ownership was focused and concentrated and also, through the acquisition, had a clear vision as to what they intended. This did not involve a long period of ‘ownership’ but a definite intention to grow the business with a view to realizing the investment within a specific time frame. They sold out to Lundbeck

Foundation and its partners in 2011 though this (according to Nordic Capital) was some two years after the decision to initiate an exit process in 2009.<sup>6</sup> By account from interviews the exit was actually earlier than the originally planned timeframe and the amount realized by Nordic Capital amply justified their investment (possibly about seven times their investment).<sup>7</sup>

The period of ownership by Nordic Capital (and to a significant extent the subsequent ownership) therefore demonstrates a very impressive growth of Falck to a global company with a range of business activities. The chapter now analyses this growth with a particular focus upon how this happened. Some key questions are:

- Was the growth dominated by acquisition or was it organic?
- Was the growth in particular business sectors?
- Was the growth in particular geographic areas?
- Was the growth even and ongoing or were there ‘phases’ and setbacks?

Nordic Capital notes that they

...actively drove the strategic agenda throughout the six-and-a-half year ownership period. During this time, significant value was created, including an accelerated growth platform, both organically and through strategic acquisitions, and a significant margin improvement. Also, Nordic Capital supported specific initiatives within each of the four business areas - assistance, emergency, training and healthcare.<sup>8</sup>

The engagement of Nordic Capital and in particular the logic for the business areas identified will be assessed and then each business area will be followed in detail.

### *Growth by Business Stream and Country*

In the 2004 Annual Report (the first under the control of Nordic Capital) the stated vision is to develop a major international business working broadly within assistance, health, emergency management,

rescue and rehabilitation services. The international dimension is stated in directional terms as 'for a larger share of operations, revenues and earnings in countries other than Denmark'. The Annual Report notes that at that time (2004) more than 75% of the activities are in Denmark. It is perhaps worth mentioning that the report also highlights the active participation in a government program to integrate immigrants through both training activities and actual recruitment. This perhaps is acknowledging the values and ethos of Falck as it returns to its core base. There was no such statement in the 1999 Falck Group report (though perhaps at that time immigrants were not an agenda issue?).

### **The Business Model**

The 2004 and following Annual Reports set out three elements to the business model which are essentially unchanged for successive reports until 2008 when the report format changes.

The model has three key elements: Infrastructure, Competencies and Brand. Though these may be obvious to the informed reader as they are critical and durable it is appropriate to briefly explain them.

- **Infrastructure:** This represents the network of actual facilities including vehicle stations and dispatch centres together with the associated vehicles, equipment and staff and the IT set up. It also includes training facilities and the key staff involved in healthcare.
- **Competencies:** These represent the staff knowledge not simply about their professional field but also about customer relationships, market conditions and the potential to cross-sell and bundle services to the various business sectors.
- **Brand:** The strength of the Falck brand especially in Denmark.

In terms of internationalism approaches the account of the Business Model has a strong affinity with Resource Based Theory as it lays considerable stress up what is seen to be a unique combination of resources which are taken together seen as enabling expansion beyond Denmark. A resource which Nordic Capital do not highlight but which is implicit

in the strategy statements quoted previously is the intention to grow via acquisition and that implies the availability of capital to support such acquisition activity. However, it appears from the early accounts that the acquisitions were substantially funded by income from operations (Falck Group Accounts 2004–2008).

The CEO of Falck noted that there was no issues of shares from the time of the Nordic Capital acquisition in 2004/5 until the sale of Falck to the present investors (Lundbeck and Kirkbi). All acquisitions were financed through the cash flows of the business. In addition the debt was deleveraged considerably over the period from 2005 to 2010.<sup>9</sup>

In effect there was a further resource in addition to the three ingredients of the Business Model—namely access to funding for acquisition activity which though such activity could have been significantly funded from cash flow was in fact supported by a degree of external financing and a conscious strategy to forego any substantial payment of dividends which might have been necessary under a ‘stock market’ listing. The clear strategy of Nordic Capital was to grow the business not simply by organic growth through reinvestment of a portion of the earnings but rather more rapidly through a strategy of acquisition and internationalisation.

## **Assistance**

The Assistance part of Falck is described in 2004 Annual Report as consisting of ‘rescue and assistance services to private individuals and business customers, usually based on subscription’. The imagery in the Annual reports is closely vehicle breakdown related with pictures of vehicles being rescued or motorists being assisted. The early acquisition activity is linked to this area of focus and Falck is actually forced to divest itself of one aspect of an acquisition due to Norwegian Competition regulation. This is potentially suggestive of having a major market presence in this area of work. It is a very familiar area of business in most developed countries where motorists will take out breakdown cover and there is obviously a business market through car rental companies and car manufacturers.

The market for roadside assistance is a competitive one and also, in a relatively small country like Denmark, limited in the expansion potential. This provision was very much part of the DNA of Falck under the family ownership which had recognized the potential for vehicle assistance as car ownership and usage grew especially after World War 2.

The company in 2005 reported a presence in five Scandinavian/Baltic countries for roadside assistance service. Ten years later in 2015 The Annual Report describes Falck as the leading provider of assistance in the Nordic region to car and home owners. The vehicle assistance market, in effect, has not moved much from its geographical base of 2005.

However, it depends on how one defines assistance. A clue is found in the 2004 Annual Report where under Assistance reference is made to services which have very little apparent affinity with vehicle breakdown. Reference is made to health care plans and healthy living initiatives and also to a 'Baby Falck' subscription which offers parents telephone advice. Under Assistance mention is also made of a contract with a municipality and an Insurance company for support to staff who report sick. There is also a mobility service for disabled car users.

The international model in respect of the vehicle related Assistance services is indeed Resource Based but it does not appear to expand beyond the proximate countries. However what does appear is both market penetration and an expansion into related products or services.

Thus successive Annual reports identify increasing subscribers in the Nordic region and a stronger Falck presence in respect of vehicle assistance. The offer expands to include a car repair scheme and a booking system for car inspections. In 2011 Falck in Sweden moves into bike registration. In effect Falck is becoming the largest player in a Scandinavian/Baltic pond.

Assistance is not just around vehicles through and the ethos of Falck originally was that of a broader concept of assistance see Fig. 6.1 in Chap. 6. Hence we can see the category of Assistance as perhaps representing the 'open door' to new activity.

This was demonstrated in 2004 as mentioned above. The development of advice services to worried mothers or to employees with a health issue is clearly in the realm of assistance. However, does it link closely to the assistance rendered by a tow truck to a disabled vehicle?

### *Falck Global Assistance*

An obvious assistance concept closely linked to a vehicle is that of travel. From the Nordic origins of vehicle assistance, it is an easy step to assisting the traveller. The traveller may have a wide diversity of needs which are familiar to consular officials, insurance companies and to the concierge service offered by most up market hotels. There is the image of the Falck breakdown vehicle on a lonely snow covered road bringing a reassurance and professional competence to the anxious stranded motorist. From here (in emotional and travel terms) it is a relatively easy pathway to the stranded traveller in a strange city unfamiliar with local language and facilities reaching for a Falck Global Assistance card with the confidence that reassurance (in their own language) and professional help will be forthcoming.

The development of Global Assistance which in 2015 won the Award for Assistance Company of the Year clearly reaches well beyond the Scandinavian setting (Falck 2015). It has Call centres in India, China and the USA. The concept arguably comes from the traveller help to motorists but the enablement is directly associated with Falck's presence in 44 countries which enables both synergies in terms of infrastructure and the possession of key local knowledge. The case studies in the book on India and also on the USA (Chaps. 11 and 12) both show these aspects though in relation to significantly different Falck provision in the two countries.

One knowledge base a vehicle breakdown service acquires is details of the issues which present with various cars. This knowledge, gathered centrally, is a valuable asset which the car manufacturers may regard as commercially important. Certainly the larger breakdown organisations are aware that there is a market with their subscribers for evaluation and advice about their choice of car purchase. Similarly, Falck Global Assistance (certainly in the Indian case study—Chap. 11) acquired valuable information about the nature of incidents and claims which people called them about. It should be stressed that in India Falck Global Assistance does not directly insure people but acts as an agent for the insurance companies. Hence, like the vehicle breakdown service with cars so Falck Global Assistance acquires an increasingly useful

knowledge base regarding the nature of problems (and their resolution). In this respect Assistance has morphed into the area of Business and Management Information and Risk assessment.

It is an indication of how the business streams of Falck are entwined and that sometimes the synergies emerge from experience as opposed to preconceived design. Globalisation, like Innovation, is often a messy business without a convenient set of separate filing cabinet drawers.

## Emergency

The Emergency aspect of Falck has consistently been to the forefront except perhaps during the Group 4 Falck period where it was subsumed under 'Safety'. As the 2004 Annual report notes "The Emergency Business is what most people associate with the name Falck..." (Falck 2004: 10). The provision of ambulance and fire services under public contract was the basis of the Danish provision. Especially with Fire services and often with Ambulances the provision is by the state or through contracts with the State. There are services provided to industrial settings and airports and these are also through contracts.

The strong presence of the State as either the actual contracting party or as someone who determines the nature of licensing or access to this market puts this business in a particular category regarding international expansion. The state is, to use a well-known metaphor, the elephant in the room. When private (or not for profit) organisations seek to enter into state contracts they are confronting public sector organisations which share strong characteristics (Frumkin and Galaskiewicz 2004). These characteristics are not necessarily shared with the private or not for profit organisation. However, in order to 'win' the business the potential contractors (or license seekers) have to accept the institutional environment with which they are presented. They may even set up similar structures to 'mirror' the government entities with which they have to do business.

The fact that institutional structures and requirements are the 'elephant in the room' does not mean that the elephant in the adjacent room is the same elephant. The USA Case study (Chap. 12) represents

a rich diversity of contractual and licensing arrangements for ambulance services. The comments that ‘one contract is one contract’ and “when you have seen one contract you have seen one” made to the author during the data gathering for the case study was a comment about a wide diversity of institutional structures depending on where you were in the USA and on the actual level of government.

Sometimes the institutional setting represents an impossible barrier to entry as the Indian Case study demonstrates (Chap. 11). Here the nature of the contracting process was such that Falck India even went to court in protest. It is interesting to note that the largest ambulance company in the world is now one of the competitors which Falck India sought to partner with.<sup>10</sup> However, unlike Falck, it only operates within India where its domination is almost complete. It is evidence of a highly institutional system which cannot be easily penetrated by ‘outsiders’ or of an extremely capable provision or maybe a combination of the two.

Institutional theory would, linked with the Uppsala Model previously described, strongly suggest that the easiest public sector markets to access for both ambulance and fire provision would be proximate to Denmark and be in countries which shared language and culture and government practices. This is arguably the case with Falck expanding into Ambulance services in Sweden and then into Poland (there are some historical links between Sweden and Poland though it is not suggested that this played a significant role). However, what is probably the case is that a German Ambulance company seeking to ‘move into’ Poland may have aroused more recently grounded concerns.

The developments of partnerships and acquisitions is a logical means to deal with institutional issues. Falck acquired a number of ambulance companies in Europe but the area where acquisition really took off was in the USA and Latin America. Access to these markets was through acquisition as opposed to setting up a wholly new greenfield operation.

## Health Care

Though Falck had an early involvement in health issues as was indicated in the previous chapter it was under Nordic Capital that Healthcare

emerged as a discrete business focus. The 2004 Annual report states that the company 'intends that the Health Business should also contribute to Falck's continuing internationalization, not least in Eastern Europe.'

Initially it commenced with rehabilitation services for stroke and joint surgery patients undertaken as public service contracts in Denmark. In 2005 the Annual Report noted that Healthcare comprises all Falck activities relating to prevention and rehabilitation irrespective of whether they target private customers, corporate customers or public sector customers (Falck 2005). The clear intention was to reach across the B2C, B2B and B2G market. With the recruitment of a pension company Falck managed to reach a large number of employees. The focus was on preventative as well as curative medical provision.

There were some acquisition activity involving psychological and mental health services. The expansion initially was mainly via acquisitions in the Scandinavian region. The acquisitions were across a range of medical activities and also in return to work assistance. The majority (by value) were quite small but they covered a range of provision.

However, from 2008 Falck Healthcare extended its remit further geographically and also commenced contract work in Denmark on return to work support. This latter activity represented a move beyond rehabilitation. It was rehabilitation with a clear primary objective of enabling return to the workforce. This was a goal of a number of governments confronting an increasing number and expense of people who were on leave due to long term sickness and incapacity. There was also an acquisition of a Danish home care service and a care worker agency. The home care service has had a number of problems and has not proven to be a success for Falck.<sup>11</sup>

The development in this area of work was primarily in Denmark and proximate countries. In effect this aspect of Falck did not reach significantly further. In the Annual Report of 2015 makes reference to expansion in Sweden and Denmark and identifies three focus areas:

- Occupational health
- Healthcare staffing services
- Collaboration with the public services.

The implication of the report is that orientation is purely Scandinavian. However, if the reader consults the case study on Falck in India (Chap. 11) then the work undertaken in terms of health support for Falck customers there has clear similarities with aspects of the work being undertaken in Denmark and Sweden. The opportunities to develop corporate health programs and health monitoring and reporting had been identified and exploited in India.

The healthcare work which Falck undertakes in Denmark and adjacent countries has a potential for expansion further afield and is linked to the Safety and Training services which have a worldwide reach. The activity in Scandinavia which reaches across B2B, B2C and B2G and a range of health interventions represents a solid base from which to develop a more global offer. Health in its widest interpretation is an expanding market.

### **Safety and Training**

The last business area is in some respects the most global of all. In 2015 it reached across 19 countries and these covered much of the world. However, it is also explicit and implicit in the other areas of Falck's work. In Colombia, the USA and in India where the author visited to gather data for the case studies there was clear evidence of both safety and training activities. In India the Falck paramedics on remote sites were clearly engaged in training activities with the clients' personnel and on one site—a remote upmarket hotel resort—the training for hotel staff reached out into the nearby community.

However, the important characteristic of Safety and Training in the 2004 Annual Report was that it already had established a global presence in Europe, The Caribbean, Brazil and Malaysia. The presence was enhanced by an acquisition of a Dutch company which was involved in safety and training. As the 2004 Annual Report notes Falck in effect bought into a global presence through this one acquisition. The company also extended its safety and training activities in Scandinavia.

The reported extension of the coverage to 19 countries in 2015 may not appear as impressive but this does not take account of the reality

that safety and training are integral to the DNA of the company and that the definition of Safety Services in the 2015 Annual Report is explicitly services provided to the offshore industry (oil and gas platforms). Also the oil price collapse led to a resulting slowdown in that industry which had a rapid impact on Falck.

This illustrates some key factors in Globalisation in the Safety industry as defined by Falck in its 2015 Annual Report.

One key factor was that of *location*: Falck essentially had to go where the client was. The offshore oil and gas industry chooses where to drill and that is where the safety work is (though staff training can take place at training centres which may be located elsewhere). The work rises and falls with the fortunes of the oil and gas industry and the decision is not one which Falck has any control over. When there is demand for safety services then Falck has to go where the business is. The business happens to be global and therefore a safety and training provider to the industry also has to be global. Some of the locations may not be the location Falck might wish to service. Oil and gas drilling sites which the Author visited in the Rajasthan desert are in remote and generally unattractive places and the staff facilities were windowless and basic in nature.

Another aspect in the offshore oil and gas industry is that of *risk*. There are very serious consequences of a failure especially given an offshore environment. Therefore, the level of expertise to compete in this market is very high and the skill set is quite specific. Whereas in other areas of the work undertaken by Falck there was a degree of potential skill transfer between for example ambulance and fire and road assistance and a potential for shared infrastructure for safety work in the oil and gas industry the potential was less. The sites were remote and Falck was engaged in support to the main activity.

## Analysis

Figure 7.1 shows that in 2015 Falck was active in 45 countries and on six continents.<sup>12</sup>

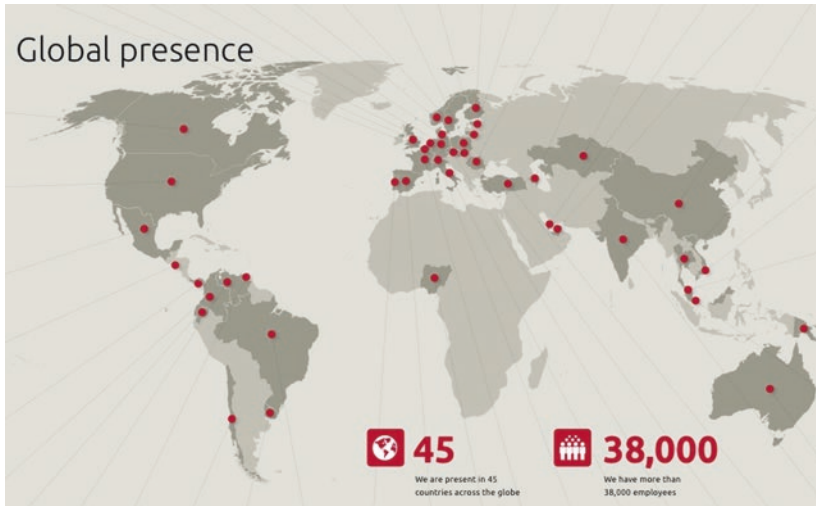


Fig. 7.1 Falck global presence<sup>13</sup>

The relative contribution of geographical and business areas is shown in Fig. 7.2.

The revenue for Denmark is now 40.6% compared to some 75% in 2004 which represents a considerable shift of the revenue focus away from the home country. However, the focus is still Nordic with some 60% of revenue from that region. The amount of revenue from North America has reached 15.5% and this is primarily from Ambulance work which Falck started there in 2010 with the acquisition of Care

Revenue by geographical and business area

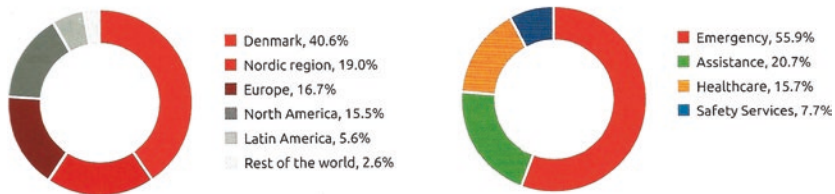


Fig. 7.2 Revenue by geographical and business area<sup>14</sup>

Ambulance in California (see Falck USA case study in Chap. 12). Latin America where Falck acquired Grupo EMI in 2011 is some 5.6% of revenue mostly in Colombia (see Falck Colombia case study in Chap. 9).

As regards the balance of between business areas the Emergency area is largest at nearly 60% representing primarily Ambulance and Fire Provision followed at some distance by Assistance at 20.7%. Healthcare is at 15.7% and Safety services at 7.7% having been affected by the oil price slump and consequent industry slow down.

How has this global presence been achieved? There is not one theory which explains it totally though a Resource Based theory has a strong claim to be broadly applicable. The national, international and global development of Falck generally is based upon utilising infrastructure, competences and brand in various combinations. The acquisitions are engaged into gain market entry sometimes to deal with institutional issues. A significant proportion of company activity is still grounded in the Nordic region and so the Uppsala Model of proximate expansion into familiar and adjacent countries holds a significant amount of explanation. This is especially so for Healthcare and aspects of Assistance activity (such as vehicle related assistance).

However, diversification in terms of both services and products is still a strong reason for expansion since opportunities have been seized to grow additional related products and services especially in the home markets. Some of the development in assistance especially the emergence of Falck Global Assistance represents a service which brings together a number of the business sectors of Falck and potentially reaches across all the countries where Falck has or may develop a presence.

The strong engagement in public sector contracts (or licenses to provide a service) in the Emergency area brings institutional theory to mind as an explanation for the nature (and success) of market entry and development. The inability to access the Indian public sector ambulance market arguably was associated with institutional factors which proved to be insurmountable. Therefore, Falck in India sought out other opportunities which linked to its competence and brand name recognition in gas and oil safety work. However, in both North and South

America it proved possible to enter the ambulance market through acquisition and engagement with existing players. In the USA Falck is now sufficiently embedded to be able to successfully bid for work under its own name and brand.

The success Falck has achieved in both developing different business streams and in extending its global reach to become the largest global private provider of ambulances in the world owes much to the strategy of Nordic Capital (largely continued under the Lundbeck/KIRKBI ownership). Nordic Capital realised the potential for Falck and set about implementing an effective strategy to enhance their investment sufficiently to enable their planned exit from the investment.

The managerial ownership of over 10% of Falck is undoubtedly a factor in enabling and assuring the commitment of the Executive Management to the continued focus on both expansions but also on ensuring that there is an 'owners' focus to managing the company. In effect it resolves the Principal Agent problem.

## Summary

The chapter has shown how Falck has evolved internationally since 2004. The expansion has been generally steady and was based upon a strategy which was internally explored and devised prior to the acquisition of Falck by Nordic Capital. The 'four legs' approach expanded the reach of the company in terms of services and products in the 'Safety' sector. The explanations for globalisation in theoretical terms draw upon a range of theories with no one theory explaining the entirety.

The focus of ownership and clear intent of Nordic Capital were critical factors. Their clear intention to seek both organic growth and growth through acquisition beyond the Scandinavian market was essential for this. There were planned synergies in the development but also, as the case studies demonstrate, there was a local latitude to both innovate and to develop potential new services and products. The complexity of the various markets and offerings means that, though there is a high degree of financial oversight and acquisition decisions are made centrally, there is also a significant degree of local discretion.

## Notes

1. Communication with senior manager of Falck 15 Nov 2016.
2. Source <https://www.nordiccapital.com/portfolio-companies/case-studies/falck.aspx>. Accessed 10 Nov 2016.
3. Source <https://www.nordiccapital.com/portfolio-companies/case-studies/falck.aspx>. Accessed 10 Nov 2016.
4. Source <https://www.nordiccapital.com/portfolio-companies/case-studies/falck.aspx>. Accessed 10 Nov 2016.
5. Source Author Interviews with Lars Nørby Johansen May 2016.
6. Source <https://www.nordiccapital.com/portfolio-companies/case-studies/falck.aspx>. Accessed 10 Nov 2016.
7. Source: Author Interviews with Lars Nørby Johansen May 2016.
8. See <https://www.nordiccapital.com/portfolio-companies/case-studies/falck.aspx>. Accessed 10 Nov 2016.
9. CEO Communication with Author 16 Nov 2016.
10. See <http://scopeblog.stanford.edu/2015/10/15/a-look-at-indias-medical-miracle-the-largest-ambulance-service-in-the-world/>. Accessed 10 Nov 2016.
11. Source <http://www.beredskabsinfo.dk/emne/falck-hjemmepleje/>. Accessed 10 Nov 2016.
12. Some sources regard Europe and Asia as the same continent. Here we have regarded them as separate. In 2016 Falck ceased activities in Kazakhstan so reducing the number of countries to 44.
13. Reprinted with permission from Falck. *Source* Falck Annual Report (2015).
14. Source: Falck 2015.

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# 8

## Culture and Core Values

Alex Murdock

### Introduction

Corporate culture is a concept which has been the subject of much academic study and also of practitioner literature (Schein 2006, 2009; Hofstede 2001; Deal and Kennedy 2000; Morgan et al. 1997). In the context of rescue services there is an additional factor of the stronger values orientation and public expectation which were discussed in Chap. 2.

The long history of Falck and its very basis as a family firm adds a further cultural element and this chapter aims to explore and analyze the cultural context from the perspective of the past, present and future. Over time Falck has changed its ownership from family through various iterations to its current situation with family based trusts. Ownership also has cultural implications and this chapter links with the governance dimension covered in Chap. 5.

This chapter identifies and explains key cultural concepts derived from academic literature and then makes specific use of a widely used management tool, the Cultural Web, to evaluate the culture of Falck in terms of the history of the company and linking it to the current situation and in respect of how the culture may both be maintained and

adapted in the future. This analysis was informed by work conducted with key staff in the company.

## Culture and Values

Possibly the key author in terms of academic citations in the area of organizational culture and values is Schein. He observes that “Not only does culture reside within us as individuals but it is also the hidden force that drives most of our behavior both inside and outside organizations” (Schein 2009: 3). He suggests that there are two theoretical approaches to culture; the first aims to measure abstract and universal dimensions and typically will generate a broad-based theory, whereas the second approach focuses on the nuances of particular cultures (within an organization or industry sector, for example) and which generates mid-range theory with a more narrow application. Given the focus of this book upon both a particular type of service provision (emergency and rescue) and upon a particular company with a long history in this industry it is proposed that the natural focus would draw upon the second approach.

Schein described culture at three levels and this can be readily applied to both emergency response and to the nature of Falck as a company. The first level is that of artefacts which are both visible and readily discernable. The second level relates to espoused values and these are typically stated values and behavioral expectations which are publicly promoted by the company. It may be couched in terms of customer commitment and professional standards. The third level is the underlying assumptions which have often been so thoroughly internalized they have become unconscious to people within the company. They are akin to the fact that we take for granted the ability to walk and do not consciously think about it.

## Artefacts

Emergency rescue services are replete with such artefacts and some are universal. Almost all ambulances carry the medical symbol of the Rod of Asclepius. This symbol of a (non-venomous!) snake entwined around

a stick has been associated with healing from Ancient Greek times. It originally was actually linked to in-hospital care but now is commonly found as a logo on ambulances. The logo, perhaps for reasons relating to popular images of serpents, is not usually present in hospital wards but has widespread applicability as a logo for ambulances. There is a great deal of physical imagery associated with emergency response services. Some of it is visual such as uniforms, vehicles and equipment. Some is aural such as the sirens on the vehicle. Indeed, one cultural image of ambulance (and fire services) blends both visual and aural stimulation and is captured by the phrase 'blues and twos' meaning the blue flashing light and the two tone siren which warns other road users to make way for an emergency response vehicle.

The actual color of vehicles is also a powerful cultural artefact in emergency services. The typical color of fire appliance vehicles is a color description in itself.<sup>1</sup> Emergency vehicles are often a standard color and red is often used for fire response and for emergency ambulance vehicles. Sometimes yellow (or white) is adopted as a standard color. Usually this is done in order to both enable easy visibility and recognition of emergency vehicles.

Falck, as a company, has a highly visible and recognizable logo ('the bird') which has become synonymous with the company and appears on all vehicles, premises and other corporate identifiers. The original association emerged from the actual name of Falck and the Danish meaning of the word: falcon. (Fig 8.1) However, as the company expanded its activities, the name and the logo has become synonymous. Indeed, when the author first visited Denmark he assumed that the word 'Falck' actually was the Danish for rescue as it appeared on so many different kinds of emergency response vehicles and that the falcon logo was Danish imagery akin to the snake around the staff also meaning rescue.



Fig. 8.1 Falck logo<sup>2</sup>

## The Espoused Values

Falck, even though it has not been directly associated with the family for many years, prominently acknowledges the founder and the values of the founder. The company asserts that the values espoused then are still at the core of what the company believes now:

- Always to assist—whether payment can be expected or not—whenever people, animals or valuables are in danger.
- Always to attempt to prevent and minimize the extent of the damage in the best and quickest way possible whenever an emergency occurs.
- Always to bear in mind that quick assistance is twice the assistance.<sup>3</sup>

The company notes that: “these deliberations were Sophus Falck’s vision in 1906—and it is still the core of what Falck symbolizes today—more than a hundred years later”.<sup>4</sup>

The three statements carry with them the implication of speed, rescue (of both people as well as animals) and the minimization of loss in an emergency. The interesting phrase ‘whether payment can be expected or not’ is quite significant in that it represents a clear acknowledgement of the essence of a rescue service and also implicitly suggest a ‘public service ethos’ which is not linked to a purely revenue generation model typical of a ‘for profit’ corporation.

## The Taken for Granted Assumptions

The taken-for-granted assumptions in a rescue and emergency context are those which do not necessarily explicitly appear in corporate documentation or formal procedures. They are deeply held and, according to Schein, may not be consciously visible to those who are ‘inside’ the organization who have ‘internalized the assumptions’.

In Chap. 1 we highlighted in the family history of the company a level of paternalism (with some aspect of feudalism) in the way both the family saw the company and the employees perceived the family.

The Author has seen the strength of the company ethos in respect of the involvement of staff. The Responce case study in Chap. 10 refers to a preference of Falck staff to remain with the company when a contract is lost even if this may involve considerable inconvenience and personal upheaval.

Perhaps as telling is the practice that over time the name 'Falck' has become a synonym for 'rescue'. Especially older and earlier Danish generations internalized the Falck name into the actual nature of the service. Instead of saying 'have you called the emergency service?' the actual phrase would be 'have you called Falck?'

The public Danish broadcasting service, Danmark's Radio, is not allowed to advertise. In 2012 (when Falck was well established as a private company and owned primarily by the Lundbeck Foundation), a viewer complained that radio and television in their accident reporting often used the term 'Falckrescuer' even when referring to ambulance staff working for other service providers and that this gave Falck unfair advantage. The complaint was not upheld. The Danish Language Authority, a government body set up to determine correct use and spelling of Danish, was consulted and determined that the term 'Falck rescuer' is used generically for ambulance rescuer.<sup>5</sup>

When Falck was involved in household security they would often hold a spare set of house keys for subscribers. The Author, when undertaking research on Falck in 1998, found that the Danish word 'tillid' was a unifying concept describing much of the essence of the 'taken-for-granted' assumptions of the company. 'Tillid' does not translate as 'rescue or response' but rather means 'trust or confidence'. It is a term which, in the UK, would probably be most used to describe the public view of the National Health Service.

## **Culture and Strategy**

### **The Cultural Web**

The Cultural Web is an analytical approach to assessing cultural dimensions of an organisation which is widely recognised and promoted in

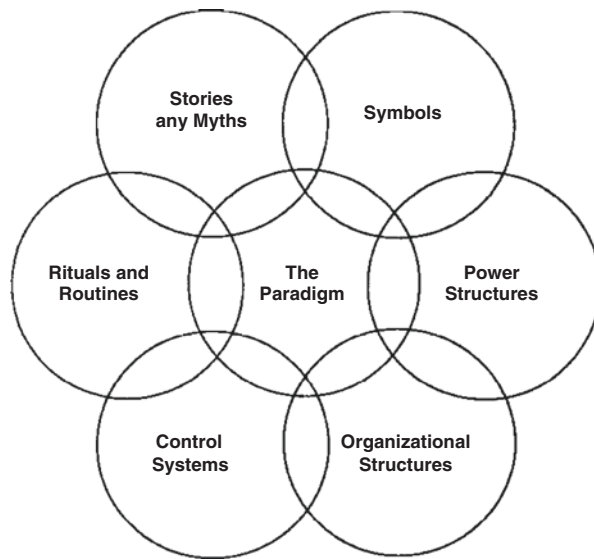


Fig. 8.2 The cultural web<sup>6,7</sup>

both management literature and by organization practitioners. The form which is now widely used was formulated and published by Johnson and Scholes in 1987 (Johnson 1987). The imagery is of a venn diagram with overlapping circles representing a number of different concepts. The core of the diagram is represented by the paradigm of the organisation ... a unifying concept which is seen as summarising the organisational mission and values ... in effect what is the organisation essence. These are set out in list form below in Fig. 8.2.

### *Elements of the Cultural Web*

- *Stories.* These are the stories which are told about the company and key people in the company. They may be passed through official records, media sources and also by word of mouth. The stories serve to illustrate the culture and values of the company. They may be positive examples but they may also illustrate what is not acceptable.

- *Symbols.* These are artefacts which are regarded as important, sometimes crucial, to understanding the company and its culture. They may be tangible items such as a logo or even a building. However, they can also be ways things are described and the very language used in the company. Symbols often may link to other aspects such as power structures and control systems.
- *Power structures.* This represents what groupings or individuals are able to exert influence within the company. Power may map onto organisational structures and control systems but not necessarily so. Power may be informal and not represented within such structures. Power may possess both a positive aspect of being able to enable change but it also might be negative in the sense of preventing change from happening.
- *Organizational Structures.* The organizational chart in many companies will set out lines of accountability and will typically be both hierarchical in nature but may also demonstrate some silo effects through, for example, divisional structures or functional separation. Typically, it is a formal presentation of relationships. Some devolved organisations are characterised by flat structures with broad spans of control.
- *Control systems.* The measurement and operational mechanisms in an organisation enable reporting of key information both up and down and laterally. An organization may have a formal structure which is not matched by an adequate reporting or control system. The information which is passed up and instructions which may be passed down are clearly affected by whether the control system is both efficient and effective.
- *Rituals & Routines.* Organizations have a life which may be rich in ritual activity. Such activities may be formal in nature such as annual celebrations and activity to acknowledge a staff achievement (such as having a particular length of service in the company). Sometimes they might be informal but still embedded such as going out for a drink on Friday after work or even expectations about 'taking it in turn' to make tea. Such informal activities may be local to part of the organization and typically emerge from the staff themselves and are communicated informally to new members of staff.

- *The Paradigm*. Johnson et al. describe this as “the taken-for-granted assumptions and beliefs of the paradigm are the *collective experience* applied to a situation to make sense of it and inform a likely course of action. The assumptions of the paradigm may be very basic” (2009:197).

The Cultural Web is also a useful tool to explore at organisational change as it highlights elements which, taken together, present the organisational culture and values. In particular, the Cultural Web can identify internal consistencies and inconsistencies. Thus an organisation may have an ethos focused upon a high level of participation as exhibited by organisational stories and rituals but the organizational structures and control systems may be hierarchical and top down. In effect there is a mismatch between elements of the cultural web. Similarly, the Cultural Web may demonstrate that an organisation which has recognized a need to change and perhaps adopt tighter controls (one aspect of the cultural web) confronts a barrier in that the other elements of the web are not supportive of such a change. Hence simply introducing tighter controls will be problematic unless there is a concerted and wider engagement to bring about change in other aspects of the culture of the organization.

## **Cultural Web Applied to Falck**

In this section we will explore how the cultural web applies to Falck drawing on an exercise conducted with Falck staff in Copenhagen on November 1st 2016. Then we explore the Web in more detail and identify what is critical in maintaining the key aspects of the company culture whilst acknowledging the growth and aspects of change in the company:

### *Symbols*

A visitor entering any Falck premises anywhere in the world will be met with a photo of the founder, Sophus Falck, in the reception area.

This is an indication that the organization is proud of its roots and want to demonstrate to the world that the core business and values still hold true today as they have for over a century

Always to assist—whether payment can be expected or not—whenever people, animals or valuables are in danger.<sup>8</sup>

### *Stories*

The story is that Falck is will turn up whenever help is needed.

As part of their induction, new Falck staff are shown a presentation of the history of the company. They hear how a fire in 1884 of Christiansborg Castle, the seat of the Danish Parliament, had been managed ineffectively causing excessive damage and the loss of irreplaceable national treasures. Years later, Sophus Falck would recall how this event had made a deep impression on him as a young man and a volunteer salvage worker at the fire, and that this had prompted him eventually to set up his own salvage company. By the time he told the story some 40 years had gone by and he had the benefits of hindsight. By then the Fire of 1884 had gone down in collective memory as a national disaster so it made a good story. It could, of course, be true. Or it could be that the event had demonstrated a gap in the market and he was reminded of this business opportunity after his other business ventures—making garden furniture and buildings with light structures—proved not to be big successes.

There are more recent examples of stories of how Falck is present when help is needed. After the terrorist attack on Paris in Nov 2015, Falck sent a team to Paris to offer psychological support to Scandinavian citizens affected by the event.<sup>9</sup> The response was reported on the Falck web site and though it was linked to some requests from members of Falck Global Assistance the account was of a service not restricted to Falck subscribers. Falck described the situation at the time as ‘chaotic’ and gave details where their team could be contacted so “Danish, Norwegian and Swedish travelers can seek information, help and advice with regard to medical needs, logistics in relation to transportation and insurance coverage”.<sup>10</sup>

This is an example of not only that Falck is there to help but also that help was given “... whether payment can be expected or not ...” which brings us to another Falck story: that it is not about making a lot of money. When talking to family members or long-serving employees, one hears that “It was never about the money”. This is continuation of the myth that Falck is a public body, a myth that was originated with the founder, was perpetuated by his successors and for many years, at least, commonly believed by the public. Indeed, in many years during family ownership, there was very little profit and sometimes loss from emergency services to the public which were, in effect, cross-subsidized by private subscription services (Jacobsen 2006; Madsen 2006).

There are other embedded examples of Falck’s willingness to provide services whether payment is forthcoming or not. Normally, an ambulance service will not refuse assistance to a person in a life-threatening situation. It is part of the ethos of such services as well as being illegal in many countries. In parts of the world, such as in the USA (see Chap. 12), Falck needs in some cases to get part of the payment directly from the patient after the service has been rendered (typically for emergency transport to hospital) as a consequence of insurance-based co-payment schemes. However, a substantial proportion of customers do not pay up. In spite of that, Falck (and its associated companies) will generally not refuse such non-payers subsequent services.

In spite of the stories, Falck is not and has never been a not-for-profit company. The sale of Falck to a private company in 1988 has been described as a loss of innocence (see Chap. 5). It could no longer pretend to be a public body. The myth could no longer be kept alive.

### *Power Structures*

It is the perception of Falck staff in the discussion, that power resides in very few hands and in particular in the CEO and Deputy CEO. The two of them get involved in many decisions, are well known and highly visible to staff not only at Head Quarters in Copenhagen but also at outlying stations and internationally. They are reported to complement each other, and are able to engage in healthy dialogue. (The CEO and

Deputy CEO are also part-owners of the company, holding between them over 10% of the shares). Falck uses a uniform reporting system which means that senior staff can obtain up to date, detailed information about an operational unit very easily.

There are few women in top management: In October 2016, of the nine Falck Board Members only one, the Vice Chairman, is a woman, and there is only one woman in the senior executive team of 27.<sup>11</sup>

### *Organizational Structure*

There is no organogram of the whole organization in one place. This is a deliberate choice by then CEO. He is reported as saying that he does not regard a detailed organization chart as important. An organogram can be pieced together by contacting individual departments.

There would appear to four different styles of communication through the organization

- Military style. At operational level, structure is very clear
- Project-based style
- Silos—based on business streams or function
- Informal means of getting round the above

Some staff report that it is easy to bypass the formal structures and simply contact a colleague directly, while others find it more difficult. It is not always clear to colleagues outside the department who is responsible for what. The company intranet goes some way to clarify this.

### *Control Structures*

Much of Falck is compliance-driven, operating in high risk industries such as nuclear, oil and gas. There is zero harm goal. There are many external legal regulations concerning health and safety and environmental risks among others.

These must be followed. “We do not want to compromise” was a comment made about the need to follow procedures and regulations.

A Code of Conduct exercises a softer type of control and this is set out prominently. It sets out six key expectations of staff. These are:

- Accessibility: being always available and ready to help
- Competency: to constantly make an effort to retain and improve skills
- Efficiency: to look for solutions rather than problems
- Speed: to respond quickly and with dedication whenever people need help
- Helpfulness: to make people safer in their everyday lives.

There are formal control structures e.g. Board and Executive Management which staff mention (and which are discussed in Chap. 5). Furthermore, frontline services have strong controls in place. Key performance indicators are shared with staff and there are customer relations measures.

### *Rituals*

All staff receive first aid training during induction, and training is repeated periodically. This applies to all staff not just the ones who work in direct client contact in operational settings.

Falck has a number of ceremonies to celebrate particular events:

- The anniversary of the founding of Falck on 3 Oct 1906. On that occasion, awards are given, the Medal of Honor, for exceptional services beyond the call of duty, and sometimes for lifetime achievements
- Ceremony for the fallen commemorating Falck employees who have died in the course of their duties.
- Staff anniversaries at 10, 25, 40 and 50 years of service within the company, regardless of position and regardless of full or part time status.

There are set rules for celebrations e.g. wearing uniform and medals. Anniversary celebrants have a choice from a set list of gifts.

### *The Paradigm*

The espoused values set out earlier in this chapter probably encapsulate the continuing Falck paradigm and bears repeating:

- Always to assist—whether payment can be expected or not—whenever people, animals or valuables are in danger.
- Always to attempt to prevent and minimize the extent of the damage in the best and quickest way possible whenever an emergency occurs.
- Always to bear in mind that quick assistance is twice the assistance.<sup>12</sup>

The most recent published mission of Falck is set out in words which largely echo the words of the founder set out above taking the vision forward into the future with a focus on the international arena and also acknowledging the key business areas:

For more than 100 years, it has been Falck's mission to prevent accidents, disease and emergency situations, to rescue and assist people in emergencies quickly and competently and to rehabilitate people after illness and injury. Based on this mission, it is Falck's vision to develop a major international organization working within assistance, emergency, healthcare and safety services.<sup>13</sup>

Do the elements of the Cultural Web derived from a mixture of documentary evidence, observation and the focused contribution of Falck staff both support the core values and do the elements 'hang together' in a consistent fashion? Using these sources, the elements of the web will be analyzed in terms of their mutual fit and their support of the core values.

### *Implementing a Value of Equality*

The concept of equality between different staff groups is valued within the organization. Effort is made to ensure that office-based staff at the

Head Quarters are not having benefits that would not be possible for to give to colleagues based in rescue stations, for example there is no domestic staff employed to fill the dishwasher so staff take it turns, the annual corporate Christmas dinner is relatively modest and alcohol is not allowed on the premises except for formal celebrations.

Office-based staff are given the opportunity to take part as an observer on a front-line shift so they can gain some understanding of the core business. The reverse does not seem to occur (ambulance or fire staff being able to spend time in the support office settings) though it was felt that this was not due to any prohibition but rather the expectation that office staff could spend time 'on the front line'. This suggest that the focus is on the front-line and the delivery of services to the public.

### *Quality as Core Value*

Delivering quality services is a core value for the Falck Concern. It is therefore a matter of pride for the organization, that a number of the regional Falck ambulance services are accredited by The Danish Institute for Quality and Accreditation in Healthcare.<sup>14</sup>

### **Exporting Culture**

Maintaining corporate values and reinforcing them is a challenge for any large organization. Even more for a company undergoing rapid expansion and now operates in 44 countries on all continents and in many different cultures. Furthermore, in many countries, Falck has entered a market by buying an existing company which will have its own culture which will have to be taken into account.

The Falck Concern has a corporate culture manual for staff. The directors in each country is responsible for implementing it, and it is measured. The manual is based on Danish customs and practice. It does, however, state "It is not our intention to dismiss current local history and cultural traditions but rather to incorporate them with existing Danish based cultural initiatives" (Falck 2016: 5).

The Manual gives directions regarding the public image of the company: covers, logo, branding uniforms, as well as internal issues, such as guidelines for conducting ceremonies. The Manual (Falck 2016: 9) states the corporate values:

- We are always available and ready to help
- We constantly make an effort to retain and improve our skills
- We look for solutions rather than problems
- We respond quickly and with dedication whenever people need our help
- We want to make people safer in their everyday lives
- We repay your faith in us by always keeping our promises

Every couple of years, a corporate event is held to reinforce the common values. An observer at the 2012 gathering, noted that culture appeared to be communicated one-way (from Denmark outwards) (Schulze 2012). From comments and responses by non-Danish participants, she noted that they largely valued being part of a common culture but also that they felt they were not always heard. It appears that Falck has taken the report to heart as the current edition of the Manual expressly invites colleagues around the world to provide feedback: “should a country wish to adjust the manual; for example, if the guidelines do not fit with local customs, kindly contact ...” (Falck 2016:5).

Some cultural aspects have proven to not travel well. It is a Danish custom to shout ‘Hurrah’ three times at a celebration such as a birthday. This is usually followed by a fourth, drawn-out hurrah. However, there is a tradition within Falck to replace the fourth hurrah with ‘Falck!’

The custom has been reviewed recently. It was felt that it was a peculiar Danish custom that did not make sense in all countries in which the company is operating and it is now optional.

## **The Cultural Web Analyzed**

Emergency and rescue organizations are highly symbolic entities. Staff have uniforms and distinctive vehicles and some of the symbols such as

the medical symbols are international in nature. However, for Falck a key symbol is a human one: the picture of the Founder which is on display at Falck and Falck associated facilities world wide.

The falcon logo is linked phonetically to the company name ('falk' is the Danish word for 'falcon'). It is a well established symbol which is found on flags, buildings, vehicles and company uniforms. It is so omnipresent that the staff do not even refer to it when asked about symbols of the company. It is taken as as obvious as the air you breathe. When the demerger of Falck from Group4 Falck occurred in a conversation with a key member of Falck staff, the Author was told that they were 'arguing about the bird'. However, in the Author's opinion there was no question as to which party would retain the falcon symbol when Falck separated from its association with Group4. The link between picture and name works in Nordic and German and is similar in other European languages.

The stories of the company reach back to the early history and in fact in respect of the fire of the Castle to the pre-history which inspired Sophus Falck to found the company. The provision of help still generates stories as illustrated by the account of the support provided following the Paris terror attack. The nature of help in the latter case is significantly different to that of responding to fire and rescuing valuables. Rather the response to Paris was of people able to furnish both counselling and practical assistance to people who were in distress and need.

The accounts of most rescue and emergency services (whichever sector they are located in) will offer stories with a similar flavor of providing services that are not impelled by a profit seeking motive. When the Author visited Care Ambulance in Orange County USA to collect data for the USA case study an account was given of how they responded to Hurricane Katrina even though this took place on the opposite coast of the USA. There was no reference to any income generation motivation. Rather it was seen as the 'right thing' for the organization to do.

Stories are a key part of the culture of an organization and in an emergency and rescue setting it is natural that the stories would have this focus. The strength of the image of Falck is demonstrated by the application of their name to any act of emergency rescue even when not carried out by them as described above.

The strength of the Falck brand is something which may have led Danish public authorities to restrict the size of the provider logo to the equivalent of an A4 sheet of paper when outsourcing ambulance services. Falck also had its own color (red) which it used for all its emergency vehicles. Some local authorities have, perhaps significantly, specified a different color for ambulances in public service contracts. This may be associated with a conscious attempt to limit the power of the Falck brand where it is being used on public service contracts.

The rituals and ceremonies are supportive of a strong culture. It is of interest to note that Denmark is an egalitarian society and though there is a celebration of time served in organizations—which often feature formal announcements in local newspapers—the award of medals and singling out particular people for especial recognition is not a major feature of Danish society. There is no ‘honors list’ similar to that of the UK, for example. The presence of medals is certainly found in military organizations generally. Rescue-based organizations present the opportunity for staff to save the lives of other people sometimes at personal risk. However, the award of medals is associated with an act of service over and above that expected of the normal work activity.

The lack of a detailed organizational chart in an organization of the size of Falck may appear surprising. The uniformed nature and service focus of the company would suggest a visible structure and hierarchy. The perceived clear concentration of power in the Executive Management Team which is just three people could suggest that an organizational chart is not necessary. The rapid expansion of the company outlined in the Chaps. 5–7 perhaps suggests that a detailed organizational chart would represent a challenge in terms of continual updating. However, the broad structure of the organization is set out in a simple chart on the Company website.<sup>15</sup> This shows a divisional structure based on the four business areas with the Emergency Service area then having a geographic divisional structure under it. However, given the pattern of expansion through acquisition of existing companies the issue is potentially more one of monitoring activities from companies owned or partially owned by Falck.

Control systems are a critical part of the Cultural Web in an organization which is heavily driven by protocols and a need for reliable and

fast response services which are the subject of regulation. Falck has a long experience of operating control and information systems and these are embedded in the culture of the company. Perhaps as important however are the 'soft control systems' which are embedded in the Code of Conduct which sets out a clear set of values and behaviors expected of staff.

## Culture and National and Business Sectors

As Chap. 2 has described there is a particular set of values associated with emergency and rescue organizations. They are values which have a strong service ethos and often associated with a professionalized public sector setting (Busch and Murdock 2014). The history and origins of Falck strongly embed these values and they are embedded in the culture of the company as shown in the cultural web.

In Chap. 6 we have seen how Falck, through acquisition of companies and then through merger with a major security company, became dominated by the 'security or guarding' business sector. This business arguably did have some origin in the original values of Falck in the 'rescue of property from risk of fire or flood damage'. However, the substantial activity of the company over its many years with the family were associated with the emergency response. The name 'Falck' became almost synonymous with 'rescuer' as described.

The expansion of the Company abroad (44 countries in 2016) raises questions of national cultural factors. The emergency service provision especially via public sector contracts or license is significantly affected by local regulation and practice. The case studies in this book show clear differences between countries and indeed within countries. In one country (India) it proved impossible to enter the public service market in respect of ambulance provision and in fact India now has the largest single ambulance provider in the world based on the growth of a local provider which is structured as a not-for-profit provider.<sup>16</sup> In the USA, as a contrast, there was a vast range of different contract and licensing arrangements and a market generally favorable in terms of the potential for ambulance provision though Falck (as shown in Chap. 12) had to offer assurances that they would not compete for public fire contracts.

The synergy between the various business divisions of Falck varied and the case studies prepared for this book offer some illustration of this. In India the inability to access the public ambulance market led to a focus on industry based services (which used both similar ambulance vehicles and trained staff). This was associated with developing other commercial activities which had a synergy with the industrial work including aspects of health support to private organizations. Falck Global Assistance has a particularly interesting potential as Falck extended its activities to more continents and countries. In India it enabled close working with insurance companies as more Indian citizens travelled abroad and were able to benefit from a local provision sensitive to local culture and language whilst also able to call upon Falck expertise in the country where the need arose. The partnership also enabled Falck to preserve its' culture as 'helping and assisting' as opposed to becoming the direct insurer of travelers.

The Culture Manual for Falck managers acknowledges that the culture of overseas entities may not readily understand and adopt all the practices of Falck especially symbols and rituals familiar to the Danish workforce. In the USA the growth through acquisition of ambulance companies led to an acceptance that the 'local company' logo had more symbolic importance than that of Falck so there was a mixture of practices regarding the use of logos and indeed other corporate symbols. It was an understandable adaption but, for example, not one which heavily branded international companies like McDonalds or Body Shop would have accepted.

In the longer term a question will arise as to whether the Falck Logo and general cultural elements will 'ease out' the local ones. The entry to the USA ambulance market has involved a wide range of ambulance brands and this would seem to be a deliberate strategy. However, the growth of the main US provider American Medical Response (AMR) with the takeover of a competitor has made AMR the largest ambulance operator in the USA. Chap. 12 may suggest that the strategy of Falck in the US market may involve developing a more unified corporate identity.

The strength of the organizational culture and espoused values of Falck is critical for the future of the company. Aspects such as the

symbols, stories and rituals will need to be both promoted and protected to ensure that what would be (in commercial terms) be regarded as the brand value is not eroded or diminished. There may a question as to the extent of 'stretch' of the company values into new business streams. Eldercare was considered and not pursued as a business area, for example. The expansion of the company internationally has not been accompanied by the emergence of large formal hierarchical structures and the information and control systems appear to be a particular strength of the company.

The corporate culture is supported by the 'familiness' found in the Executive Management Team, highlighted by their actual ownership participation. There is further support in the ownership of KIRKBI and of the Lundbeck Foundation including the social objectives implicit in the aims of the latter. However, both the Lundbeck Foundation and KIRKBI see Falck as a commercial investment and if this was challenged the situation could change.

The history of the company culture has been of surviving a succession of changes in ownership but arguably at some points it was at some risk of being overwhelmed by more commercial and less service focused culture.

## Summary

Falck operates significantly in an industry where organizations have a strong culture and a tradition of public service. There is a particular paradigm shared by rescue and emergency services and this typically is associated with strong organizational cultures.

Falck itself has a very strong culture which has, unusually in an emergency context, reached across a diversity of services including fire, ambulance, vehicle assistance and health and travel assistance. It also links to the work undertaken in training and safety in hazardous industrial environments. Some of the areas where Falck has ventured into have not had a strong resonance with the 'core culture' and arguably the experience of being, in effect, a junior partner in a large security-focused industrial group did not see cultural synergy. Also, eldercare was an area

which Falck explored, and whilst it is a socially worthy (and potentially commercially attractive area) it was not pursued.

The core culture of emergency and rescue services has a similarity across national boundaries. Fire response services have a similarity in culture regardless of which continent or political system they are delivered in. However, the attitude to delivery of such services by a private organization—especially one from abroad—varies considerably and the communality of culture of rescue may not offset this.

There are differences in local attitudes and cultures of rescue and emergency services and these often vary between urban and rural areas as is the case in the USA. The strong aspects of Falck's culture which are very specific to the history of the organization may not always be applicable in a different national setting.

## Notes

1. 'Fire Engine Red' is a shade of Red that is 84% saturated and 81% bright. For reference purposes, Fire Engine Red has the hex value#CE2029. Source: <http://colors.findthedata.com/l/727/Fire-Engine-Red>. Accessed 29 Oct 2016.
2. Reprinted with permission from Falck Corporate Archives
3. See: <http://www.falck.com/en/heritage/>. Accessed 28 Oct 2016.
4. Ibid.
5. 'En ambulanceredder må godt kaldes Falckredder' *Beredskabsinfo* 9 May 2012; [www.beredskabsinfo.dk](http://www.beredskabsinfo.dk). Accessed 2 Nov 2016.
6. Originally published in Strategic Change and the Management Process", Gerry Johnson, Blackwells 1987; reproduced in Johnson, G., Scholes, K. and Whittington, R. 2008. *Exploring corporate strategy: Text and cases*. Pearson Education, and here by kind permission of Gerry Johnson.
7. Note: Reprinted with permission of Author from Johnson 1987.
8. [www.falck.com/en/heritage/](http://www.falck.com/en/heritage/).
9. Falck Danmark Facebook Page @falckdk post of 14 Nov 2015, Accessed on 1 Nov 2016.
10. See <http://www.falck.com/en/press/news/2015/falck-deploys-crisis-team-to-paris>. Accessed 2 Nov 2016.

11. Falck Company website [www.falck.com](http://www.falck.com). Accessed 2 Nov 2016.
12. See: <http://www.falck.com/en/heritage/>. Accessed 28 Oct 2016.
13. See: <http://www.falck.com/en/company/mission-and-vision>. Accessed 2 Nov 2016.
14. IKAS website [www.ikas.dk](http://www.ikas.dk). Accessed 12 Nov 2016.
15. See <http://www.falck.com/en/company/organisation/>. Accessed 2 Nov 2016.
16. See <http://www.emri.in/about-us/>. Accessed 2 Nov 2016.

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# Part II

## Case Studies

# 9

## Grupo EMI and Falck in Latin America: Working Together

Alex Murdock

### Introduction

The case material was gathered by a combination of interviews in Denmark with key Falck staff together with a documentary search. A visit to Colombia was undertaken in June 2016 which involved extensive interviews and meetings with staff of Grupo EMI and visits to Grupo EMI in Bogota and Medellin. The author wishes to thank them for their assistance which was essential in enabling the case study to be undertaken. Any errors of fact or expression of author opinion are that of the author and the case study should not be regarded as representing the views of Falck A/S or Grupo EMI.

The case illustrates how Falck has entered the Latin American market for emergency ambulance and related health response. This was via a well-established player in that market, Grupo EMI. It involved a substantial investment but Grupo EMI retained its corporate identity and the actual governance of the entity reflects a continued strong presence of the private equity partner, Tribeca. Hence there is a focus both on internationalisation and governance explored and displayed in the case. Latin America possesses both a strong language and cultural

identity and the actual history of Colombia itself is still associated with both internal security issues and a well-known background of drug cartels. The country is finding a new way forward and the political issues of the past will hopefully be fully resolved. Direct entry into the Latin American ambulance market could have posed some challenge for Falck and an entry via an established existing company such as Grupo EMI represented a better option. The political and health care environment of the country is also a critical factor in the case and the business model adopted by Grupo EMI in fact does not derive from a Scandinavian approach but rather it is inspired by French influences with a focus upon an insurance based approach. The Colombian context has significantly influenced the development of the model but the model also is 'exportable' and replicable in other Latin American settings.

Innovation and synergy with key partners in particular employers and insurance companies are important aspects to the case study. However, the customer and business relationships are complex. The case study demonstrates an interesting amalgam of Business to Business (B2B), Business to Insurance (B2I) and Business to Customer (B2C) approaches.

## Colombia

Colombia is the fourth largest country in Latin America and the third most populous. It in keeping with much of Latin America, has very strong Spanish influences and Spanish is the main language. The country has a population of 49.5 Million (2015) and is described as the third largest Spanish speaking population after Mexico and USA.<sup>1</sup> The population is largely made up of either people of European origin (about 37%) or mestizo which is mixed European and Amerindian ancestry (about 49%). Though there are a range of languages spoken, the history of Colombia (as of a number of other Latin American countries) involved a dramatic loss of indigenous population through war, disease and assimilation. The country has a high level of inequality. A World Bank report noted that

Between 2003 and 2009, the Gini Coefficient increased from 0.573 to 0.578. The Gini Coefficient is the seventh-highest in the world showing the stark inequalities in income distribution. (Unico 2013:9)

Colombia does present some particular characteristics which mark it out. The concentration of the population in the North West of the country combines with a very high proportion of forest. These factors are relevant in both political and social aspects discussed below.

Geographically it is a Latin American country which has a shoreline on both the Pacific and Caribbean ocean. Despite a high level of natural resources (oil, minerals and, of course, coffee), which represent a key source of export income the global situation has brought about a reduced demand for oil and mineral resources and as well as reduced prices. Hence the economy has significantly moved away from such sectors and is now 57% service based in terms of GVA (Gross Value added), and 64% in respect of employment in 2014.<sup>2</sup> This is associated with a high degree of urbanisation (around 76% in 2015) and a high degree of internet and mobile phone usage.<sup>3</sup> The dependency ratio is 46%.<sup>4</sup> This is combined with a relatively high unemployment rate of around 9% (which is higher than the average for Latin America). This suggests a reasonable demographic profile for ambulance services and potential work force availability.<sup>5</sup> The current population growth is modest at about 1.3% per annum and is predicted to grow at this rate for the foreseeable future. The growing middle class in Colombia obviously represents a potential for market growth in subscription and insurance-based provision generally.

An aspect about Colombia which may register with many is the recent history of both internal insurrection and drug cartels. These are in fact not separate but linked phenomena. The huge profits which were available from illicit drugs, the key location of Colombia and its climatic suitability for growing the crop made a compelling mix. The growing inequalities, urban poverty and the availability of large areas of the country which offered a refuge for those planning armed insurrection were a potent cocktail. The drug cartels and the long standing internal conflict with insurgent movements such as FARC led the BBC to comment that Colombia “has been ravaged by a decades-long violent

conflict involving outlawed armed groups, drug cartels and gross violations of human rights".<sup>6</sup>

However the last decade has seen a most significant transformation in Colombia in both these areas. The drug cartels and the associated violence are now seen as part of the past. The Colombian government in June 2016 achieved an agreement with FARC, the main insurgent group, which may see an end to armed conflict. Given the long duration and intensity of this insurgency this is a highly significant development. As evidence of this Colombia is now viewed as an attractive and increasingly popular tourist destination and the UK Foreign and Commonwealth office has relaxed its earlier admonitions to UK citizens planning to visit. In October 2016 the narrow failure of a referendum to secure popular support for the agreement with FARC demonstrates the depth of feeling which the many years of conflict have engendered.<sup>7</sup> It indicates that the agreement with FARC has yet to win a clear mandate from the population despite the level of campaigning in favor of the agreement by both sides of the conflict. The award of the 2016 Nobel Prize to President Santos of Colombia also lends some credence to the view that the referendum is not regarded as a crucial setback to the conclusion of the peace process.<sup>8</sup> As of the time of writing (November 2016) the situation is that a revised peace deal will be debated in the Congress. It is hopefully getting there and will mark a change to political stability.<sup>9</sup>

The American Central Intelligence Agency (CIA) makes detailed and ongoing analysis of every country and publishes it in *The World Fact Book*. In respect of Colombia they noted that despite decades of internal conflict and drug related security challenges, the country maintains relatively strong democratic institutions characterized by peaceful, transparent elections and the protection of civil liberties (*CIA World Fact Book June 2016: Colombia*<sup>10</sup>).

These factors, taken together, make Colombia an increasingly attractive country in which to do business especially when the business is service focused.<sup>11</sup> However, a key question is whether the country is an accessible market in respect of the public sector and with the provision of emergency response. The next section will describe and assess the health care system in Colombia.

## Key Demographic Factors: Stratification of Urban Areas

From the 1980s Colombia introduced an urban classification which became law in 1994.<sup>12</sup> This divides urban areas using socio-economic criteria into six 'strata' (estratos) with 1 representing the poorest and 6 the richest. This enables a form of progressive support for poorer areas through both cross subsidisation from the richest areas and variations in utility charges. On the face of it the logic appears reasonable and could be seen as addressing both issues of inequality and also deprivation. However it is also criticised as, in effect, creating a caste system which has limited social mobility and created segregation. However it also, through the differentiation in both tax and cost of services, led to some pressures for residents to seek a 'lower' classification.<sup>13</sup>

This formal state categorisation of urban areas has clearly advantages and disadvantages but the information which it generates is especially valuable for both the public sector provision and for organisations such as insurance companies and Grupo EMI in identifying areas to focus on for subscription based provision.

The poorest areas (strata 1 and 2) represent less attractive areas for subscribers in terms of the likelihood of qualifying under the contributory provisions (see below). For Grupo EMI subscription services it is a pre-requisite that the individual must be in the contributory (as opposed to the subsidised) category and this is less likely in the poorest strata. They also represent areas which may be harder to physically access for emergency vehicles and may also not be proximate to hospital facilities (especially where these are private provision). They are often areas where actual location (street) addresses may be more challenging to find. The areas represent generally (though not inevitably) the sort of *barrio/favela* areas which, for example, tourists are advised to avoid.<sup>14</sup>

The 'upper strata' areas such as 5 and 6 would appear to be highly attractive for subscription based health care services and indeed, given the high level of income inequality in Colombia, these are urban areas of high wealth. However, the level of income carries with it a challenge in that residents are likely to already have high provision of private

health care and that there may be limited potential to actually expand a subscription based model. Hence the potential (especially for organisations like Grupo EMI) is more likely to be in the ‘middle strata’ (3 and 4) where the issues described for the lower strata do not impede access and the potential to grow the market is greater.

## The Colombian Health System

The Colombian health care system is regarded by the World Health Organisation as based on a fundamental right to health care with a planned health care system. The Colombian Constitution of 1991 (revised 2005) gives citizen rights in health care (Articles 44 and 49)<sup>15</sup> Some 97% of the population has access to health care though there is a high degree of inequality in the extent of access.<sup>16</sup>

The OECD has published country reports on Colombia and the most recent report is a useful source of information. (OECD 2015) The key to the health system was Law 100 (passed in 1993) which introduced the following changes:

1. *Privatization of the care delivery system*: This in effect created a purchaser-provider system with managed competition and an element of consumer choice. The public hospitals and health centers became private institutions. They no longer receive funds from the state at either the national or municipal level.

2. *Individual health insurance mechanisms*: This involved both a contributive system and a subsidized system which were run by private health insurance companies (Table A1).

3. *A basic benefit plan, including* medical procedures, hospital admissions, and pharmaceuticals that insurance companies must guarantee to their enrollees. As with all benefit packages designed for cost containment, medical procedures and medicines are not included in the plans and have to be bought out-of-pocket on the private market.

4. *Public health is no longer a coordinated group of programs provided by government institutions, but commodified into a series of individual*

**Table 9.1** Health insurance system in Colombia

Contributory system: Empresas Promotoras de Salud (EPS)	Subsidized system: Administradoras de Regimen Subsidiado (ARS)
For employees, employers and people who can afford to purchase Employees pay 25% of the premium	For people who cannot afford the contributory scheme The states cover 90, 70 or 30% of medical expenses depending on income

(Source derived and amended from: Alvarez et al. 2011)

*programs* in, which health insurance companies provide individually to their members.

Table 9.1 outlines the broad consequences of the reforms of 1993 (as reported in 2011) setting out the contributive and subsidized aspects and the coverage and funding mechanisms. The system represents a high degree of apparent entitlement based upon a significant degree of private provision supported by a mixture of public funding and insurance subscription.

Table 9.2 shows how the health insurance scheme works in respect of four regimes. This is critical in understanding the market for a private or subscription based provider. In effect the Contributory Regime represents the significant market for the private provider especially where an organization like Grupo EMI is concerned. This provides the most comprehensive benefit package and is largely based on a payroll model which is similar to that found in other countries. The model can be regarded as based on the ‘Bismarck’ model created in Germany in 1883 which involved compulsory contributions from employees and employers and sought to furnish coverage which was not universal but was intended to encourage labor productivity and social cohesion in particular to counter possible social unrest.

In the UK the National Insurance Contribution is embedded in the payroll system for all employees and the deduction appears on the wage slip as an additional element to, for example, income tax deductions. In some respects it is a de facto income tax. However Colombia, perhaps because the system was of more recent creation, has held to the

Table 9.2 Organizational arrangements and financing of healthcare

	Beneficiaries	Health benefits	Financing
Contributory scheme	Public sector workers and dependents. Self-employed people with good income Poorer households	Comprehensive health benefits package	By hypothecated payroll tax administered by federal government. Employers pay 8.5% and workers 4%
Subsidized scheme		Only basic services and major accidents	General and hypothecated taxes administered mainly by municipalities
Special schemes	Workers and dependents in certain public institutions such as armed forces, police, national oil companies	Comprehensive health benefits package and cash benefits Varies by employer	Employing organisation
Public hospitals and primary care		Emergency services for all Healthcare not covered by insurance	Municipalities

Source derived from and summarised: Andre Medici 2012, internal discussion paper, Colombia LCSHH. in Montenegro, F. and Bernal, O., 2013. *Colombia case study: the subsidized regime of Colombia's National Health Insurance System*. Washington DC: The World Bank

concept of a payroll deduction (and an employer contribution) which is specifically targeted at health coverage. Table 9.3 shows in more detail the organization and financing arrangements of health care in Colombia. It is a complex system with a range of stakeholders including different levels of government.

The system, whilst receiving positive comment from organisations such as the OECD and World Bank for the apparent level of coverage of citizens, is also subject of criticism on a number of grounds. The system has major problems coping with the demand for services and aspects of governance. In a World Bank Report of 2013 a number of challenges to the system were identified. Some of these are common to a number of countries and some are more specific to Colombia (Montenegro and Bernal 2013).

- The demographic change posed by an ageing population is seen as likely to create increasing demands on the health care system. Colombia has a high rate of elderly poverty.
- Increasing incidence of chronic disease and factors such as increasing obesity will also create an increasing pressure upon the health care system.
- The divided system as outline above caters better for those in employment (in particular those in salaried employment) and has a much reduced coverage for those who are not. This includes a high proportion of the working age population who are working in irregular or 'self-employed' capacities.
- The expectation that a 'market economy in health' would enable private providers has exacerbated aspects of the divided system with private providers finding that the more attractive markets to serve are those who fit the subscription model and who are in urban areas (and the urban areas are stratified as will be explained below).
- The World Bank report identified significant governance and regulatory issues particularly arising from the complexity of the system which was associated with both corruption and fraud. This was seen as potentially widespread and affecting both public and private elements of the system.

Table 9.3 The key service areas<sup>22</sup>

Service area	Brief description	Comment
Emergency and urgency response	This is a pre-hospital care and ambulance provision. It is particularly intended for circumstances where there is an emergency with an imminent risk of death and medical response is essential. It also covers urgency situations where there may not be an imminent risk of death but a timely response is indicated.	These are very much the typical ambulance response services and involve the use of specialist vehicles, staff and equipment. However the response may be a non-ambulance vehicle (i.e. a car) with a medically qualified person (such as a doctor) who functions as a first responder.
Medical consultation	This is a response to a chronic or acute health care situation which is not time critical or requiring an emergency vehicle. It may be offered at the person's home or via telephone. It can be based on a two-hour hour response time with 24/7 accessibility.	This is akin to a family doctor service but the key difference is that the response may involve a home visit and that the doctor would be the person available on shift as opposed to a personal doctor already familiar with the patient. The 24/7 availability is a potential alternative to an ambulance response.
Inter-facility transportation	This is an ambulance transportation service which moves patients between health care and similar facilities at the request of the facilities concerned. It is not a service which moves people between facilities and their home address.	Though it, on face, appears to be a basic transportation system it may often involve the need for both specialised equipment and specially trained staff dependent upon the patient need. Hence patients in Intensive Care, or children or neonatal cases all require special attention.
Home care	This is the provision of hospital type services at home often either after discharge from hospital or to avert a hospital admission. The level of support and skills required will vary on a case by case basis.	This is an area where primary health care and social care are sometimes entwined. The blending of these under one provider is probably unusual.

continued

Table 9.3 (Continued)

Service area	Brief description	Comment
Protected areas	Under Colombian law both workplace facilities (such as offices) and private spaces with public access (such as shopping centres or airports) are required to make provision for emergency response to medical/health incidents on site. This would include provision for appropriate transfer (ambulance) to a medical facility. This responsibility can be contracted out to a supplier	This is an area of responsibility which in most western countries would be covered by public service provision It represents an area of provision where the geographic space is covered and hence the issue of subscription entitlement of the individual concerned may not be a factor
Medical specialists	Medical specialists are what would be regarded as medical consultants as opposed to general doctors They typically charge a fee for service and this fee may be covered either by a medical insurance mechanism or by individual payment (or by a mixture of both)	Grupo EMI through its large subscription base and coverage is able to both identify suitable medical consultants and to enable access to such consultants In some cases the subscriber may not actually be covered for the cost under their subscription plan but Grupo EMI may be able to facilitate both easier access and also a more favourable consultation fee
Clinic provision	This involves a particular development in Uruguay and Venezuela to create clinics as a separate business entity	The entry into clinic provision by the private sector is not unusual even in state health care systems
Public emergency medical services	This is also found in Uruguay where it constitutes a legal obligation. There is also an obligation in Colombia to respond to emergency situations in a public space	There is often a general obligation of ambulance and emergency responder systems to not refuse help. The telephone number of Grupo EMI response is provided to subscribers but is not publicly available
Occupational health	This is a potential development from subscription services provided to employers for their staff. In Colombia it must have compliance with legal requirements	The expertise developed in preventative (primary care services) together with access to medical specialists enables organisations like Grupo EMI to extend an offer into occupational health and employee screening services

- A particular element of the Colombian system is that citizens have a right to health care and consequently a right of appeal to access treatments (including both surgery and medication) which have been refused by the health care provider. This legal process (known as ‘recobros’) has been widely used and courts often decide in favour of the applicant. This has led to a crisis in both provision and financing of the health care system and renders planning and coordination challenging.<sup>17</sup>

The pressures on the system especially in respect of hospital based care led the OECD to focus upon the importance of primary care services and in particular resolving issues at this level. They noted that the health ministry had set a target of resolving 90% of complaints (which we interpret to mean medical issues as opposed to formal complaints) at a primary care level without onward need for secondary care services.<sup>18</sup> The case study will return to this as ambulance and emergency response represents an obvious point of first contact with an issue which may lead to secondary care.

## **Falck/Grupo EMI Involvement in Colombia**

Grupo EMI emerged in 1979 from an initiative in Uruguay set up by doctors there who had visited France. They had observed an ambulance model in France which involved a more medicalised response with a higher level of both skill and equipment often involving a doctor on the ambulance. The model was essentially a business-to-customer model using an advanced ambulance service. Uruguay is one of the smaller countries in Latin America and the population size only allowed for a limited expansion. Therefore, the Grupo EMI operational model was adopted and extended. In 1992 EMI entered the Colombian market with initial provision in the city of Cali via provision of on site medical services.<sup>19</sup>

The success of the company led to private finance investment takeover in 2007. The private equity company involved, Tribeca Asset Management, has a particular expertise and focus in Latin America.<sup>20</sup>

The model became more diversified from the original concept and moved into a wider health care market using both insurance funding and a subscription model. It had come to encompass a further five Latin American countries including in sequence of activity in Venezuela and Colombia, Ecuador Panama and El Salvador. The model was not simply ambulance transport but also that of consultation service (doctor at your home) whereby a subscriber could phone and receive telephone or direct response via a vehicle with appropriately qualified staff.

In 2011 Falck acquired a 63% majority participation in Grupo EMI and Tribeca, the private equity owner retained a minority interest and remains active in the direct management of Grupo EMI with a board representation and engagement which was reported as being in excess of the proportion of their financial share.<sup>21</sup> In discussions with the Author, senior staff in the Company noted that in respect of Colombia there was a Board for the company on which Falck had a majority but that the Executive Committee which met about seven times a year involved a 50/50 membership between Falck and Tribeca. Falck, in effect, acknowledged the expertise of the previous owner, Tribeca. The operational management of Grupo EMI was substantially devolved locally and Falck, as the majority owner, was involved largely in major strategic decisions. Colombia became the most important market in Latin America for Falck through its majority ownership of Grupo EMI. Population and demographics are a key aspect given the relative size of the countries.

The Colombian market was seen as both strong and as having ongoing potential. Falck identified Grupo EMI as a significant and attractive player in this market and also in other Latin American countries. The business model (which is described below) was not derived from the Falck model as operated in Scandinavia but rather as described previously owes more to ideas from France. This meant that the particular expertise which Tribeca had demonstrated in managing and growing the model in Latin America was particularly valuable. It is not a straightforward ambulance transport model through contracts with local authorities but rather a more nuanced subscription model which involves consultation (both by phone and by home support). One comment made to the Author was that the model may actually have been close to the original concept of Falck at its early beginnings.

Latin America in general and Colombia in particular do not have the same health care as evolved Western countries such as Scandinavia and Germany. The hospital provision is characterised by long waits and inequalities of access in which people who have subscription access are able to be advantaged over those who are 'entitled' on a non-subscription basis. Grupo EMI both understood the realities of the Colombian (and Latin American) situation and had evolved a successful model to access this market. For Falck to have sought access to this market without a local partner such as Grupo EMI would have been challenging and complex. However for Grupo EMI the international nature of Falck together with the resource potential made Falck an attractive and appropriate company. The account the author received from both Grupo EMI (including Tribeca) and from Falck A/S is consistent with an amicable and welcome acquisition in which Tribeca Asset Management retained a significant ownership share and where Falck accorded Tribeca the ability to operationally manage Grupo EMI on an equal footing with a high level of discretion and trust in their competence.

## The Business Model Outlined

Grupo EMI operates in 6 business areas and these have characteristics which both distinguish them and also elements which are in common (such as resource utilisation and in some cases a common customer base). The various areas will be outlined here and the business model explored in more depth in the following section of the case study. Table 9.3 sets out the key service areas offered by Grupo EMI.

The various services are potentially linked in the nature of entitlement and response. Hence the Emergency/Urgency service involves a triage whereby the need is assessed and a decision as to category of response is made. The pressure on hospital emergency rooms and facilities together with the focus on a primary care response means that diversion from hospital admission is a consequence of the service. This has a beneficial (though not necessarily deliberately planned) public benefit for the pressures on hospital admission and emergency rooms.

The subscription base may involve the services being funded by group insurance coverage but also (as will be seen below) might constitute individual subscriptions taken out directly with Grupo EMI.

The range of provision enables a more sophisticated response to a situation than might be the case with a more narrowly based emergency ambulance model. There is a clear potential for a more nuanced evaluation of what response is appropriate to both meet the needs of the person and also a fit with provision. The model of provision is also applicable across the range of Latin American countries where Grupo EMI operates.

## The Business Model in Detail

The subscription based model is complementary to the social security system but enables a generally better access to services. The account received by the Author was that the subscription enables unlimited access to the provision covered by the subscription and that there were non pre-requisites such as the health checks which are often found in private health insurance schemes. This could represent a challenge to a health care and emergency provider but to some extent is ameliorated by the nature of subscription coverage in terms of the age, occupational and geographic profile of the majority of subscribers. The prime subscriber would typically be in regular (as opposed to intermittent or informal) employment, of an age demographic which makes less demand on services and are largely not drawn from the poorest urban strata. However such subscribers can include immediate family members such as children or parents who would not qualify in their own right under subscription through employment. These characteristics are to a significant extent linked in that the more secure employed in urban areas would be located away from the poorest strata. Colombia is an unequal society.

The subscription model requires not simply an assessment of urgency and need for a service but also an assessment of whether the caller is actually entitled. One interviewee succinctly summed this up as '3 W questions'

- **Who** is the person requesting service? (to check eligibility)
- **What** is the problem? (to identify the need for response)
- **Where** are they located? (in order to reach them)

The emergency number (usually 112 or 999 depending on country) services all have protocols for responding to calls. However, with a subscription based medical response service it is akin to a vehicle breakdown subscription model. A key initial factor is to establish if the caller is entitled to use the service (and what is the detailed service entitlement may become a key question).

It follows that a critical aspect of the model is to have a clear appreciation of the segmentation of the subscriber market. The market has three basic subscription models:

- *Business to Consumer/Customer* (B2C) where the user (or potential user) of the service directly subscribes and may through the subscription specific other beneficiaries (usually immediate family members). The subscriber effectively owns the insurance. Grupo EMI created a very simple individual subscription model based on a monthly payment of the equivalent of US\$10. Unlike the model in vehicle breakdown and recovery insurance where there is often a usage cap there is no restriction on usage and indeed this led to a response innovation outlined below.
- *Business to Insurance* (B2I) in which the user (which is often a company) contracts with an insurance company which then contracts with Grupo EMI to provide health care support for their staff. This may (or may not) include members of the family of the member of staff. The detailed nature of entitlement may vary. It is not dissimilar to the model in the USA whereby employers may provide a health care cover for their staff. However, in Colombia basic cover is required of employers and the Grupo EMI subscription enhances this and can also enable a negotiated discount to health services. One interviewee likened it to a waterfall in which the employer pays the insurer for a package and the resources ‘cascades’ down to the suppliers (including Grupo EMI) like a water flow to pay for services provided.

- *Business to Business (B2B) for protected areas.* This is a particular market in Colombia where an organisation frequented by members of the public (for example a shopping mall or a cinema) is obliged to make provision for emergency response to medical incidents on its premises (including possible casualty transport). The organisation may opt to provide the service itself, for example a large entity like a major airport might decide to have its own EMS personnel and equipment. However there is an obvious attraction for an organisation to turn to a specialist supplier such as Grupo EMI and contract for the necessary response capability.

There are key factors in the business model in respect of the various segments.

One key factor that was described by Grupo EMI is that the market segment must be *insurance ready*. By this is meant that the subscribers see insurance as a precautionary measure as opposed to a service entitlement to be exploited. Just as a person takes out car insurance in case of an accident as opposed to ‘in order to have an accident’ so it was important in Colombia that the subscribers treated the provision in accordance with the principle of what the insurance represented. It could be otherwise described as having a proper ‘insurance culture’. Such a culture may exist to a varying degree dependent upon the particular characteristics of the population demographic. It is not necessarily a country wide phenomena.

The *location* of the Grupo EMI subscriber or coverage area has to take account of access to hospital and other necessary medical resources. This may make some business propositions more or less attractive. The need for a quick response may limit the geographic area which can be served without either out posting a vehicle or creating a new physical location. However, some aspects of the provision such as medical consultation (especially by telephone) and home care are potentially less constrained by the need for a rapid vehicle response. The Business-to-Insurance model covering employees represents typically large scale contracts for services (the waterfall image previously described). The company has also evolved specialist services and equipment. It operates a home dentistry service which is sophisticated and potentially can

offer all the services which could be found in a dentist surgery outside of specialist hospital dentistry. The vehicle used contains the appropriate equipment including a portable dentist's chair which can be set up in the home of the patient.

Grupo EMI has shown a particular business approach in servicing the individual subscribers. This is demonstrated by two aspects of their operation in responding to particular challenges.

The first challenge is collecting US\$10 per month subscriptions from those who simply do not have a bank account to provide the normal form a standing order or similar automatic transfer of funds. Here Grupo EMI has reached back to an insurance payment collection and sales model whereby money was collected at the doorstep for insurance products. In cases where they are willing to accept an individual subscriber but the individual has no bank account or is reluctant to transfer money directly, Grupo EMI has set up door-to-door collections of the monthly subscription using local agents.

An aspect which is arguably innovative was in responding to the potential unlimited access to the services which the subscription gives. There are a significant proportion of subscribers who make extensive use of the service but whose needs are not such as to warrant the dispatch of an ambulance or a doctor calling. The way this customer segment is handled demonstrates both sensitivity and a degree of business acumen. Such callers are identified and promised a call back to discuss their problems which include such things as loneliness or anxiety symptoms not requiring urgent medical attention. The calls to this group are not treated as a measured timed response category but rather as a call which is categorised as a person who has a medical aspect to their situation but also needs someone to talk to or reassurance. When asked why the organisation did not simply cancel the subscription of people who repeatedly call an emergency number when the call does not meet the category for usage the response from Grupo EMI staff was nuanced. On the one hand it was felt that the person was a 'paying subscriber' and therefore was entitled to call Grupo EMI and should be treated with respect and a degree of empathy. Secondly such callers were seen as people who would view the service favourably and that this would generate a word of mouth encouragement for further individual subscribers. One

might speculate whether Grupo EMI may wish to encourage further such subscribers but the perceived reality was that the positive image would be generally disseminated to the benefit of the company.

## The Competition and the Financials

Grupo EMI is not the only provider of emergency ambulance services. The market is not restricted to entry through government restriction and there are other companies providing similar emergency response services. However entry to the market is strongly affected by the necessary initial investment and that a break even point can take a considerable time to achieve. For subscription based services a high number of subscribers is needed to achieve both the cash flow and the economies of scale to offset the initial investment.

However, in Bogota at least Grupo EMI is the largest such provider certainly in respect of the number of vehicles operated. Also Grupo EMI has a more widely diversified portfolio of service provision than that of any immediate competitor and its relationship with Falck provides it with an international corporate profile and support.

The majority of the financials for Grupo EMI relate to the Colombian activities as it is much the largest country in which it operates. The consolidated accounts therefore very largely reflect the impact of the activities in Colombia and these are summarised for 2010–2015 in Table 9.4. The figures demonstrate a revenue growth to 2013 with a slight reduction in revenue afterwards which has impacted on the gross, operational and net profit.

However the company is clearly profitable on its activities and in direct communication the company noted the following factors

- In 2014 the accounting policy of Grupo EMI changed. So the years 2014 and 2015 were accounted for under different accounting standards than prior years.
- The USD exchange rate has a significant impact on the conversion of local currencies.

The consequence of the USD exchange rate fluctuation (if removed by imputing a constant exchange rate) would be to demonstrate a consistent year on year growth in both revenue and profits. This is an important factor to note in any analysis based on the consolidated figures provided in the case study. However the published figures are relevant from the perspective of Falck A/S in respect of profits which may be repatriated to Denmark (as opposed to being redistributed in Latin America).

## Issues and Analysis

The development of emergency provision into Latin America raises a range of issues for an outside entrant. Latin America represents a range of countries and though Spanish represents a generally common language there is considerable political, geographic and cultural diversity. In its choice of Grupo EMI, Falck identified a partner which had local knowledge and operational success.

However, the model which Grupo EMI had developed owed its original inspiration not from Scandinavia but from France. The insurance concept was also derived from shortcomings in public provision of medical services which, though they had achieved a high level of population coverage, were seen as inadequate in key respects for sections of the population were outside of the wealthiest segment. Whilst Denmark, France and Germany had evolved public health provision which were generally agreed to provide assurance of prompt and comprehensive cover for citizens regardless of their location or ability to pay this is not the case in Colombia.

Rather, Colombia represented a high level of coverage of citizens but the nature of the coverage was heavily affected by key factors such as the nature of the subscription entitlement, the social and economic demographics and the geographical location of the citizen. In this respect Colombia has some affinities with the United States where Medicaid and Medicare furnish a safety net which gives an degree of citizen assurance. But in the USA as in Colombia subscription entitlement through aspects such as employment-based entitlement and employment sector entitlement such as government employment is a core and

**Table 9.4** Financials for Grupo EMI 2010–2015

CONSOLIDATED GRUPO EMI (\$ millions) <sup>23</sup>	2010	2011	2012	2013	2014	2015
Revenue	82.2	96.1	111	121	115.3	112.3
Medical costs	43	49.6	54.9	62	62	64.2
Gross profit	39.3	46.5	54	59	53.3	48
Operational costs	27.7	35.1	36.9	39.8	34.6	31.2
Operational profit	11.6	11.4	18	19.3	18.7	16.9
Net profit	3.2	3.7	10.3	11.1	8.1	6.5

desired aspect of the health care system. Colombia differs from the USA in that the subscription element through salary deductions and employer contributions is a formal requirement and that the funding so gathered is then ‘cascaded down’ through insurance companies to the end providers of medical and related services. In this respect Colombia has some affinity with the statist systems found in European countries where health care costs are, de facto, gathered through taxation. The Grupo EMI subscription is a complementary and additional provision to the required subscription levied for all employees.

The Colombian (and other similar) health care systems are prone to what was described as ‘leakage’ whereby the funds gathered and disbursed down the ‘waterfall’ are diverted through acceptable but high cost structures and also are subject to various levels of inefficiency, corruption or outright fraud. As in the USA where you have an insurance system and a chain involving purchasers and providers then transaction costs inevitably are involved. The argument for contracting out mechanisms such as are found in Colombia is that the private sector discipline will achieve cost economies and service efficiencies which will more than offset the transaction costs of a more complex health care system.

In Colombia, the view of both the OECD and the World Bank is that the country has some way to go in achieving these economies and efficiencies and that the system is prone to a degree of corruption and fraud. The healthcare system is undergoing reform with an increased focus upon primary care provision and prevention but there is still major issues of overload at secondary (hospital and specialist) level. When a healthcare system has features of overload and a lack of ability

to furnish an equitable needs based provision to citizens, then if there are mechanisms to enable some to access the system more rapidly then it is inevitable that such mechanisms will not only be found but will be encouraged to emerge. The very set up of Colombia with a diversity of entitlement (one could argue a hierarchy of entitlement) has created the institutional environment to encourage this to happen. The presence of mechanisms which operate outside formal institutional structures (such as corruption) are also a phenomenon which is understandable though obviously undesirable. The complexity of provision and the presence of various stakeholders in intermediate positions in the system also introduces the potential for inefficiencies and 'leakage' whether through legal or less legal channels.

Grupo EMI has an established and proven business model which has identified services, market segments and a funding mechanisms which work in the current institutional setting. The company has become a major presence in Colombia and there is potential for further expansion. This expansion could be geographic into further urban areas or into further (maybe smaller) cities in Colombia. Urbanisation is a global phenomena and Colombia is not different in this respect.

The extension into other aspects of service provision is also feasible (though the extent may be affected by the legal restrictions in Colombia). The potential to move upstream (for example into the space currently occupied by insurance companies) is there and Falck Global Assistance may well offer both knowledge and synergy in this respect. With the likely demise of civil conflict Colombia is an increasingly attractive tourist destination and as wealth develops Colombians are more likely to travel abroad. Insurance products and related services along the lines of Falck Global Assistance may well provide attractive (if they are not already underway).

A move downstream into more direct service provision in respect of primary and possibly even hospital care would also be feasible. The strength of the Grupo EMI brand and the high number of subscribers (both individual and through corporate subscription) together with the strains upon the health care system may furnish a business opportunity.

The 'protected areas' provision could also be an expanded market since such areas will emerge with growing urbanisation and the growth

of shopping mall type environments. It is unlikely that the Colombian government (either national or local) would want to take on responsibility for this and as it represents a 'quasi-public service' it would be difficult for the government to withdraw the legal requirement for companies to provide for emergency provision for staff and visitors to their premises. Indeed it could be argued that a government seeking to provide such provision without recourse to taxes may even opt to extend the protected space concept (to include, for example, public areas directly associated with a business undertaking such as the street frontage of a shopping centre).

## Summary

Grupo EMI, through its long engagement in Colombia and in other Latin American countries is well acquainted with all the aspects of its business environment. The operational model which it has evolved is suited to the context and is demonstrably successful. The relationship with the majority owner, Falck, appears highly positive and demonstrates a degree of trust in respect certainly of operational activities.

The company has been able to expand from the original core concept to a range of related activities and provision and this must augur well for its commercial future. The likely increasing political stability in Colombia should also be beneficial for the future business prospects. There is clear potential for further growth beyond the core of current service provision. The institutional environment for healthcare in Colombia has some clear challenges and this may represent both aspects of a threat and an opportunity for Grupo EMI.

The share of the ownership with Tribeca is likely to continue so long as there is perceived to be mutual benefit. However, unlike some other of Falcks' partnerships where the organisation has a family base, Tribeca is a private equity focussed concern. If they perceive a more financially attractive option for their capital then it is understandable that they would evaluate this in accordance with the drivers applicable to private equity. Were this to happen Falck would have to ensure that the local operational (and strategic) expertise was in place.

## Notes

1. Source: <http://worldpopulationreview.com/countries/colombia-population/>. Accessed 7 Aug 2016
2. Source <http://data.un.org/CountryProfile.aspx?crName=Colombia>. Accessed 7 Aug 2016
3. Ibid.
4. This is the ratio of 'dependents' to working age population. The dependent part is made up of those under the age of 15 plus those over the age of 64. The productive part is the population in between, ages 15–64. It is normally expressed as a percentage.
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12. See <http://www.ifhp.org/ifhp-blog/colombia-social-stratification-law>. Accessed 30 Sept 2016
13. A non-academic but useful account is found at <http://www.theworldorbust.com/the-caste-system-in-colombia/#>. Accessed 30 Sept 2016

14. Though some areas which have ‘Historic or Government buildings’ are classified as poorer strata (Author comment).
15. See [https://www.constituteproject.org/constitution/Colombia\\_2005.pdf](https://www.constituteproject.org/constitution/Colombia_2005.pdf). Accessed 20 Oct 2016
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23. Figures are derived from data provided by Grupo EMI but numbers are summaries in million \$ (to one significant decimal place).

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# 10

## Response in Denmark: From Competitor to Partner

Alex Murdock and Margit Physant

### Introduction

This case study is about Response, a small Danish provider of emergency services which was established in 2007 as an independent company and has since become a subsidiary of Falck.

The case material was gathered by a combination of online material, literature and of interviews with senior staff at Response in August 2016, and with senior staff at Falck Central Region in September 2016. The authors wish to thank them for their assistance which was essential for the case study. However any errors of fact or opinion are the responsibility of the authors and the case study should not be seen as representing the views of Falck or Response.

The case illustrates how Falck responds to a market competitor through a partnership approach as opposed to direct competition. The case also shows how a new entrant can innovate and also the challenge of entry into a market where there is a major existing player. The case study also raises issues of both governance and the attitude of both the public sector and the media to the presence of a major private sector provider in emergency response services. Being a major provider might

offer advantages of incumbency but can also create some challenges. Emergency response services have aspect of being a natural monopoly. Yet in the context of a competitive market where tendering has been introduced this can create both incongruities and issues over what the market for such service provision should look like and how should it be organised.

## The Danish Context

### Denmark

Denmark is a small country, part of Scandinavia, which is located in Northern Europe. It has a population of 5.6 million people and covers an area of 43,000 km<sup>2</sup> which is nearly twice the size of Massachusetts. There are five health regions across the three main land entities which constitute Denmark. Copenhagen as the capital city has a over 21% of the population and represents one health region.

Denmark is a very wealthy country with a Gini coefficient of 0.25 (2013) making it one of the most equal countries in the world. The per capita income is US\$46,574 (2015). It is also a country with high provision of public services reflected in a tax rate of 27.7% of GDP (2014) which makes Denmark one of the most highly taxed countries in the world.<sup>1</sup>

Denmark is a member of the European Union (EU) and much of its legislation and regulations conform to EU standards.

The American Central Intelligence Agency produces a world report each year. This report in describes the Danish economy thus (in 2015)<sup>2</sup>:

This thoroughly modern market economy features a high-tech agricultural sector, advanced industry with world-leading firms in pharmaceuticals, maritime shipping and renewable energy, and a high dependence on foreign trade. Denmark is a net exporter of food, oil, and gas and enjoys a comfortable balance of payments surplus, but depends on imports of raw materials for the manufacturing sector. Danes enjoy a high standard of living and the Danish economy is characterized by extensive government

welfare measures and an equitable distribution of income. An aging population will be a major long-term issue.<sup>3</sup>

## Emergency Services

The emergency ambulance service in Denmark is provided as part of the public health service and is available to all residents free of charge. The five Danish Regions are obliged to provide the service to a standard defined by the Ministry of Health. In some areas (such as Copenhagen), the fire brigade provides the service but Falck has remained the biggest private provider of emergency ambulances. Non-emergency patient transport has, however, been provided by various, smaller private providers.

The common number for emergency calls for fire, ambulance and police is 112 anywhere in the country. A health emergency call will then be diverted to an acute medical co-ordinator who assesses the severity of case and the response required, namely whether it warrants a rapid response using a vehicle siren, and an ambulance will be dispatched to the location. Information about the patient will be communicated to the ambulance staff and also—when available—information to access the general health record held by the Danish health care system.

### *Rescue Staff*

Training is paid for by the employers, and there is currently no open access to training. Public contracts demand that providers train 2% of workforce each year. Falck normally train 10–12% which is well in excess of the contractual requirement.

Entrants are required to have the basic schooling of nine years, aptitude for the job, as well as meet the physical requirements of strength and fitness. Falck trainees must be between 165 and 190 cm tall.

Recruits starts as Emergency Medical Technicians (EMT). Over a three-year period, they undergo 56 weeks theoretical and clinical training at a college in blocks of a few weeks interspersed with on-the-job practice.<sup>4</sup> Having worked as an EMT for a minimum of 18 months,

they can undergo further theoretical and clinical training of 13 weeks with practice periods in between and become an EMT-Intermediate. After a further three years' experience in field service, they can train 24 days more and set the exam to become a paramedic. Thus it takes 7–8 years to become a paramedic. Paramedics can drive the medical car and can with additional two-days training become a medical assistant and assist the doctor.

There is a shortage of qualified rescue staff in Denmark generally. It is difficult to respond to this short term as it takes years to train people. Due to the economic downturn in 2007–2008, older staff delayed retirement, creating over-capacity. Hence fewer staff undertook training, which created a shortage when older staff did eventually retire. Many new people were trained in 2016 so the situation should be beginning to stabilise.

As of Autumn 2016 Responce has no unfilled vacancies. Staff turnover is around 4–5% annually. People leave to join police or the military, or for family reasons.

There is a staff turnover of 5–10% within Falck generally. Former Falck staff are in demand within the security industry and can easily find other jobs if they want to leave.

## **The Nature of the Ambulance Market**

Sophus Falck started the ambulance service in 1907 (see Chap. 1), and it has dominated the Danish market since. The name “Falck” would in common parlance become interchangeable with the term for emergency ambulance as in “has anyone called Falck?”.

Thus Falck enjoyed a dominant position in Denmark (outside of Copenhagen) for a century until the Danish Competition and Consumer Authority decided that emergency ambulances should be put to public tender, creating the first public tender-round in 2008.

The Falck manager commented, “It is ridiculous to be talking about monopoly in country the size of Denmark which is no bigger than many urban areas in Europe”. He notes he is not against competition

per se, and concedes that it can be healthy, but under the right circumstances, and continues:

It should also be considered that Falck does not make a lot of profit from ambulance contracts and that it has been a key player in the development of the service as we know it today. Most rescue staff in Denmark have been trained by Falck. It is through us that they have internalized caring for others and a desire to help.

In the 2008 tender round, Falck lost some contracts and other operators entered the market, not always successfully. A Swedish operator, Samariten, won the tender for several areas. However, it got cold feet before the contract was signed, and Falck stepped into deliver.

In the Southern Region Falck had held the contract for emergency ambulances until 2014 when the contract was won by a Dutch company, BIOS, for most of the Region and Responce for a smaller area within the Region.

The manager explained that Responce had only put in a bid for part of the region, not the entire Region, in spite of being encouraged to do so by the authorities, as he was not confident that Responce would be able to deliver. He added that he had advised the Region that it was impossible to run the service at the low price envisaged. The cost of setting up such a service or upscaling a service significantly is very high as Responce had previously experienced.

The new providers commenced operation in September 2015. In the run-up and immediately following, there was a great deal of concern expressed in the media about whether BIOS would be able to set up the service and, in particular recruit enough staff, to be able to meet its contractual obligations.

Soon after it commenced operating, a regional newspaper, *Fyens Stiftstidende*, reported that Falck had approached the regional authorities with an offer to provide the service at the price quoted by BIOS for a year or so until a new tender could take place. This figure was 68 million DKK less than the price quoted by Falck in its original bidding. This report was neither confirmed nor denied by the parties.<sup>5</sup>

If the report is accurate, it is debatable whether it represents a strong corporate sense of social responsibility or it is a case of responding to a potential competitor before it gains a foothold—or possibly both.

At any rate, the Region did not change its mind and BIOS continued as service provider. However, the concerns about the capability of BIOS subsequently proved justified. Within a year the company had gone bankrupt, and the Region then took over responsibility for running emergency medical services.

The underperformance of BIOS had implications for Responce. The manager reported that Responce has been asked to contribute 2–3 vehicles to cover the shortfall in BIOS ever since it commenced service delivery. He added that Responce's vehicles had driven 50% more and they had to recruit more staff.

## **Responce Background**

### **Business Development**

Responce is the second largest private ambulance provider in Denmark and it has challenged the monopoly of Falck. The company was established in 2007 in order to take advantage of the business opportunities that were presenting as emergency ambulances services were put to public tender.

In 2008 Responce won the contract for ambulance services in seven areas in the Central Region of Denmark which until then had been served by Falck. It had seven ambulance stations, covering an area with a population of 250,000 people. It started operation in 2009. A local newspaper reported that within a few months, Responce had to ask for more money to avoid folding, and that it was granted.<sup>6</sup>

Responce went on to retain the contract for the subsequent tender round in 2014 and gained an additional contract for providing emergency medical vehicles.

In 2009 the majority share of Responce was sold to the German ambulance company Gemeinnützige Ambulanz und Rettungsdienst GmbH (GARD). That year there were also internal issues to deal with: a

long process of negotiations with the union about terms and conditions. An agreement was reached in most respects. However, it took another couple of years to reach an agreement on 24-hour shifts.

In 2011 Responce was contracted to manage the 112-volunteers and equipment in a rural area. This was a new initiative using lay volunteers to complement the public emergency response in a thinly populated area. Volunteers get a one-day training course in resuscitation and the use of defibrillators. The 112-call centre holds their mobile phone numbers. When there is an emergency in a particular locality, an app will show the numbers of the three volunteers that are closest to the patient. They will receive a text message, rush to the patient and commence resuscitation until the emergency service arrives. The company established a new business area to manage this: Responce Life Support.

Responce expanded in 2013, when it won the contract to operate three acute medical units and a paramedic unit in four towns in Jutland.

In 2013 Falck bought the German company GARD, the country's largest private emergency-services provider. GARD had also been the majority shareholder in Responce since 2009, which created a problem for Falck. This was because it was about to take over the only real private sector competitor on the Danish market. This might mean that the Regions would choose to take over the ambulance service themselves, as there no longer were any other private operators left.

The solution was that Responce was not included in the acquisition by Falck. Instead, the founder together with the co-director bought 75% of the shareholding by a management buy-out through a company called EMS Vejen.<sup>7</sup>

In 2015 Responce expanded the area for providing emergency ambulances, stretcher-based patient transport and acute medical vehicles in another area.

The Company was taken over by Falck in 2015.

## **Innovation**

On the company website Responce makes a point of asserting that it is an innovative company stating as a corporate strapline that they are “the

ambulance service of the future”.<sup>8</sup> They started up with a view to be the cutting edge of technology in emergency rescue and had a vision of a mobile emergency room. The vision has not diminished, but been re-interpreted according to the manager who is still looking for Responce to be part of the ambulance service of the future now they are part of the Falck Group. He sees a great potential for Falck to be leading research and development in the world. Due to its size and global presence, it is uniquely positioned to collect data and to transfer knowledge widely. The website notes that they are “working to introduce innovative concepts within acute ambulance services and other pre-hospital services”.

Responce has been commissioned by a hospital to manage—as a pilot project—a service to go out, take certain blood tests, and analyse them on behalf of the hospital. It only has to be done on a specified day, not a specified time, so they do this in their down-time.

In another area, Responce rescue staff stand in for doctors on some inter-hospital transfers.

The manager believes that the nature of the public contracts does not mitigate against innovation. As long as the demands are met, there is an impetus to be as efficient as possible. Falck and Responce are constantly considering how to improve emergency treatments as well as the working environment for staff.

Responce is currently developing new operational functions such as extending the use of I.T. in work processes. They are working on using GPS tagging of staff in order to identify where they are.

### **Acquisition by Falck**

Falck bought 75% of Responce for 97 million DKK in April 2015 and it became a subsidiary company of the Falck Concern.

Michael Sørensen, CEO, explained the reason for the sale<sup>9</sup>

Pricing has since the latest tender rounds been pushed down by some providers to a level that, in my view, is unrealistic in the long run.

I believe that the survival of Responce in the long term is best assured under the leadership of Falck. We have the world's best ambulance service in Denmark; we must preserve it.

He later confirmed that company debt and high interest payment was a contributory factor in the decision to sell the company.<sup>10</sup>

The sale of Responce had implications for contract tendering where, in effect, Falck and Responce could be regarded as tantamount to being the same organisation. The matter sparked controversy which was aired in the media.

Shortly after the acquisition, a business and finance weekly newspaper, *Økonomisk Ugebrev*, disclosed close financial and personal relations between the two companies. The CEO of Responce confirmed to the paper that he and his co-director had borrowed money from Falck to purchase the company, and that Falck held security in the directors' shareholding. The paper questioned whether Falck and Responce has indeed been two independent organisations at the time they both had submitted competing bids for the 2014-tender, and the paper suggested that Falck, in effect, had Responce 'on a leash'.<sup>11</sup>

As a consequence, questions were asked of the Region that was responsible for the tender, whether the relationship between the two competitors had been disclosed and whether there could have been an impact on their respective bids.

The Region responded in a note<sup>12</sup> which explained that at the time of submitting pre-qualification information for the tender, Responce was in fact owned by GARD and another company. A few months later, after Falck had taken over GARD, Responce was asked to clarify its position as the Region wanted to make sure that the rules of tender were not breached and that the two companies—and competitors for the tender—were independent. The Region had been satisfied with the response and added that there was nothing that would suggest an irregularity when the bids were submitted.

The Region asserted it had been unaware until disclosed in the newspaper that Falck had financed the purchase of the majority shareholding

of Responce. The Region has been asked whether the rules of tender required that Responce had to disclose the loan from Falck. The answer was that it is not against the rules as the questions about ownership are not asked from prospective bidders. A contractors can encourage parties to disclose the loan agreement but cannot demand that they do.

The Region enquired of the Competition and Consumer Authority whether the acquisition had been reported to it. It had not, but there was no need to because the turnover of Responce was less than 100 million DKK a year.

A month after the note was written, the Region decided to demand to see the share agreement.<sup>13</sup>

A newsletter for the emergency services, Beredskabinfo, reported that the CEO of Responce, Michael Sørensen was adamant that Falck had not interfered in the running of Responce and that the financial connections between the two companies were disclosed in communications about tenders with the regions.<sup>14</sup>

## Responce—How It Operates

Responce describes itself as a “modern, competitive and innovative service organisation” on its website.<sup>15</sup> It provides

- Emergency ambulance service. Responce utilises a particular type of ambulance, a larger box-shaped vehicle, and describes its fleet as one of the most advanced in Europe. The design details of this ambulance makes it particularly suited for purpose.
- Acute medical vehicles. These are four-wheel drive cars based at hospitals. Responce provides the vehicle and a paramedic who drives. The hospital provides the doctor. They respond to acute medical needs such as respiratory distress or suspected heart attacks.
- Paramedic emergency services which is a paramedic driving an ordinary car which is used to respond quickly in less densely populated areas.
- Responce Life Support—the provision of cardiac defibrillators and training of people to use them.

The medical unit of Response is responsible for the staff-training programme and that the services provided by Response meet the current professional standards.

## Management and Staff

Response employs around 400 staff of whom 320 are fulltime. The vast majority are male. Response prides itself of having a very flat organisational structure with only one tier of middle management. There are only three operational or function manager in the stations and a senior management team. (The Falck manager commented that this is not dissimilar to the structure in Falck where there are three technical managers for 200 staff but they are required to be driving 80% of the time, and only spend 20% of their time on managerial duties.)

Response is managed “using modern methods of management with a short distance between staff and management. Teamwork, personal responsibility and staff participation are key concepts”.<sup>16</sup> The manager explains that as a small organisation they know their staff very well and are able to put together teams in a manner that optimises skills mix.

### *Staff Wellbeing and Post-Traumatic Stress Disorder (PTSD)*

PTSD is an anxiety disorder caused by very stressful, frightening or distressing events.

Someone with PTSD often relives the traumatic event through nightmares and flashbacks, and may experience feelings of isolation, irritability and guilt. They may also have problems sleeping and find concentrating difficult. These symptoms are often severe and persistent enough to have a significant impact on the person’s day-to-day life.<sup>17</sup>

People working in the emergency services experience many are at risk of developing PTSD. The Response manager spoke at length about his concern for the mental wellbeing of his staff. The nature of the work is such that staff encounter distressing situations, often going from one to another with little time to recover in between call-outs. Furthermore, in

contrast to other occupational groups that encounter stressful situations such as hospital-based staff, ambulance staff work in very small teams of 1–2 people so there is less opportunity to provide mutual support. He is concerned that the quest for cost-effectiveness in public finance will have detrimental effects on staff and that they may burn out and leave the service:

We must communicate to the purchaser that rescue staff undertake an essential task on behalf of society which requires many competences. The challenges faced by frontline staff be recognised. We must find a way to support our staff so we do not lose them, and we must persuade commissioners that recovery time is essential for a healthy working environment.

Response is exploring methods of identifying staff at risk. Because the company itself does not carry out the dispatch, managers have no easy way of knowing when staff have responded to potentially traumatic emergencies. They are developing ways of debriefing that can place during the shifts.

A traditional macho culture mitigates against taking advantage of debriefing support, but he believes it is changing. The Falck manager agrees. When he first started 40 years ago, rescuers were of the “John Wayne types” that would not admit to have been affected by anything but there has been a change in the last couple of decades. Nowadays, it is not only acceptable but also expected to seek help in Falck. There is now compulsory debriefing after particularly traumatic events. There is a duty to speak to a colleague. Conversely, there is a duty to keep an eye on colleagues. Sickness absence is closely monitored and if there is a problem, underlying causes are explored.

Another matter of concern relating to staff wellbeing is that violence is a growing problem for emergency services in general. Falck has been working with community groups to stop residents throwing stones at rescue staff when called out to particular neighbourhoods. This approach has been successful.

## Performance

Contractually, Responce is required to made available an ambulance with specifically qualified crew a for a specified number of hours. There are only two quality indicators related to time:

- Mobilisation time from the staff receive the details about an emergency until the engine starts. This must be 90 seconds or less.
- The time spent between arriving with a patient at a hospital until leaving again. This must take place within a specified number of minutes which varies according to type of emergency.

If the average time exceeds the specified timings, there are penalties to pay.

There are additional requirements set in law such reporting unintended events and the use of medication.

The Falck manager is critical of this ‘penalty culture’ as it does not give providers any incentives to improve. He firmly believes providers and Regions should be working in partnership to improve services.

### *Quality and Accreditation*

IKAS, The Danish Institute for Quality and Accreditation in Healthcare, is an independent institution that develops, plans and runs the Danish accreditation programme for healthcare providers, called the Danish Healthcare Quality Programme. Ambulance services are assessed against the standards for prehospital sector.

Responce is currently accredited, having completely met all the standards. At the recent assessment, the report concluded:

A distinct and visible management with clear and focused goals and strategies, simple and effective organization with good cohesion and proactive approach. Quality improvements benefit patient treatments as well as the working environment. Organisation, that nurtures independence and responsibility. Staff are technically competent, engaged and express calm, care and professionalism in encounters with patients.<sup>18</sup>

**Table 10.1** Responce account summary 2011–2015

End of year	2015	2014	2013	2012	2011
Net turnover					
Gross profit and loss	114,605	8873	7881	10,036	10,673
Annual result	–1100	–1585	1681	3026	1698
Equity	–1803	4316	5902	4220	–13,020
Balance	51,244	30,793	20,894	17,389	13,037
Employees	183	118	110	0	0

Numbers are rounded to nearest 1000 DKK

Source Adapted from Proff the business finder (Source Proff the business finder. [www.proff.dk](http://www.proff.dk). Accessed 8 Oct 2016.)

## Finances

The financial results for Responce are set out in Table 10.1 in the format published in Denmark. The accounts were taken from a public source website but subsequent amendments were made which were reported in the Danish business media.

According to Beredskabsinfo of 25 May 2016, Falck put money into Responce to cover the deficit. The accounts had considerable flaws and in fact, the deficit was worse than accounts originally indicated. The 2014 accounts were revised to show a deficit (annual result row above) of—4.9 and the equity in 2014 became negative. The article reported that Responce expected to be in surplus in 2016. Much of the deficit was explained by the set-up costs for the new contract which would not be ongoing costs. Responce had at the time of the article reported an operational surplus on its contract.<sup>19</sup>

## Relationship Between Falck and Responce

### From Competitors to Partners...

Responce and Falck used to be competitors. They covered separate geographical areas but when an ambulance is called, it is the vehicle that can get there soonest that is dispatched regardless of service provider.

The Falck manager emphasised that staff from the two organisations have always worked well together and that there has never been conflicts between staff on the site of an accident.

During the period 2009–2014, Falck won acute medical service contracts in some of the areas covered by Responce ambulance services and vice versa. As the paramedic staffing these cars must work 70% in an ordinary ambulance as well and the new contracts were in areas far from stations, this was not an ideal arrangement.

When Responce won a contract in 2015 in an area that had previously been served by Falck, 100 Falck staff lost their jobs. They were given permission to take 12 months leave, which gave them the opportunity to work for Responce, find out what it was like, and return, if they wanted to. The manager decided to offer staff the leave for political reasons: he did not want people to leave the profession, thereby bleeding the pool of trained rescue staff, nor did he want to make life difficult for the Region as he expects to have a long working relationship with them.

About half the staff continued to work for Falck, even if it meant commuting long distances. There is not much difference in salaries and terms and conditions between the two companies, so it cannot be explained by that. The reasons are far more subtle. The manager explains that there is a great deal of lifeblood in Falck staff. The little bird, the falcon, displayed on the uniform matters a great deal to them. There is pride in wearing the emblem. There is a sense of community; people feel they belong (see Chap. 8 on Culture). Falck staff are also fond of their red-coloured vehicles. However, around that time the authorities required all emergency ambulance to have a florescent yellow colour so this was academic anyway.

After the 12 months were up, some of the people who had moved to Responce returned to Falck. Since then, there has been “a sensible flow” of staff between the two organisations. Since the two companies have both become part of the Falck Concern, they would not bid for the same contract.

*The Innovative Newcomer*

The Falck manager reflects on what Responce has brought to Falck. He regards Responce as a pioneer, an innovative newcomer to the Falck Group. He specifically mentioned the duty rostering. While Falck has a rolling schedule of shift, fixed 365 days ahead, Responce has a more flexible schedule, where staff have input into their shifts. He concedes that a flexible system probably reflects current trends, meets staff needs better, and is more compatible with modern family life.

Another example is the in-service training at Responce. While some of the training material has been developed by Falck, Responce is developing ways of using them online for self-study.

He highlighted that in connection with a recent accreditation process, the assessment team had commented that Responce has so many new ways of thinking and that these should not be impeded.

Responce hosts the Medical Unit on behalf of the whole Falck Concern, which is now a center for development and leads research and development within pre-hospital field.

**Issues and Analysis**

The case study raises issues around the relationships between private providers and with both the public sector and the media in respect of key emergency services.

In most areas of private provision financial relationships and taking a share of ownership in other private providers are part of the normal activity of corporate life. Where such activity may be seen as directly acting to prevent competition so impacting on the public interest then government may intervene as, for example, may happens with potential monopolies in air travel. Where the competition regulator chooses not to become involved, then the public interest aspect can be presumed not to be affected.

The presence of Falck as a large and dominant private sector provider for ambulance services has been a factor of Danish life and has not been

an issue until relatively recently. As a long lived company with a very high brand recognition and very strong public image it could be seen as quite understandable that the dominance it had gained in the ambulance market was not viewed as a matter warranting government attention until there was a desire to promote competition in this market.

The emergence of public sector tendering for services such as ambulances opened up the market for other private sector providers. The history of such providers in Denmark has not been a particularly successful one with one recent entrant going bankrupt. The nature of emergency ambulance services is that they could be viewed as a natural monopoly like water. However, just as water can be provided by a private supplier, so Denmark demonstrates that private provision of ambulances is perfectly feasible and this has taken place for many years with Falck as the dominant provider.

The experience of Responce shows that when a new entrant appears, it has the potential to encourage innovation and new ways to think about how services can be provided. In terms of enabling the reality of a competitive market new entrants are also attractive to the purchasers of ambulance services as they can enable the market to operate in order to drive down costs and promote efficiencies.

However, there is a risk of organisational failure of new entities especially where they are lacking experience in key aspects of the intended market. Such failure in non-critical areas of provision (such as a hotel or restaurant) is regarded as the norm for business life. Ambulance (and other key services) are not seen by the public as having the luxury of being allowed to fail. They are essential services which are expected to be present and dependable. They possess, like water and sewerage, the attributes of a natural monopoly.

When the public sector operates such services and the public find them wanting then, in a democracy, there is a solution available through the ballot box. If, through a conscious political decision, the government chooses to either delegate or contract out such services then an element of the market is introduced. Rules are set out within which contracting out takes place. The rules should not compel private companies to bid

to provide services, the provision of which would cause the companies to fail. The market must attract bidders.

The dominant presence of Falck in Denmark, a large private provider with a long and successful history of provision, may suggest an advantage of incumbency. If the purchasers (the regions) seek to encourage new entrants, then they confront the real possibility that such entrants who bid on a low price basis may subsequently experience problems in providing the promised service and indeed, as the case of BIOS shows, may go out of business. Incumbency also can represent a problem, though, when there is a desire to encourage a range of market competitors. The handling of relationships between competitors in a highly visible and emotionally charged market for emergency ambulance is not simply a matter of business logic but has to take account of public perceptions and government sensitivities. Though the 'rules' may be set out on tender documents and legislative codes, there may be cultural and contextual expectations which play an important role.

## Summary

The case of Responce shows how a competitor can enter a market offering a level of service and innovation which is in keeping with both the ethos of public service and of public tendering for such services. However such a newcomer has to deal with both the challenges of resourcing growth and the realities of the business (as opposed to the public sector) environment. The motivation for a large provider like Falck to fund and support a smaller entrant may be nuanced and the innovative capability of Responce demonstrates a potential justification for this. But the business world is not a charitable endeavour and the history of ownership changes in GARD and Responce are indicative of normal commercial activity which neither the Region nor the Competition Authority saw fit to interfere in.

The interest shown by the media (both business and popular press) is indicative of the sensitivity when key public services are concerned.

## Notes

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# 11

## Falck in India: A Challenging Market?

Alex Murdock

### Introduction

The Author would fully acknowledge the support of Falck A/S and in particular Falck India and their staff in enabling useful visits to sites and in gathering material for this case study. However, the case study does not represent the official view of Falck or of Falck India. Any matters of fact, judgement or opinion in the case study are the responsibility of the author.

This case study examines the experience of Falck in terms of its experience of India. The case study raises interesting issues for the experience of the company in its approach to potentially one of the largest public sector markets in Asia. India is a country of contrast and paradox. It possesses both the characteristics of a developing and a developed country. The prime initial intention of Falck was to focus upon winning public service contracts for ambulance services. However the company was faced with barriers in achieving this objective of working with the Government in India and instead developed Business to Business (B2B) activities with private sector organisations. Some of these at least have a potential to be both income positive and to enable market growth.

The inability to access the original intended market was arguably a factor in the exploration of alternative business arenas. The case study shows a significant amount of innovation in both aspects of service provision and in terms of developing synergies utilising the expertise of Falck to engage with the value chains of organisation with which it does business.

The case study variously contributes to a number of the book chapters. In particular it contributes to understanding aspects of internationalisation and diversification of activities (Chaps. 6 and 7). The denial of access to the preferred entry through public sector contracting meant that other activities were explored and developed. Some of these had a good fit with the previous experience of Falck in other settings. Other activities represent related diversification to take account of local opportunities.

The experience of attempting to win public sector contracts, though unsuccessful, sheds some light upon the challenges for a European company to access an Asian market in the area of ambulance services. To paraphrase a familiar proverb it could be said in this respect “India is another country and they do things differently there”. A measure of the company’s frustration at being denied success in this market is that it went to court over one particular contract.

The case study also provides examples of innovation. Some of this is product based and derived from a need to solve local problems through both invention and adaption. However there is also evidence of innovation in terms of developing new services to meet perceived business need.

Throughout the case study we find the importance of culture. Aspects of India such as the importance of faiths and the caste system are not culturally familiar to a company rooted in Scandinavian values. Equally the expectation of fair access to contractual opportunities which is the norm in European and North American settings is not necessarily rooted in the Indian context despite the appearance of a governmental and legal system derived from the UK. Governance is also a factor since the structure of corporate ownership of the Indian subsidiary is, in legal terms, indirect.

## The Indian Background

India is the seventh largest economy in the world in respect of GDP. It is the third largest in respect of purchasing power parity.<sup>1</sup> Jim O'Neill (who coined the term BRICS<sup>2</sup>) was reported in the Economic Times of India as saying

It is probably too early to say with certainty that India will soon take its place as the world's third largest economy, behind China and the United States. But, given that India's investment climate seems to be improving, that moment might not be too far away,<sup>3</sup>

However the very size of India with a population of around 1.3 billion and its projected future importance marks it as a potential market for a company aspiring to be global. The current growth rate of India is roughly equal to that of China (about 7.6% pa) and the country possesses a developed scientific and industrial infrastructure and a rapidly growing service sector. Significantly for a European company it utilises English as a language of communication and it still possesses many of the legal, administrative and political structures from its past history as a UK colony. The traffic (when it obeys the highway rules) drives on the left and vehicles have the steering wheel on the right hand side.

But India also presents considerable contrasts. Some 50% of the working population is in agriculture though this is now only a minor contributor to GDP. There are vast discrepancies in wealth with a high proportion of the world's billionaires and yet some of the poorest people in the developing world. However over recent years the rate of poverty has declined and life expectancy has increased such that the World Bank comments:

India is home to one-third of the world's poor, yet the country is poised to lift millions out of poverty in the coming years.<sup>4</sup>

In respect of the public services where Falck has particular competence (such as ambulance and emergency response) the situation of India in

2008 did not reflect the level of services found in a developed country. The healthcare system (in respect of hospital based services) also represented a mixed picture. In major cities such as Delhi there was high quality hospital provision offering services generally comparable to that found in Western countries. However in more rural areas the level of health care (especially emergency health care) was basic at best. As an example of this, a report in 2011 suggested that as opposed to the official figures of 2000 deaths from snake bite the real number was closer to 46,000.<sup>5</sup> This is a reflection on deaths in rural areas as opposed to cities.

The ambulance market in 2008 was in an early stage of development (compared to Western countries). A major operator was EMRI which had been established in 2004 as a Corporate Social Responsibility action funded via the Satyam Foundation. It was set up as a non-profit operation and in 2005 commenced work in the state of Andhra Pradesh.<sup>6</sup> The model adopted became a PPP (Public Private Partnership) type though EMRI was legally set up as a non-profit as opposed to a purely private (for profit) undertaking. In a case study prepared on EMRI it was asserted that GVK EMRI financed some of the costs of operation including leadership and higher management and aspects of innovation, training and technology.<sup>7</sup> According to the aforementioned case study GVK EMRI is set up as a private company but there is an indication of involvement of government representatives in review meetings in the states where it operates (*ibid*).

## Falck Involvement in India

The Indian market was seen significantly in terms of ambulance contracts with the public sector, Business to Government (B2G), and in provision of services to companies for emergency preparedness and response especially on remote sites, Business to Business (B2B). The Company contracted an Indian national who had a background with the emergency medical services market in India and a particular expertise in the Indian market.

However the experience of Falck in India has shown that the public sector market has not proven so far to be an easy to access. It is useful to

track the data of the engagement in India through the Annual Reports and accounts as a precursor to examining the different areas of business.

The 2010 Falck Annual Report is the first one to make reference to Indian and indicated that there are two employees in the business areas of Emergency and Healthcare (Table 11.1). However there is no specific indication as to what the specific activities were beyond this. However Falck had registered related companies (Falck India Private Ltd) in December 2009 including directors from the main Falck Company. This clearly demonstrated a focus on the Indian market. In the subsequent Annual Reports the number of reported employees in India has increased year on year.

The governance of the operations in India was via a Falck subsidiary (Falck India Ltd) registered in the UK which in turn owned a holding company, Falck Services, incorporated in Mauritius which controlled two Indian based private companies whose principal activity was Emergency Services. The accounts of Falck India Ltd show the following basic data for the years 2011–2014 (Table 11.2).

The financials of Falck India show that the company has yet to make a profit especially when the interest charges on loans from the parent company are factored in. The loans can be regarded as the necessary finance in order to set up operations. The parent company has ‘rolled up’ the interest payments on an annual basis and this is reflected in the increasing shareholder deficit. The accounts of Falck India have not been qualified by the auditors who regard Falck India as a ‘Smaller Entity’.<sup>8</sup> The accounts (2014) note that the ultimate parent company is Lundbeckfond Invest A/S.

## **The Public Sector Experience: Ambulance Contracts**

The experience of bidding for public sector ambulance contracts in India has been a frustrating one. Despite numerous bids no contracts were won. From information provided during the author’s visit to India the following issues emerged as significant:

**Table 11.1** Reports on activities in India in Falck annual report 2010–2015

Report year	Number of staff	Business area	Comments in annual report on activities
2010	2	Emergency, healthcare	None specific
2011	16	Emergency	None specific
2012	85	Emergency	Falck continued its expansion in India and has contracts for 12 medical clinics at remote locations. Customers are mainly large scale construction projects and oil and gas exploration sites. Delhi has established an ambulance service with nine vehicles collaborating with hospitals wanting to outsource patient transport services
2013	134	Emergency Industrial Fire fighting	Falck now operates 19 medical clinics in remote locations with special risks with companies who want to offer employees quick treatment if ill or injured
2014	140	Emergency Industrial Fire fighting	Falck won two contracts for firefighting services and opened an additional 6 medical clinics in remote locations (now operating 25 such clinics). Falck global assistance has expanded its network of alarm centres with a centre in India
2015	140	Emergency Industrial Fire fighting Travel assistance	Launched Falck global assistance—international travel assistance services in India

Source Adapted from Falck Annual Reports 2010–2015

**Table 11.2** Basic financials of Falck India Ltd.

Year of report (end of Dec)	Interest payable on loans from Falck DK and simi- lar charges ('000£)	Profit and loss account after adjustment for taxation ('000£)	Balance sheet shareholders fund/deficit ('000£)
2011	29	-24	37
2012	121	-96	-59
2013	178	-147	-206
2014	236	-193	-399

- A view that the ambulance market was still developing and that the focus was less on quality of provision and more upon cost.
- There was not a 'level playing field' and that a new (and foreign) bidder was significantly disadvantaged through particular requirements in bids.
- A local partner was a critical element and the choice of such partner was a key aspect.
- A view that the actual contract bidding practices were unfair and that there were inappropriate practices taking place to the disadvantage of Falck.

This was so strongly felt by Falck that in one particular case in Uttar Pradesh when they discovered that their bid had not even been opened Falck went to seek a legal judgement. The court found against Falck citing a number of technical issues which Falck regarded as further evidence of the difficulties of doing business in the Indian public sector context.

Falck attempted a number of bids for public sector ambulance contracts without success. Following this there was an exploration as to the feasibility of a relationship with an existing major local ambulance provider to enable a more fruitful engagement with the public sector ambulance market. This exploration was rebuffed possibly confirming that the public sector ambulance market in India was challenging for an outside provider like Falck. There was also a perception that the market was significantly cost-driven as opposed to quality-driven. It was described to the author as a 'scoop and run' service whereby the ambulance simply transported the patient to a medical facility.

There had been a proliferation of emergency contact numbers and the 108 number had only recently become a standard with considerable national variation. In the case study previously cited comment had been made about abuses of the 108 number with (for example) attempts to use it as a transport system and inappropriate requests to pick up beggars and homeless people from the street. Abuse of an emergency ambulance system is found in developed (Western) countries so perhaps this is likely to be a factor in any publicly funded service of this nature.

The major road congestion (particularly in major cities like Delhi) was likely to generate a need for helicopter ambulance services. In this respect India—through its road network failing to keep pace with growth—may well ‘leapfrog’ into a more Western style emergency rescue services tailored to the highest priority cases.

The experience of engaging with (albeit unsuccessful) public sector contracts probably enabled Falck to acquire significant local knowledge about the Indian health care system. The ‘tier’ levels in the system and local awareness of the quality of hospital provision is essential for the remote sites and global assistance business areas.

## **Provision on Remote Sites and Industrial Settings**

This area of work became a key area of activity especially in the light of the problems in accessing the B2G (public sector contract) market. In several key respects it stands in contrast to the public sector ambulance work:

- It operates directly with private sector employers in respect of their staff (or people for whom they have a clear responsibility).
- It involves an assurance of an immediate on-site response: The emergency responder and vehicle is actually located as close as feasible to the people it serves and the response is expected to be almost immediate with minimal activation or travel time.

- It is availability as opposed to actual usage of the service (a public sector ambulance which was rarely used would be regarded as a waste of resource).
- There is a high potential for additional services beyond emergency preparedness.

The nature of the actual contracts is also different to those typically found in the public sector in that:

- They are, individually, small scale typically involving just one or two vehicles and associated staff.
- They are usually shorter in duration and reflect the operational needs of the company requiring them. A hydro-electric construction site, for example, may only need the provision whilst it is undertaking the construction of the dam. Even where they are in operation for ongoing industrial facilities the contract may be shorter in length to reflect market uncertainty for the sector.
- They may involve assistance in emergency preparedness planning at the early stage of the industrial project. This activity can be a profitable business even if there is a decision either not to proceed with the project or to use an alternative emergency provider.
- They occupy a market segment which large public sector providers may either find hard to service or simply regard as not sufficiently large to be attractive.
- They have a clear cost structure in terms of the cost of vehicle and staff and so are amenable to a 'cost plus' form of remuneration as opposed to straightforward competitive tendering.

The concept of a remote site does not simply imply a geographical remoteness. The remoteness can be conceptualised in terms of the nature of risk against the availability of necessary resources to mitigate or respond to a risk event. The need to monitor staff on an ongoing basis on a desert oil rig site cannot be simply met by taking them to a hospital several hours away. Equally the hospital doctors would regard

monthly visits to a number of remote desert sites as not a productive use of their time. Therefore the sites, rather like cruise liners or arctic research stations, need to have readily available medical support because though the risk of a major incident or accident is low the consequence if it happens is high.

The communality of a cruise liner and an arctic research station is demonstrated by the similarities in provision between one site, one of the most exclusive hotel resorts in India, and an oil site in the desert. In both cases the emergency medical staff is required to be on site at all times. The hotel medical worker could not even leave the hotel grounds during his four-week shift. The differences in the actual appearance of the venues (and clientele) is enormous. The height of luxury and exclusivity (with bath tubs carved from a single slab of marble) at the resort contrasts to windowless accommodation and warnings about venomous snakes on the oil site. But what they both share is a view by the client companies that risk mitigation requires a full time available medical assistance presence and fully committed emergency ambulance vehicle. The hotel resort noted that they had selected Falck as provider having previously used a cheaper health support provider. However the previous provider had not been able to assure on site cover after 10 pm at night. The evidence of the need for the on-site cover was demonstrated during the author's visit by arrangements being made for an older guest who had fallen and fractured his hip.

However the reality of the service to remote sites is of 'availability' and this has enabled the staff to become involved in a range of activities. Some of these are within the letter of the contract such as assisting with health (and hygiene) evaluations. There is also a significant training element with the hotel and oil site employees receiving a range of provision. The remoteness of the hotel site linked to the key importance of the hotel as a local employer creates the interesting local impact of the greater medical and public health awareness of the staff. The hotel employees who receive certificates for the training provided by the Falck member of staff arguably take the knowledge back into their local villages. The Falck staff member noted that the hotel staff would often consult him about health issue in their own families and he would respond as his knowledge permits.

One particular aspect of the remote sites is the development of emergency plans by Falck for the industrial clients. These identify not only the risks associated with the sites but also how they might be mitigated and identify the availability and competence of local response services. For international companies who may not be familiar (or up to date) with the local provision but who also require a 'Western' appreciation this is arguably an important service. The author visited one of the local hospitals associated with the Falck emergency planning and the doctor in charge explained how he had both been evaluated for his services and been involved in the remote site provision. An oil and gas exploration company obviously possesses expertise in its prime business activity. However expertise in awareness of local health provision and recruitment of local on-site medical response services is something that Falck possesses and potentially Falck possesses an objectivity which the local health provider may not.

However the market risk of this area of business is closely associated with the fortunes of the employing companies. The fall in oil prices was inevitably associated with a degree of retrenchment in oil exploration and this led to a substantial number of remote site contracts being discontinued as the sites were either shut down or mothballed. The consequence of this was felt quickly as the contracts tend to be short term compared to public sector ambulance contracts. The substantial number of ambulances parked up outside the Falck HQ was evidence of this.

## **Global Assistance and Travel Insurance**

A market which possibly was not envisaged when Falck first entered the Indian market is a consequence of India's economic and social development. Travel insurance for business and leisure normally has the image of people from developed (Western) countries as the beneficiaries. Falck Global Assistance emerged from the original Nordic subscription service for vehicle assistance (a breakdown service) and also for buildings and healthcare assistance. In 2008 this led to Falck TravelCare being established which focussed on the Nordic insurance market. This subsequently developed into Falck Global Assistance which enabled an

emergency response to a wide range of problems encountered by travellers (including, loss of luggage).

In India this led to the setup of a call centre facility as a direct part of Falck Global Assistance in order to support Falck subscribers who encountered a problem whilst in India. This can be seen as a natural extension of the Falck Global Assistance and enabled local expertise, especially around health resources, to be appropriately utilised.

However in India an interesting business aspect emerged whereby the Falck call centre also functioned as an agent for a major Indian insurance company, ICICI Lombard, to handle claims calls from Indian subscribers who had encountered a problem whilst travelling abroad outside India. This enabled Falck India to call upon the expertise of Falck Global Assistance in the country where the traveller was located. The protocol for response differed as the Falck call centre responded NOT as Falck but as an agent of Lombard. However the insurance card carried by Lombard subscribers clearly carried the Falck Logo as well and also the resolution of claims had a Falck identity so subscribers were made aware that their problems had, in fact, been resolved by Falck.

The operation of this aspect of the business appeared to be very successful and indeed Falck India had been approached by another Indian insurance company (purely on word of mouth) to ask if they would undertake a similar service for them. There was a clear synergy of offering expertise in India to Falck Global Assistance and (through Falck Global Assistance) expertise outside of India to Indian insurance companies. The training of the call centre staff was thorough and the staff were competent in a range of languages (some 15 at time when the author visited). Calls were monitored and a 'traffic light' system was used to evaluate and feed back to individual staff. The call centre ran on a 24/7 basis.

A further (health related) expertise was provided through the employment of medically qualified staff (doctors) who were able to evaluate the health related claims (and needs) of callers. This added level of expertise enabled Falck India (for both Falck Global Assistance and for the Indian client insurance companies) to provide a high level of assurance as to the probity and validity of the claims. Though decisions (for the Indian insurance company) had to go to the company for ratification,

disagreements were rare and there was no reported ‘pressure’ or contractual financial incentives on the Falck staff to ‘find fault’ to deny claims. The Author was shown evidence of appreciation for the service from insurance company customers—which interestingly clearly showed that they were aware that it was Falck that had been responsible for resolving the problem and sorting out a claim.

The operation had been running for about a year and it was evident that it enabled the collection of valuable data on the nature of claims. This included factors such as the details of the actual problem, the size of the problem, the geographical location and the means of resolution. Falck India was clearly well aware of the value of analysis of such data and had begun to undertake this. Given the wider data possessed by Falck Global Assistance and the likely addition of more India based insurance companies the potential for the analysis of the growing data resource is quite evident.

Falck has developed a database (ODIN) which furnishes information about medical resources and in particular this enables informed decision making as to whether a patient need can be met at particular hospitals in India.

## **Provision of Medical Assessments and Reviews**

The availability of qualified medical staff to assist with Falck Assistance is associated with related business activities involving pre-employment and in-service health checks. These have been undertaken as part of the work with some of the remote site clients. They are significantly more comprehensive than most pro forma health checks employers may undertake in part because of the circumstances involved in working remote sites in often challenging environmental conditions. Falck developed software to enable and record these checks and to prepare both a profile of the individual employee and also enable aggregate analysis of the health of the workforce. The database can also be accessed online by the employee to check their own medical assessment and review recommendations.

This latter facility is potentially significant because it enables confidentiality of individual medical records whilst also enabling the employer to

receive a detailed profile of overall health of the workforce. If the data has been gathered by the company themselves then such confidentiality would clearly be in question. Falck, as a qualified third party, gathers the data and, unless a clear employment risk is identified, is able to give the individual a degree of assurance that the data is not freely available to the employer. Factors such as incipient medical conditions such as hypertension and diabetes can be identified in an aggregate report to the company. The individual can receive specific lifestyle, health and dietary advice and the company can introduce work changes (such as food menus) to enable improvements in overall work force health.

British Gas, a major company, had contracted with Falck India to undertake the pre-employment health checks for its staff and to engage in workforce health issues. This led to not simply the issuing of 'fitness to work' certification but also the provision of individual 'health passports' for the company staff. The potential to develop this work might be significant as the development of the proprietary software gives Falck India a particular asset beyond the possession of medical expertise and knowledge of the Indian health system.

## Industrial Fire Provision

A core part of Falck's provision internationally has been associated with industrial fire provision. This is typically represented by the fire appliances and associated provision found at airports. Public fire brigades may well respond to a need for assistance on industrial sites. However the fire appliances would not normally be actually based on the site—especially if it was private property.

The contracts for such provision are therefore B2B (Business to Business) contracts often fostered by the reluctance (or refusal) of the public fire service to provide on-site assistance which, given an assessed level of risk, is seen to be necessary. Falck India has engaged in such industrial contracts in particular in vehicle plants such as Daimler Benz. The synergy with other activities can be seen in that such facilities (often employing a substantial work force) may also be looking for onsite medical emergency services and may also (especially if Western

companies) be concerned about workforce health issues. However the market risk of such activities is similar to that of remote sites. An economic downturn—or simply a decision to relocate—may lead to a termination of the contract. Fire appliances, like ambulances, are specialist vehicles and the staff who work in this area are typically sector focused. The loss of an industrial fire brigade contract leaves both vehicles and staff who are non-income generating. The competence in servicing an industrial site tends to be risk specific to the site. Moving from this to seek public service fire contracts in residential settings brings with it both political issues and a change in both geographic and technical challenge.

## **Analysis and Discussion**

### **The Differences in Public Sector Markets in Developing Country**

Here there are issues of both culture and probity. The relative sophistication and accepted practices found in European and North American markets for ambulance and public services in general has evolved over time and has been reinforced by regulation (such as that of the European Commission). It should be noted that even such markets are not perfect and that ambulance and fire services often arouse strong emotions which, understandably, have implications for public officials and politicians. Denmark is unusual in that it was possibly the first country to legally accept the contracting out of such services to the private sector. India is heavily rooted in traditions of public sector provision and, even now, a 1950s designed but ‘Indian’ car—the Hindustan Ambassador—is still found as the official vehicle for some public servants even though it is rare on the roads.

Equally, however, India whilst retaining some of the institutional aspect of the UK colonial history has aspects of nepotism and less than ethical business practices. In 2015 Transparency International ranked Denmark as first out of 168 countries on its corruption perceptions index whereas India can only claim 76th position. In respect of control of corruption (2010) Transparency International has Denmark at

100% (best) whereas India can only muster 36% on the same index.<sup>9</sup> It is hardly surprising that a Danish company might find aspects of Indian business practice less than acceptable.

On this base perhaps, Falck should not have been surprised at the difficulty in accessing public sector contracts and also in their failure to get redress in the Indian court system. However arguably for a global company it is impossible to ignore a market the size of India. Possibly the issue may have been around the timing and the need to take account of the evolution of India to a more transparent and open approach to international competition for public sector provision. As the Indian middle class expands and GDP increases, it is arguable that public demand will expect a high quality of public ambulance services akin to that found generally in developed countries. If the handling of public sector contracts for such services is not responsive to this, then the likely consequence will be the increased emergence of more subscription based services—a market where Falck has clear competence and appeal. The public sector ambulance services will potentially be left as a basic and undesired option used under sufferance by the desperate and impoverished. In any democracy such an outcome would almost certainly lead to public protest and (in the Indian context) actions aimed to force change through by civil unrest. Any additional suggestion that such poor provision might be linked to caste or religion would create a doubly explosive situation given the sensitivity of both in the national and local context.

### **Business to Business on Remote Sites**

The Business to Business activities (such as the remote sites and the provision on industrial premises) seems to be a good entry point for Falck in India. The potential for overall high earnings growth is possibly limited as the sites, considered individually, each represent a relatively small scale business activity. However Falck appears to have established a presence particularly in the oil and gas industry and is viewed as a reliable and well regarded supplier by the companies concerned. The crossover potential into public sector provision may be limited, however, as these

are private contracts and in themselves may not demonstrate a capacity to undertake regular ambulance services in urban areas. Also they are quite vulnerable to market forces beyond the ability of Falck to influence. They do represent an income positive activity which enables an ongoing presence and where Falck has high visibility and a limited competitive threat from other providers.

The remote site provision also may have potential synergy in opening up market possibilities to provide both training and medical advice/support services to the companies concerned and indeed to related companies. There are aspects of the provision which can arguably be seen to have clear community and public benefit (such as the education of client staff on the sites concerned). The nature and extent of such activities are probably significantly affected by the personal motivation and engagement of the particular Falck staff. An emergency responder who finds few emergency call outs may well seek to be proactive in activities around training and prevention. This was clearly evident from some site visits.

### **Importance of Local Presence and Knowledge of Local Provision**

The importance of a local presence is significant for Falck as India is such a large potential market. It is unlikely that the call centre facilities utilised by the Indian insurance industry would have been attractive if they had been located in Europe or in North America. The staff are familiar with local culture and languages and also know local provision especially where health facilities are concerned. As one interviewee noted during the author's visit a lot of the work relied on trust with some intuition to know when an informant making a claim was trustworthy and when to seek more supportive information. This sort of awareness is not easily acquired from a culturally distant and linguistically limited perspective. It is not so much a case that Indian claimants would make inflated or unjustified claims but rather that they are less likely to do so in the knowledge that they are talking to one of their own nationals familiar with both language and culture. The UK has also experienced customer issues in contracting out call centres to Asia.

## **Synergy in Matching Client Need with Current and Evolving Competence**

The evolution of Falck India shows a level of both innovation and awareness of synergy in the way existing competences have been utilised in new settings and in the deliberate development of new competences to meet perceived market opportunities. Though the various business streams have been treated as separate entities for the purpose of clarity in the case study there are usually some logical links which join them. The staff at the main office may work across several business areas.

It is an interesting question as to whether the evolution of activities was driven by a conscious and predetermined plan. No such plan was offered to the author and no reference to it was made during the visit. However the emergency response plans made for each remote site clearly set out what was needed and typically led to Falck acquiring the contract for the site. The development of Falck globally obviously had an impact on business direction (the call centre facility emerged from the growth of Falck Assistance into Falck Global Assistance). However the development of the Indian insurance market would seem to have been significantly driven by the local perception of a business opportunity.

The business intelligence market arising from the assessment of insurance claims potentially takes Falck India into a new area of work. Whilst it is responding to just one (or two) insurance clients then it is only reflecting back the data which the client already possesses. However as more clients are added the value of business intelligence will almost certainly be enhanced. As overseas travel by Indian nationals increases with social and economic development the potential market for business intelligence is also likely to grow.

## **Importance of Guarding Reputation**

The strength of Falck in its home market was arguably its strong brand and the concept of trust and competence associated with it. Reputation, so it is said, take many years to gain but can be lost almost in minutes.

The range of activities which have emerged in India bring with them a challenge of governance and oversight. Potentially each activity possesses a reputational risk for the whole and as (and if) Falck grows in India then the attention of media will be drawn to it. Currently due perhaps to its focus on B2B and the lack of public sector contracts the media attention is muted. Through an internet search the author only found a few negative comments about Falck and these seem to be associated with its role in vetting staff and progressing insurance issues. Such are arguably to be expected.

However as EMRI (the Indian ambulance provider mentioned previously) has found, when you become sizeable then problems (in their case a protest by their ambulance staff about employment conditions) is almost certain to attract media attention. A diversity of activities may protect against a sudden downturn in one business area but it also creates more potential for exposure to reputational risk which may not be containable within the business segment where it occurs.

### **Strategic Focus**

Academic writers in looking at Falck India may pose the question as to what is the strategy of the country operation. Clearly most of the activities can be located in one of the four key areas of the parent company (Assistance, Emergency, Healthcare and Training). However in the 2014 Falck Annual Report (Table 11.1) the Emergency and Assistance categories are specifically mentioned in respect of India.

These are, in themselves, quite broad categories and an interesting question for Falck India (and indeed Falck in general) is to identify what the long term strategy might be for India. The financial data, whilst it does not show the relative contribution of the different business activities, is indicative of a situation where the Indian operation is not yet cash positive and indeed has significant internal loan liabilities.

If the objective is to establish and develop a presence in India then arguably this has been achieved with a diversity of activities. However if there is still a harboured intent to enter the public sector ambulance market perhaps on the basis that 'size matters' and it is a core part of the

Falck offer then this needs careful consideration. GVT EMRI has now become the largest provider in this sector and is unlikely to be willing to either yield its standing or to engage in any collaboration. It is probably too large to be 'taken over' even if this was feasible under Indian law. However just as Falck found issues over its 'monopoly' standing in Denmark so it is conceivable that GVT EMRI may find its very size is a liability in the Indian market. Therein may lie an opportunity for Falck.

The development of value chain driven relationship with businesses and particularly with the Indian insurance market may create an opportunity for the expansion into the area of support for Assistance. The potential market here is considerable. The population of India is 1.5 times that of the whole European Union though obviously the usage of insurance based services is, per capita, a lot lower. However being a key part of the value chain of the insurance industry in India may be an excellent strategic move for Falck India. It is probably less vulnerable to the market fluctuations associated with the oil and gas industry. Equally the potential for income growth may be higher.

## Summary

The size and diversity of India is overwhelming and for a company such as Falck the challenge is possibly over where (and how) to focus. The account of their experience demonstrates a significant level of disappointment at being frustrated in what was probably the original aim to enter the public ambulance market. Some companies might well have reacted to such a succession of rebuffs by simply packing their bags and leaving. The development of other business areas demonstrates a facility to adapt and seek other opportunities. There is now clear local knowledge and expertise accompanied by a growing reputation in the Indian business community.

However as Falck HQ peruses the most recent accounts of its Indian subsidiary there may well be a degree of speculation as to whether and when the activities in India will generate a business sector return closer to that of the average for the company. The investment in India is relatively modest in comparison to the overall size of the parent company

so it is unlikely to be seen as jeopardising the financial well-being of the parent. One bold question is will India, given time and a degree of luck perhaps, become the 'Jewel in the Crown' for Falck? A more modest question may be as to which current and future business activities offer the most potential and provide synergy with other activities of Falck.

## Notes

1. Source IMF Country Report.
2. Brazil, Russia, India, China, and, later South Africa represent the BRICS countries which Jim O'Neill labelled in 2001 as the emerging economies.
3. Economic Times of India March 9 2015. Accessed 12 March 2016.
4. Source World Bank <http://openindia.worldbankgroup.org/#/overview>. Accessed 12 March 2016.
5. Source <http://timesofindia.indiatimes.com/india/Snake-bite-fatalities-are-under-reported-in-India/articleshow/11000299.cms>. Accessed 12 March 2016.
6. See <http://www.emri.in/about-us/>. Accessed 12 March 2016.
7. Source 'Dial 108 in an Emergency' Asia Business Case Centre, Nanyang Business School 2011.
8. A company can be regarded as a Smaller Entity if it satisfies two of the following conditions: a turnover of less than £6,500,000, total assets of less than £3,260,000 and less than 50 employees.
9. See <https://www.transparency.org/country/#IND>. Accessed 12 March 2016.

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# 12

## Falck and the US Ambulance Market: Run Silent, Run Deep?

Alex Murdock

### Introduction

This case study focusses upon the development of Falck in the ambulance market in the United States. The diversity of the USA in respect of the ambulance market was summed up by a comment (repeated by different informants) that ‘one contract is one contract’ meaning when you have seen one contract you have only seen one and the next one may be different. By this was meant that every contract was different and the USA possibly represents one of the most varied markets for private provision of ambulance services. In effect the USA arguably represents a litmus test for the extent to which Falck is able to internationalise. If Falck is able to access the variety of different markets represented by the USA then it can be seen as evidence that Falck possesses the competence to enter a wide diversity of related markets.

The data was gathered from a mixture of desk research, company sources and field visits to a range of the US sites in 2016 where Falck (or a wholly or partially owned subsidiary) had operational activities. Falck USA provided generous access to operational activities and key staff were interviewed at each location. Most of the interviews were tape recorded

and the author acknowledges gratitude to all who participated and assisted. However any errors of fact or opinion are the responsibility of the author and the case study should not be seen as representing the views of Falck or of companies associated with Falck.

This case study reaches across many chapters of the book. In particular (and self evidently) it contributes to the chapters on internationalisation (Chaps. 6 and 7). It also has a significant contribution to governance Chap. 5 as there are a range of forms shown. Engagement with the public sector also heavily features both through the involvement with 911 (emergency response) services and also through the nature of licensing of ambulance providers which is a feature of the USA landscape. Innovation is also found in aspects of operational provision together with a degree of diversification of activities. Last, but by no means least, there is evidence of the nature of the ‘rescue culture’ and the case study casts light on the relationship between the culture of privatised ambulance services and those of public fire and police services and hospital provision.

## The United States Context

The United States is a very large market in both health and in emergency and regular ambulance provision. It is a strangely diverse market in which healthcare (both in respect of hospital care and primary care provision) is heavily dominated by insurance based schemes as opposed to the National Health Service model of the UK. Severe and/or ongoing health issues can represent a catastrophic threat for an individual or for a family where there is not adequate insurance cover. (Such cover is often through an employment based workplace scheme). However such dominance of insurance and private health care providers is accompanied by a diversity of emergency health care (paramedic) response provision which often is focussed around public providers such as the fire department and also (especially in rural areas) by community based first responders which may be volunteer fire department and ambulance responders who are typically neither public nor private salaried staff but

locally focussed volunteers whose service costs are substantially based on charitable fundraising.

US President Barack Obama introduced a significant change in health care provision called the Patient Protection and Affordable Care Act 2010, known popularly as Obamacare. The Act was intended to enhance health care access to population groups which were seen as either without health insurance or who had inadequate cover. It has aroused strong emotions in the USA and is a source of political debate.

However the federal nature of the United States means that the States themselves have a considerable degree of local discretion. 'Obamacare' was subject to significant resistance at State level. The health insurance and private health care industry saw the Act as a potential threat to their accustomed primacy in the health care market. The local discretion of both States and localities can have a significant impact upon the nature and level of provision. Local discretion and attitudes can also impact on the openness and attractiveness of the market for emergency service and ambulance providers.

Overall the Federal Government through the Medicare<sup>1</sup> and Medicaid<sup>2</sup> programs exercises a very considerable impact on the health market through reimbursement for service provision. Medicaid funding of ambulance provision is a final resort. Such funding usually involves a percentage co-pay of around 20% either from the person transported or from an insurance source. The payment is also a regulated amount which can vary between States and contexts (rural areas attract a slightly higher payment). The nature of Non Emergency Medical Transport (NEMT) under Medicare and Medicaid is depicted in Table 12.1.

The ambulance market in the USA is affected by a range of factors which can vary over relatively short geographic distances:

- The population demographics affect both the demand for a service and also, critically for a private provider, the likelihood and ease of getting sufficiently reimbursed
- The local market situation which may have an 'incumbent advantage' so rendering a newcomer less able to access it. It may also render some markets less or more attractive.

**Table 12.1** Non Emergency Medical Transport (NEMT) under Medicare and Medicaid

Medicare	Medicaid
Beneficiaries are eligible for NEMT when their medical condition at the time is such that other means of transport such as private car would <b>jeopardize their health</b>	NEMT is usually available for beneficiaries with <b>no other means of transport</b> to medical services
They receive <b>ground ambulance</b> transport including Basic or Advanced Life Support and Speciality Care Transport.	States use <b>various modes</b> of transport including ambulances, taxis, wheelchair vans, or provide volunteer drivers or cost of petrol or public transport
Ambulance providers are contracted <b>directly by Medicare</b>	<b>Each state determines</b> the requirements and the process for contracting with NEMT providers

Table prepared by Margit Physant who is duly thanked and acknowledged

- The urban/suburban/rural dimension for example inner city areas may present unattractive market perhaps through a demographic which suggests high usage but problems in getting full or adequate reimbursement and rural areas may simply not be economic to serve (hence the presence of local community initiatives)
- The actual nature of the service which is described in more detail later but which (in simplistic terms) offers
  - The emergency ambulance (the 911 service)
  - The inter facility transport (IFT) which is typically between medical establishments
  - The Critical Care Transport (CCT) which is ambulance transport provision where typically a specialist nurse is needed on the vehicle (and specialist equipment may be required).

The American ‘private ambulance’ market is also characterised by the presence of a very large provider, American Medical Response (AMR) . This provider took over a large competitor (Rural Metro) when the latter experienced both financial and operational issues. AMR could perhaps be likened to IBM in the earlier days of computers. It has a large institutional presence in the market.

However, unlike the computer industry, the private ambulance market in the USA is also characterised by a very large number of quite small operators. These can be family type businesses which are very local in nature. They typically offer interfacility transports. However individual facilities—such as hospitals or residential health care settings—may operate their own ambulance service.

The legal and governance framework around this diversity of provision is license based. The relevant local government entity issues licenses to ambulance providers which normally enables the provider to operate particular services in a given area (which can also include an adjacent area in some circumstances). The number of licenses awarded can vary and is a matter of local political discretion. It has some affinity with the granting of taxicab licenses.

## The Ambulance and EMS Context

The ambulance provider environment in the USA is quite complex and comprises a large number of stakeholders. The complexity and the number of stakeholders creates a wide range of possible permutations. This is arguably the reason for the comment made frequently to the author that ‘one contract is just one contract’.

The actual range of possible provision briefly described previously is more complex than suggested by the three basic categories. A provider may, in one area, operate in one, two or all three of the categories. The actual detail of the 911 emergency provision and the IFT and CCT provision may and does vary according to area and may specify particular interactions and relationships with fire departments and other services. Possibly the only common factor is the Medicare/Medicaid regulatory and funding mechanism.

The regulation and inspection of emergency vehicles can also vary and in one setting visited by the author there was clear evidence of possible overlap in inspection regimes with the police inspecting vehicles conducted with apparent speed and efficiency and another government agency carrying out largely the same inspection work in a more

leisurely fashion. This was understandably regarded by the provider as not conducive to the effective and efficient operation of the services but, possibly due to a public agency seeking to defend 'regulatory space', it appeared unlikely to change.

A key stakeholder in the EMS setting was the fire department especially in cities and urban areas. The public profile and esteem of the firefighter in the USA is high and enhanced post 9/11. There is little doubt that in many city and urban settings the firefighter represents, in public sector terms, an extremely expensive resource and can, in some cases, amount to an annual salary and on-cost per firefighter of some \$200,000. This is particularly linked to the relatively generous pension provision and the relatively early retirement age for a firefighter compared to other categories of public employee. Whilst pay does vary (and in rural areas the fire provision may even be mainly voluntary) it is almost invariably the case that, within each geographic setting the author visited, the difference between the pay and benefits of an ambulance emergency medical technician (EMT) and that of the firefighter was very substantial. This often led to ambulance personnel seeing a career path into the fire department (or in some cases nursing or police work) which offered both higher pay and benefits.

Fire departments have generally 'moved into' the paramedic response arena. Hence fire departments typically undertake the first response to a medical emergency (often using a fire truck with a full crew) and the role of the private ambulance provider was provision of suitable properly equipped vehicle with technically skilled staff. As a result of both political decisions and also from perceptions of fire risk which drew on historic as opposed to current risk, fire stations were located in a large number of locations in a city and staffed to deal with a potential demand which (9/11 notwithstanding) occurred rarely. In effect 'fire fighters waited for fires'. This had in some cases led to a considerable pressure on public budgets and the fire departments had, understandably, sought to extend their available resources into areas appropriate for their skill base.

In some areas the first responder role was undertaken by whomever arrived first. In other areas the fire department undertook the first response and then an ambulance was summoned. In some cases the fire department was a de facto full service provision with their own

ambulances. The lack of uniformity in how fire departments and ambulance services (provided by licensed private providers) worked together was a factor adding to the complexity of service arrangements. The strong position of the fire departments meant, in practice, that they could often and substantially determine the nature of emergency ambulance provision and what, if any, first responder activities were made available to private ambulance providers. However there appears little doubt that in many urban settings for the fire department to have full responsibility was potentially a very expensive way to run it. Public finances represented a significant pressure. The fire departments did not appear to seek any significant role in non-emergency ambulance response (such as the IFT and CCT categories previously mentioned).

The diversity of political levels exercising responsibility for ensuring ambulance provision added another level of variation. About the only political entity not engaged in some form of direct licensing and 911 contracting for ambulance vehicle services was probably the Federal Government. Ambulance licensing and 911 contracts could be found in almost all other levels or categories of government ranging from the state level to cities and townships. Possibly due to historical boundaries and the nature of urban expansion it was possible to find 'enclaves' in cities which were not part of the designated responsibility of the surrounding city but which were the responsibility of a different governmental entity.

The decision of the relevant governmental entity over how many ambulance providers to contract or license was not nationally constrained. Some cities (such as Houston) licensed literally hundreds of providers and others decided to only license one or two. Occasionally government entities had more than one provider of 911 (emergency) ambulances in the same area potentially creating a possible situation of both inappropriate competition and confusion. In some (mainly urban) areas there was a de facto public sector monopoly in which the 911 ambulance services was entrusted to the fire department or a public body. Thus in this case there was no means of entry to this market for a private provider.

In all this can perhaps be seen the essence of the United States in which the constitutional separation of powers is evidenced by such a wide range of ambulance provision. However it has implications for

a potential provider (especially one from outside the USA) seeking to enter such a complex and diverse market.

## The Ambulance Market—Competition

The competitive setting for the ambulance market could be defined at four levels. Firstly there is the national level where the players operate across the USA (as opposed to in one particular locality or adjacent states or region). Secondly there is a regional level which may encompass one state or adjacent states. Then there is a local political level which may be a city, suburb or county entity. Finally there is a local level which may be highly localised within a relatively narrowly defined geographic setting or market.

Also the market can be defined in terms of the provision of 911 services (emergency response Advanced Life Support and Basic Life Support ambulances) and the provision of non-emergency ambulances which typically provide transport of patients between (health-related) facilities.

Table 12.2 sets out a simplified account of the types of providers by level and type of provision. Though the ambulance industry has a large number of providers it is becoming increasingly consolidated as larger entities (such as AMR and Falck) take over small entities and there is a tendency for smaller ‘mom and pop’ type family businesses to decline. However the non-emergency interfacility ambulance transport business which is license based can enable entry where licenses can be readily acquired and where a new entrant sees a potential though, for example, using older vehicles or aiming at serving a market niche such as a particular establishment or a language or cultural need.

The changing nature of the competitor market was recently demonstrated when AMR took over Rural Metro (one of the larger and long established providers). This was linked to both financial and operational problems which affected Rural Metro.<sup>3</sup> It enabled AMR to acquire a large, albeit weakened, competitor and consolidate the position of AMR as a leading player.

**Table 12.2** Types of ambulance providers

	National	Regional/state	Local political level (city/county)	Locality less than local political level
<i>Type of ambulance provision</i>				
Emergency ambulance	Few national ambulance providers—AMR and Falck including associated companies	Larger providers only—usually based on building on local partnerships with adjacent fire departments	Fire departments Mixture of large and medium size ambulance providers (usually exclusive contracts)	Local voluntary rescue services especially in rural areas
Non-emergency ambulance	Few national ambulance providers—AMR and Falck including associated companies	A range of providers but smaller ones likely to have particular specialization or client contract	Range of providers which may include all sizes	Small 'family' type ambulance operators

The incumbency advantage and the nature of the licensing system means that it is an attractive option to acquire a competitor if by doing so one can 'inherit' the contracts and licenses they possess. In some cases the local reputation of a provider (in effect the brand value) can be considerable and, as Falck has found, it is advantageous to take over or take a controlling interest in an existing ambulance provider and to keep intact the trading name and brand value of that provider. This perhaps is a partial basis for the comment "Run Silent, Run Deep" attributed to the Chief Executive of Falck USA.

The presence of a large number of local, often family based, providers furnishes a source of growth through acquisition in the ambulance business in the USA.

## **The Nature of Ambulance Contracting and Provision by Private Sector**

The key market segments outlined previously (911 emergency response, Interfacility Transport and Critical Care Transport) present different characteristics and challenges for private sector provider. Therefore it is appropriate to consider them in turn.

### **The 911 Service**

The 911 service is an area where a key and powerful stakeholder is the fire department. The image in many countries of a fire department is naturally that of a response to fire and related emergency. However, especially in urban and suburban areas, they have extended their remit into health emergency response. In some cases that means that they operate ambulances and, in effect, have taken on the full 'end to end' responsibility. However, in cost terms, this represents an expensive public resource and given the pressure on municipal budgets there is a fiscal and by implication a business case for contracting out some or even all of this aspect of emergency provision. Where such a decision is made then typically the municipality issues a 'request for proposal' (RFP)

which invites bids. The RFP may arise from a new initiative to contract out or it may occur when an existing contract has run its course. However in the latter case there is typically an 'incumbent advantage' familiar to many aware of public-private partnerships. This advantage is often demonstrated by contracts being 'rolled over' without a RFP even being issued.

A key factor in such contracts is a specified response times with financial penalties for each time the provider fails to make the response time and a set percentage target (typically around 90%) for success in making the response time. In effect it is a double target. The provider is expected to make a 90% response within the set time but is also financially penalised for delayed responses. So the only way to avoid a fiscal penalty is to have 100% response within the time allowed. In practice this is very hard to achieve so a fact of life in 911 contracts is a certain level of fiscal penalty.

A second factor is that the contract does not normally involve the municipality directly paying for the 911 service. However it is involved in determining what the rate for the work would be. The reimbursement comes via a combination of federal funding (Medicare and Medicaid), insurance based funding from private insurers and a level of co-pay which the service recipient may be expected to meet. The co-pay is explicit in federal funding (which normally only covers 80% of the set rate) and it is often the case in private insurance plans which typically may have a deductible attached. Therefore efficiency and expertise in billing is essential for a successful ambulance provider. Such efficiency and expertise is not generally possessed by fire departments or municipalities and the private provider is sometimes sought, in part, because they are seen as more capable in this respect. Nevertheless the effect is that providers inevitably experience a level of 'bad or uncollectible' debt and, unlike the case in normal business, they cannot simply refuse to offer the service to a proven or probable 'bad debt' customer.

The 'incumbency advantage' mentioned above is a major factor. The 911 provision by its nature is normally contracted out to one provider. That provider acquires, especially over time, an advantage and is hard to uproot. If an incumbent loses a contract there is almost invariably

a challenge to the contract award to the newcomer (seeking legal and technical grounds) and this is well known in the industry.

Therefore arguably the case is often not just that a newcomer ‘wins’ a 911 contract but rather that the incumbent ‘loses it’. This loss can occur through a continued failure to deliver on the contract and it can also happen through what can be described as ‘contract complacency’. Such complacency may arise from such factors as a failure to train and innovate, a reliance upon the fire department to ‘make good’ on service failures by the provider, consequent reputational damage to the incumbent and generally an incumbent expectation that the contract will be re-awarded as a matter of custom and practice notwithstanding evidence that ‘all is not well’. The evidence to support this contention was found at site visits where some or most of these factors were present and Falck had won the 911 contract using its own brand name.

## The Non-emergency Service

The non-emergency service (IFT and CCT) is a different market in that there is not the 911 emergency response but rather a licensed ambulance provision to move patients between facilities. Therefore there is often a diversity of licensed providers. The 911 provider may also be a non-emergency provider. There is, however, similarity in respect of the billing aspects. The rates (Medicare and Medicaid) are set and the risk of non payment is also present. Indeed the risk can be higher since the insurance company may deem the transport to have been ‘unnecessary’ or not properly authorised. If, for example, a patient was transported sitting up then it may be argued that they were not in need of ambulance provision. There is also the question of co-pays or deductibles which can end up as a pad debt to the provider.

In all of these settings a key factor is also the possession of excellent logistics and information/control systems. Ambulance availability involves both scheduling adequate provision to meet the anticipated demand and also siting the provision in a way which brings it as close to the anticipated need as is possible. Making use of meta data is a reality for successful ambulance providers and this was evidenced by ‘hourly’

scheduling of vehicles to meet expected need based on hard experiential data on demand for service gathered over long time periods.




## Falck's Involvement in USA—The Strategic Approach to the Market

The nature of the 911 market for emergency medical response is strongly influenced by the fire department as a stakeholder. In discussion with senior Falck managers a Service Grid was developed which endeavoured to see how a private provider could match (or develop) a partnership with a fire department based on the latter's preference for level of engagement. This is shown in Table 12.3.

The highlighted boxes on the service grid indicates where it is suggested that the best fit of private provision would exist for a particular level of preferred (or actual) fire department engagement in emergency medical/ambulance response. At the top left corner is a situation where the fire department restricts itself to purely fire response and therefore there is a potential for a private provider to offer a full 'turnkey' service for emergency and medical response which may include dispatch. At the bottom right is the opposite extreme where the fire department has chosen full responsibility for the whole range of ambulance and emergency response using its own vehicles and staff without any formal or informal mutual help arrangement with any ambulance provider. In this eventuality the private provider is, in effect, totally excluded—in practice probably an unlikely eventuality other than perhaps in rural areas with largely volunteer based fire and EMS provision.




It is suggested that a private provider is most likely to achieve engagement if it seeks to offer a provision which is on or above the highlighted boxes (a sort of 45° line). However if the private provider seeks to offer services which is a long way above the 45° line then it is likely to encounter resistance from the Fire department which may regard such a proposal as an unwelcome incursion into a territory which it claims. Equally an offer of provision below the 45° line would be regarded by the fire department as unwelcome since it moves the fire department into an area of provision which it would not wish to enter.

**Table 12.3** The service grid—public–private spectrum

Fire department provision spectrum							
Private ambulance provider spectrum	Fire only	First response to some types of call when needed	Larger range of call types—EMT	Paramed level of first response with some restrictions	All paramedic first response	Full service fire department with own ambulance	Full ambulance provision for all requirements
<i>Turnkey full service 911 with dispatch</i>							
Sole 911 response with paramedic							
Fire department first and joint response but outsourced ALS and BLS ambulance							
Fire department first response but outsourced ALS ambulance with EMT							

(continued)

Table 12.3 (continued)

Private ambulance provider spectrum	Fire department provision spectrum						
	Fire only	First response to some types of call when needed	Larger range of call types—EMT	Paramed level of first response with some restrictions	All paramedic first response	Full service fire department with own ambulance	Full ambulance provision for all requirements
Fire department first response and they determine ambulance need							
Fire department first response and ambulance with supplement from private provider							
Fire department provision but with some mutual aid from private provider							
Not even mutual aid—fire department entirely							

The nature and complexity of the US emergency service market created some significant challenges for Falck. The reputation and image of Falck as a provider of fire services (especially in Denmark) was arguably a potential barrier to entry. The fire departments in the USA are either public sector and fiercely so (with an enormously positive image and a strongly embedded union and public sector ethos) or they are 'volunteer fire departments' which are typically in rural areas not amenable to the cost structure and market access of either public or private provision. Hence Falck had to virtually de-market itself in respect of its fire service image. The US Firefighters Union saw Falck as a potential threat. This was possibly in part due to concern that the private provision and model that Falck may bring would be a threat to their (comparatively generous) salaries and conditions of public service. As one Falck US manager observed:

The fire departments in the USA swing a long hammer and post 9/11 [The Twin Towers] the public firefighters had such a strong popular image.

The response of Falck was to give a very strong reassurance to the US Firefighter Union. As one senior Falck (USA) manager put it:

We put in writing that we had no intention of getting into fire fighting.

This strongly couched statement was arguably a necessary and strategic condition for market entry into the ambulance market simply because in both service and regulatory terms the fire departments were immensely powerful stakeholders.

The Falck 'brand' was known to the fire service industry (and unions) but was not a brand so familiar in respect of ambulance providers. So paradoxically Falck had both a problem with its 'strong brand' image in one sector (fire services) and with its much less known brand image in the sector where it planned to enter (ambulance services). Here it potentially represented a 'foreign company' seeking to enter the US market. It posed a significant market entry challenge.

The access to the US market was therefore carefully researched by Falck. The Company sought out very experienced and highly competent

US staff and undertook a detailed analysis of both the market and the current players in the market. They recognised the importance of demographics and the increased movement of fire departments into medical emergency response. This guided a choice of particular market segments and also of particular geographic areas of the USA. As was remarked to the author some states such as Mississippi and Ohio were simply not attractive markets for Falck. Particular areas of the USA were deemed to be more attractive and Falck set up a flat structure organisation with small Boards for each geographic entity.

The ‘incumbent’ advantage mentioned previously in respect of both 911 contracts and restrictions on the award of licenses in some jurisdictions meant that entry via an existing company was an attractive option. Falck identified existing ambulance companies which would be feasible to ‘acquire’. These were sometimes family entities and Falck (perhaps better than the major players in the USA) had a corporate, cultural and historic appreciation of the dynamics and culture of such entities. This provided an potential synergy between the country experience and knowledge of the US managers and the cultural and familial ethos of some of the potential take-over entities. Hence in the case of Care Ambulance in Orange County the family members of the company remained in strategic positions and the Care Ambulance ethos and corporate identity was carefully maintained. In the case of some other acquired companies the brands were maintained but Falck would be ‘name checked’ with a modest brand logo on the vehicles.

In the Seattle HQ for Falck it was noticeable that pictures lined the corridors which displayed the vehicles and brands of the companies which Falck had acquired and that these were contemporary as opposed to ‘historic’ pictures (Fig. 12.1).

Another reason for maintaining the brand of companies which were this acquired was arguably to avoid an early identification of Falck as a ‘foreign intruder’ into the USA market. The Falck CEO was quoted several times to the author as using an analogy from submarines “run silent, run deep” to describe his approach to market entry and development. This subtle strategy almost certainly stands in contrast to AMR, the largest provider in the market, which displays and promotes its brand very openly and would probably not regard it as corporate policy



Fig. 12.1 Falck related ambulances<sup>4</sup>

to maintain the brand of any company it might acquire (or for that matter even to co-brand).

However in the case of 'greenfield' contracts especially for 911 services such as in Salem, Oregon, and in Aurora, Colorado, where Falck had bid in its own corporate identity then the branding of vehicles was clear and unequivocal. These contracts represented a major provider (such as Rural Metro) losing the contract significantly through the 'contract complacency' phenomena previously described. In both cases Falck has been careful and highly diplomatic in its dealings and communication with the fire department. In the case of Salem they had actively involved the fire department in interviews for ambulance staff and had had initially 'cohabited' in a Fire department facility. The operational proximity of Falck and fire department staff had contributed to the development of positive working relationships (dealing with a problem the preceding provider had with the fire department). The recruitment of ambulance staff led to a situation where Falck recruited slightly over 50% unionised staff which led to the Salem operation becoming the only unionised one in Falck in the USA. This was almost certainly not the preferred managerial option but in the opinion of the author it was a possible consequence of the need to have a close working relationship with the fire department which was 100% unionised.

## Operational Models

The variation encountered in the USA meant that there was not a simple 'one size fits all' operational model. However some aspects are common especially in respect of 911 type contracts.

The need for high competency in logistics and information systems was associated with solutions which sought to ensure that there was adequate and proximate ambulance provision. The fire department model of having a large number of purpose built and fully equipped stations represents a costly option which would not be sustainable in a contractually competitive ambulance context. Therefore in both Orange County, California, and in Aurora, Colorado, a number of 'local solutions' had been developed which enabled ambulances to be outposted

to settings where there was some accommodation provision. In Orange County this ranged from a motel suite through a storefront to a location in a business park. In many respects an ideal solution would be to share fire department station facilities but this was entirely dependent upon the willingness and goodwill of the particular department. It was occasionally possible and staff involved stressed the importance of both fitting in with the 'hosts' and also the benefit it offered in building relationships.

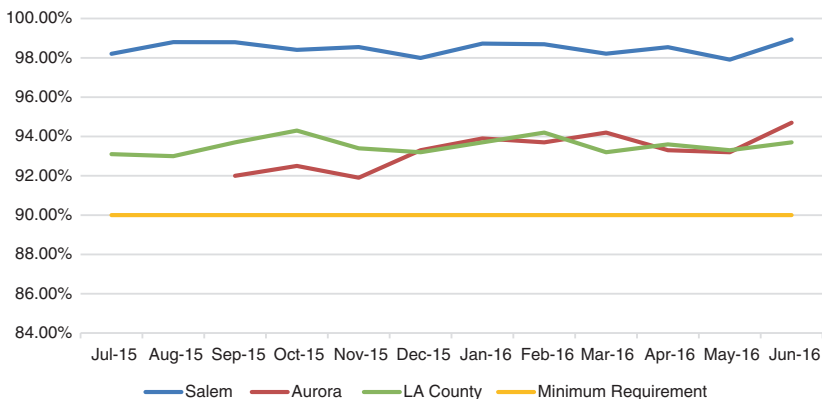
Such outposting obviously shortened journey and response times. It also had the potential to enable a considerable degree of 'team building' amongst the staff on each site. As an example on one site where there was a female Muslim member of staff, the team had agreed that she could have privacy in the use of a sleeping room.

Effective ambulance provision requires sophisticated systems which both capture necessary data and also rapidly communicate it to an appropriate resource for response. The time standards (especially on 911 emergency calls) are demanding and as indicated previously a failure to meet them leads to a contract penalty.

Figures on the performance of three settings are provided below in Table 12.4. What is significant is that though the operation significantly exceeds the required overall standard the provider is still being penalised for the individual cases where the standard is not met. The reality in rescue services is that a delay in one service call is not compensated by exceeding the standard overall. Also it demonstrates the existence of a 'rescue ethos' in which exceeding the required standard is not seen as a justification for a cost reduction strategy.

Performance which is measured in meeting response times is a key factor for both satisfying contract requirements and also ensuring a revenue stream. Falck USA and its corporate partner Care Ambulance have substantially exceeded the 90% threshold in the three areas which were visited by the author (Salem in Oregon, LA County in California and Aurora in Colorado) as is shown in Table 12.4. Indeed Salem demonstrates an extremely high success rate typically in excess of 98%.

However it should be noted that lateness penalties can be incurred even when the 90% target is achieved and this is a characteristic of the 911 industry.

**Table 12.4** 911 Compliance rates for ambulance services in selected areas

Another factor is the importance of an independent audit mechanism for the call response times. The provider and the regulator (purchaser) both could be viewed as possessing potential bias in how response times are assessed. Thus First Watch a commissioned independent outsider has almost real time access to the data and represents an external reporting mechanism for the data. In the Salem and Aurora contracts Falck had offered this provision as part of the contract and it addressed an issue which may have been present in the previous provider.

## Performance and Profitability

Ambulance provision is regarded as both a stable and as an attractive industry in the USA (IBIS World June 2016<sup>5</sup>). The Medicare/Medicaid funding base, though not particularly generous, is a secure and reliable source of income for providers. The insurance based funding also, for those who qualify, is a dependable revenue source.

The regulated funding base in respect of Federal payments in fact enables a degree of assurance against 'undercutting rates' in this area of funding. The rate of default in respect of co-pays is a function of the industry and, to a significant extent, impacts all providers. However efficiency and competence in billing is a distinct competitive asset. Some providers

contract this aspect out (one assessment of the cost of doing this seen by the Author suggests that it involves a 5% factor rate). However given the modest profit margins for the industry if billing can be developed in-house then clearly there is a potential to enhance the returns.

...

Falck has established a solid base in the USA through its partner companies and increasingly in its own right.

## Issues and Analysis

The case study identifies the complexity and diversity of the US market for private providers of ambulance and emergency services. As with many overseas markets there is a clear advantage in gaining entry through an existing local partner and Falck has followed this as part of the market entry strategy. Care Ambulance in Orange County, California, is a strong local partner and the engagement with the owners was sensitive to their desire to continue to be involved in the company.

Falck has also developed in house expertise in billing which arguably represents a core skill in the US ambulance business. Possession of this expertise should enable and assist expansion and would enhance the cost base as the company grows as the billing costs are amenable to economies of scale. The presence of the company either using its own or other brands across a large number of US states is considerable yet Falck has arguably succeeded in 'running silent and deep' as it has not attracted significant mention in ambulance industry. Mr Heffner), the CEO of Falck USA, was reported in an industry magazine in 2012 as stating that Falck does not intend to be the biggest but to be the best and not to 'go to a party we have not been invited to'.<sup>6</sup>

One question, however, is the extent to "run silent, run deep" is sustainable now that Falck has established itself with 911 contracts in several cities and is co-branding with a number of its partners. It is probable that, especially with AMR taking over Rural Metro, that the public media will take more notice of Falck and journalists will start to identify the various brands associated with Falck and start reporting on the company as de facto one entity. Such a development in effect 'surfaces

the submarine' which had been running silent and deep. However perhaps this is a necessary and appropriate development in order for Falck to demonstrate its arrival as a major brand presence in the US market.

Falck's US revenues were recently reported at being \$340 Million and the challenges of making positive revenue in the non-emergency (IFT) market were illustrated by a report of their recent withdrawal from such work in Philadelphia.<sup>7</sup> However, perhaps reassuringly for Falck, one of the partners whom they serviced was quoted saying: "They have been a good partner and we regret that they will cease operations".<sup>8</sup> However it is illustrative of the challenge in the non-emergency ambulance market and highlights the importance of careful choice of where (and how) to pick where to bid for service provision.

## Summary

The case study illustrates both the importance for Falck of the US market and the complex nature of this market. The strength of Falck's image in fire services was possibly not an asset for the US market and the company has had to enter the ambulance market via a mixture of acquisition and careful analysis of where to locate and bid.

The US ambulance market, whilst seen as attractive and relatively stable, is also quite diverse and the potential to suffer both financial and reputational loss is considerable. Even established companies have encountered difficulties and, as shown by the experience of Rural Metro, have struggled to run both an effective and profitable service. The involvement of the private sector has been subject to adverse press comment and whilst Falck has not been directly associated with such criticism there is the ongoing risk that such press comment may be aroused.<sup>9</sup> The nature of funding for ambulance services provided by the private sector is a complex mixture involving a number of stakeholders, some of whom set rates and some of whom set conditions for reimbursement. The direct user may be liable for aspects of payment but is frequently unable (or reluctant) to pay.

The fire department presence is akin to the 'elephant in the room' especially where 911 services are concerned. Developing and

maintaining a positive mutual working relationship with fire departments is essential to both winning and retaining 911 work and is also important in respect of running ambulance provision generally. Arguably the pressure on public budgets may lead to fire departments becoming more amenable to outsourcing aspects of the medical emergency provision which they currently provide. However it is likely to be resisted if there is any perception that such outsourcing may be associated with a reduction of fire department funding or the pay and conditions of fire fighters.

## Notes

1. **Medicare** is a national health insurance program, administered by the Federal Government since 1966. It uses insurance companies across the United States. It provides for Americans aged 65 and older who have worked and paid into the system. It also provides health insurance to younger people with certain illnesses.
2. **Medicaid** is a social health care program for families and individuals with limited resources and it is mean tested. It is jointly funded by state and federal governments and managed by the states. Each state has leeway to determine who is eligible for its implementation of the program.
3. See [http://www.nytimes.com/2016/06/26/business/dealbook/when-you-dial-911-and-wall-street-answers.html?\\_r=0](http://www.nytimes.com/2016/06/26/business/dealbook/when-you-dial-911-and-wall-street-answers.html?_r=0). Accessed November 20, 2016.
4. Reprinted with permission from Falck.
5. See <http://www.ibisworld.com/industry/default.aspx?indid=1581>. Accessed November 20, 2016.
6. Source: EMS World September 14, 2012 <http://www.emsworld.com/article/10780080/falck-usa-brings-global-lessons-in-operational-efficiency-to-us-ems-market>. Accessed July 20, 2016.
7. See Philadelphia Inquirer March 24, 2016 [http://articles.philly.com/2016-03-24/business/71762028\\_1\\_new-ambulance-operators-keystone-quality-transport-charles-maymon](http://articles.philly.com/2016-03-24/business/71762028_1_new-ambulance-operators-keystone-quality-transport-charles-maymon). Accessed July 20, 2016.
8. Ibid. Accessed July 20, 2016.
9. See: New York Times June 26, 2016 [http://www.nytimes.com/2016/06/26/business/dealbook/when-you-dial-911-and-wall-street-answers.html?\\_r=0](http://www.nytimes.com/2016/06/26/business/dealbook/when-you-dial-911-and-wall-street-answers.html?_r=0). Accessed July 20, 2016.

# Part III

## Conclusions

# 13

## Conclusions and Looking to the Future

Alex Murdock

### Introduction

This final chapter has an ambitious remit. It firstly seeks to draw together the concept of private provision for public purpose with particular reference to the work of Falck, the global international rescue company. This will draw upon the various contents of this book and draw the links and implications of the chapters using a number of themes. We utilise a format from a book of 1982 which was widely used to identify “excellent companies” (Peters and Waterman 1982).

Secondly, the book will examine the macro environment for Falck using a combination of techniques. The first is to identify and describe some key global (as opposed to local) trends which appear to be important for the business areas with particular focus upon the emergency and rescue area. The second technique is to try to identify and assess possible future environments. This technique, pioneered by Shell, is called scenario analysis. This will be applied using four potential scenarios.

## Falck reviewed

Relatively few companies survive as long as Falck whilst also retaining their original main focus and values. A list of long lived US companies shows that the currently trading companies founded in the early 1900s when Falck was founded included Ford, United Parcel Service and Kelloggs.<sup>1</sup> These are companies which both have a strong brand and also a brand associated with a consistency of focus around the product or service which they provide.

Peters and Waterman, writing in 1982, identified factors which they considered marked out well run and durable companies (Peters and Waterman 1982). Given the popularity of the book and that it was published some years before Falck moved away from family ownership and started to expand internationally is interesting to see to what extent these principles—posited nearly 35 years ago—are applicable in the emergency and rescue context and are exhibited in the various accounts of Falck throughout the book. It should be acknowledged that the book was subsequently the target of some criticism and, in particular, that a number of the companies featured have not stood the test of time (Table 13.1).<sup>2</sup>

If Falck had been a company known to Peters and Waterman when they wrote their book and they had selected it as one of their potential companies, then it would generally have fitted their criteria though based on its presence in Scandinavia as opposed to the USA. It generally fits the criteria now with a global presence and with the leading position in its sector of operations.

A key factor in the success of Falck is perhaps to be found in both its long history and its general adherence to both a core focus of its business and also a strongly embedded set of values. The three key aspects of the business model which the 2004 Prospectus identified and which Nordic Capital stressed in its acquisition involving the brand, the infrastructure and the competences were not created in 2004 but had been in existence and established from early on in the history of the company as is pointed out in the Prospectus (Falck 2004).<sup>3</sup>

**Table 13.1** “In Search of Excellence” applied (Alex Murdock)

“In search of Excellence” principle	Application to emergency and rescue setting	Exhibited by Falck
<p><i>A bias for action,</i> This means active decision making— ‘getting on with it’ <i>Close to the customer</i> A focus on learning from the people served by the business.</p>	<p>This is almost the core of rescue work. It is indeed action focused  Are learning organizations and the customers/clients in particular furnish the opportunity to learn</p>	<p>The published values include ‘Fast’ and from the beginning spoke of fast response as a double response The strength of the brand and pres- ence in the B2C, B2B and B2G mar- kets all promote extensive customer links.</p>
<p><i>Autonomy and entrepreneurship</i> Showing that innovation is encour- aged and celebrated though, for example ‘champions’</p>	<p>Operate in a ‘team setting’ but leader- ship is by example. People who excel are celebrated, but not a culture of pecuniary reward. Innovation is approached with caution due to concern about risk</p>	<p>Accessibility and Helpfulness are core values The value of efficiency is described as seeking solutions rather than problems and staff are encouraged to take initiatives. Innovation is probably found in more carefully planned service and product developments rather than in ‘autonomous activity’</p>
<p><i>Productivity through people</i> Employee and staff are seen as a source of quality</p>	<p>The staff are the essence. They need to display competence and commit- ment. However productivity is not always easy to measure</p>	<p>High priority on staff and the com- pany culture supports this. Quality is also a priority. Competence is a corporate value and seen as competence in staff as well as organizational</p>

(continued)

Table 13.1 (continued)

"In search of Excellence" principle	Application to emergency and rescue setting	Exhibited by Falck
<i>Hands-on, value-driven</i> —management philosophy guides everyday practice	Such organizations are very value driven and the management often comes via the route of operational experience	Strong set of values which are linked to those of its founder.
<i>Stick to the knitting</i> —stay with the business that you know	Have a strong focus and usually do not engage in non-related businesses or unrelated diversification	The top management is long served and invested in the company Emergency and rescue part is still the majority of the revenue
<i>Simple form, lean staff</i> —Such as minimal HQ staff	Sometimes true, but there can be 'tall hierarchies' esp. in the public sector	A quite simple form of organization and does not promote or distribute a complex organizational chart
<i>Simultaneous loose-tight properties</i> —autonomy in shop-floor activities plus centralized values	Organizations are procedure and protocol driven. Values are often held most strongly at the operational level.	The international aspects and the business streams are subject to a close financial oversight. Professional activities operate with autonomy and discretion

There is a question about the ‘elasticity’ of the three components of the business model when it comes to the expansion and internationalisation of the company. It is appropriate to consider these in turn in the light of the account in the previous chapters. By elasticity we mean how far the business model and in particular its components are able to stretch to reach new service, markets and countries. (Ahluwalia 2008; Taylor 2006).

The brand is in some respects the most easily understood part of the model as it is symbolic in nature through the image of the falcon and the name of the founder. To an extent both are important in that the falcon is the external image whereas the founder (and the associated history) represents a strong internal image within both Falck and many of its acquisitions. The falcon image as displayed on vehicles and on staff uniforms creates a strong impression and has associations with the ‘helping, emergency and professional’ aspects of Falck. In some respects, it could—especially in Denmark—be linked to the image created by the Red Cross symbol. However, the Falck brand does not always have the same recognition in non-Scandinavian countries. Especially in the USA and in Colombia where Falck entered the ambulance market through acquisition the brands of the acquired companies had strong local recognition. Falck acknowledged and accepted this and, especially in the USA, there is an interesting mix of local branding, co-branding and Falck branding largely consequent upon the nature of the contract or license. (See Part II—Case Studies in Chapters 9–12).

It is an interesting question as to whether a ‘local brand’ can legitimise and heighten the value of the acquirer brand. The detailed area of brand marketing is beyond the remit of this book but the USA will, over time, furnish the evidence to show if Falck eventually becomes the unifying (and sole) brand for all its acquisitions or whether co-branding (or acquired company) branding will persist.

There is also a question of how far the brand will ‘stretch’ to cover services and products which are not so closely related to emergency and rescue assistance. The period of time when the company was within the Group 4 Falck fold demonstrates the limitation of ‘brand stretch’. The name and the image of the falcon were not retained by Group 4 when the demerger occurred and arguably the brand had not ‘stretched’ to encompass the security focus of Group 4. Rather the engagement with

Group 4 had possibly eroded the brand. The dominance of the security side in terms of revenue and activities in Group 4 Falck also was a very significant factor making rescue and emergency much less important during that time.

The move into domiciliary social care of older people and into 'return to work' programs under public contract has a strong Scandinavian base but do not perhaps represent a solid basis in the core Falck brand identity. Chapter 3 identified some areas of tension in the contracts in this area and it is suggested that these tensions are not so strongly represented in the ambulance and fire contracts. Possibly in the personal subscription area (for both 'return to work following ill health' and home care) Falck may find a closer brand fit since there is strong personal brand recognition through vehicle and home subscriptions.

The competence aspect of the business model is not simply based around rescue knowledge associated with fire, vehicle assistance and emergency medical response. It has also reached out into related fields such as counselling and travel assistance. The DNA of the company shows that there was an extension of competence into a range of advice and assistance areas. The four business areas of the company are 'semi-siloed' in that there is a degree of separation in terms of the perceived business focus and the type of customer but also that there are aspects of cross-over and synergy. They also have been consistently differentiated in the Annual Reports for the past 12 years. A 'stretch' question here is possibly the extent to which an acknowledged competence reaches across into a new potential customer or market (including geography) area. It is also the extent to which knowledge in one semi-silo can reach across and support another business area. If we see the business streams as 'tree roots' then so they feed primarily the trunk of the tree or do they also feed and nurture each other?

There is significant evidence of stretch taking place, sometimes informally where there are activities taking place in one business stream which reach across to support or develop another business stream. In the India case Study (Chap. 11) there was a clear awareness of the value of business intelligence arising from the Global Assistance activity and the work for the oil and gas industry. Corporate health programs for employees of client companies were developed and the emergency response staff on remote

sites were also developing (to a varying extent) training activities for the client staff and in some cases also to the benefit of the local community.

The third aspect of the business model, the infrastructure, was also part of the original concept of Falck in which common premises (and other resources) were used to support various aspects of the assistance and emergence provision. The bricks and mortar traditional image of infrastructure is the actual fire and ambulance stations and control centres. This fixed asset investment is obviously important and where there is a communality of purpose (such as communication) then an asset can enable other services to be delivered.

However, as Falck has evolved into a global company the possession of an infrastructure becomes differently defined from when it was focused on provision in Denmark and adjacent countries. The Global Assistance activities which have a potential to expand are associated with an infrastructure which does not simply involve a call centre but also involves access to expertise which may be professional, technical or cultural in nature. Such expertise may well derive from engagement in other activities in the country. For example, the remote-site support in India for medical emergencies had involved a careful assessment of local hospital facilities to identify ones most suitable for referral. Such knowledge could easily support a Global Assistance subscriber who had a medical emergency in that area.

As Falck has expanded globally and become more diverse in the number of countries and range of activities the infrastructure has had to expand and become more sophisticated in order to monitor it. Sophus Falck, were he to visit Falck today, would recognise a great deal of what he created a century ago. Speaking hypothetically, he probably would be a little overwhelmed by the level of information systems and back office analysis of the company activities. For him the reality of managing the current company would possibly be more complex than he would have ever envisaged in his day. However, one aspect he would appreciate and could probably still effectively undertake would be corporate promotion and relations with the press.

The decision of the Board to require the CEO to leave and the deputy CEO to leave at the end of 2017 is discussed in the Governance chapter in the context of the issues around the substantial minority shareholding

which they held. This the Board saw as incompatible with their executive roles. However a health business sector analysis explored aspects associated with a need for Falck to review aspects of the profitability of its various business streams. The analysis by Health Care Business International drew attention to the wide range of activities of Falck noting that Falck is “an unusual beast spread out across over 30 countries”.<sup>4</sup> This chapter was completed before the 2016 Annual Report was available and when this report is available (in April 2017) it is likely to excite considerable interest from those who are following the company in its development.

In terms of the company’s stages of development the author would agree with a headline analysis from a Danish emergency services newsletter which saw the departure of Allan Søgaaard Larsen as marking the end of an epoch for Falck.<sup>5</sup> At the time of writing (January 2017) the detailed future strategy of the company is hard to predict. The post of CEO cannot be held by the Chair of the company other than as an interim measure or it would probably raise the same governance concerns which justified the departure of Mr Larsen. The appointment of a permanent CEO is likely to be associated with a number of changes which may impact on the structure and focus of Falck. As the book went to production in March 2017, Falck announced the appointment of a new CEO, Jakob Riis. By permission of the company the full Press statement is to be found in Appendix 1. Mr Riis is from outside of Falck but, being Danish, will be well aware of the history and significance of Falck. His impressive educational background (he has a Ph.D.) would certainly suggest a high level of intellectual ability and his work background has significantly been largely with one company which suggests a person comfortable with longer term organizational commitment. At this point all that can be said is that it will almost certainly mark a new phase for Falck.

## Key Global Trends

In this section we will consider a number of trends which have been identified at the time of writing (January 2017) which potentially impact upon the global business sectors which are especially associated with emergency response and thus have implications for Falck.

## Economic Insecurity

As a commercial enterprise operating on a global level Falck has to be mindful of the economic climate and the forecast for the global economy. Their income in emergency and rescue services is affected by general economic conditions. Economic downturns can impact on the public provision of health care and related services. In some cases this may actually promote outsourcing as a means of cost containment.

The last seven years has seen major economic problems in most countries of the world. In June 2016 the World Bank noted that:

Although the global financial crisis is now seven years behind us, the world's economy is still struggling to regain momentum...Looking ahead, the prospects of global growth remain muted.<sup>6</sup>

The World Bank notes that though there are variations, there are problems in emerging market and developing countries and depressed demand in certain commodity markets, especially oil. Though the World Bank predicts improvement, it views this with considerable reservation and notes that economic prospects are subject to a great deal of uncertainty. The report urges policies to promote growth and stresses the importance of:

...efforts to invest in infrastructure and education, health and other human skills and wellbeing, as well as initiatives to promote economic diversification and liberalize trade, will boost growth prospects and improve standards of living.<sup>7</sup>

The overall picture is one of considerable economic uncertainty and this has implications for organisations whose success is linked to the economic environment. Though Falck is not a significant producer of products but rather more service-driven, it is affected by an economic slowdown especially if this impacts on a particular business stream or country. Thus the slowdown in oil and gas production has had an impact on Falck's business in supporting this industry through both emergency ambulance and medical provision on sites and in terms of providing training. Falck is a reactor to what happens in this sector. In

the government market and the private subscription market the consequences of economic slow down may be varied. Pressures on public finances may be associated with more contracting out of ambulance and fire services driven by cost considerations. However major economic upheaval (such as is occurring in countries like Venezuela) may affect the economic viability of Falck provision in these countries.

There have been forecasts about the development of particular countries and in 2001 Jim O'Neill of Goldman Sachs posited the concept of the BRICS countries (Brazil, Russia, India, China and South Africa).<sup>8</sup> Subsequently this was extended to embrace what was called MINT countries (Mexico, Indonesia, Nigeria and Turkey).<sup>9</sup> In 2010 a Spanish Investment bank (BBVA) has also suggested what they call EAGLE countries which they saw as offering significant growth prospects through to 2020. (The Eagle analogy was probably about flying high). They included Poland, Thailand, Colombia, Vietnam, Bangladesh, Malaysia Argentina, Peru and the Philippines.<sup>10</sup> The changes in the economic fortunes of particular countries or regions are of significance to Falck. It indicates where there might be market potential in the Falck business streams.

For private enterprises like Falck there are presumably opportunities in countries that are becoming richer where public provision has not kept up with rising public health needs while there are increasing numbers of people who can afford to pay privately thus creating a gap which could be filled by companies such as Falck. (Gap in public provision + willingness to pay = opportunity).

## Demographic Change

One obvious key trend is population demographics. Differential demand occurs for ambulance and healthcare depending upon this. Ageing populations tend to present a different and higher demand. A recent UN Report highlighted the significance of ageing societies. The UN Report noted that

The world's population is ageing: virtually every country in the world is experiencing growth in the number and proportion of older persons in

their population. Population ageing—the increasing share of older persons in the population—is poised to become one of the most significant social transformations of the twenty-first century, with implications for nearly all sectors of society (United Nations 2015)

Specifically, The UN report highlights that between 2015 and 2030, the number of people in the world aged 60 years or over is projected to grow by 56% to 1.4 billion, and to grow to 2.1 billion by 2050. The number of the “oldest-old” (people over 80 years) is growing even faster than the number of older persons overall (United Nations 2015).

By 2030 the number of older persons is expected to grow fastest in Latin America and the Caribbean with a projected 71% increase because these regions are starting from a lower base. They are followed by Asia (66%), Africa (64%), Oceania (47%), Northern America (41%) and Europe (23%) (United Nations 2015).

There are a number of factors that are contributing to this change: the impact/incidence of infectious diseases have decreased and maternity care improved so more people are surviving beyond childhood and younger adulthood (World Health Organization and UNICEF 2014). This factor combined with an increase in standard of living means that the number of older people are increasing. As families have fewer children, it means that the older people also constitute a bigger proportion of the population.

An ageing population has implications for disease patterns (Kowal et al. 2012). More people are living long enough to be affected by age-related conditions such as cancer and dementia. Furthermore, an increase in standard of living may mean more people have been able to adopt unhealthy lifestyles—such as smoking, being less physically active and eating more than necessary—and becoming obese (Lopresti et al. 2013). As a result, more people are now suffering from life-style related conditions such as hypertension, cardio-vascular disease and diabetes.

Demographics are important in shaping business decisions for organizations like Falck. They are a relatively reliable form of prediction especially in respect of proportions and trends in populations (Luo et al. 2015). The importance of this for Falck and emergency and rescue organizations is in that greater demand is made on services for ambulance and related health support by older people. This is obviously

dependent upon the ability of the elderly to pay (or of another agency such as government to pay).

A feature of an ageing population is that older people often have more than one condition as well as being affected by the normal process of ageing. For example, an ambulance may be called to an older woman with a suspected heart-attack. She also suffers from diabetes and arthritis and has impaired hearing and some memory loss. In the rush, her hearing aid is left behind in her home. She is a very different customer with very different needs than a young victim of a motor-bike accident.

The ambulance service of the future will need to be equipped to deal with a range of skills other than a narrowly focused emergency response to trauma. The patient may have a range of problems some of which may be social in nature (Mackway-Jones and Wankhade 2015). Also with increasing numbers of older people it will be necessary for all front-line staff to be dementia aware.

Being able to access key information about a patient's general health (underlying conditions, medication and allergies) can be particularly useful and indeed life-saving especially for a patient with co-morbidities. This is where having electronic access to general health records can make a difference, in particular where the patient may not be able to communicate this information themselves. (See case Study in Chap. 10).

With many more people having long-term conditions, the need for tertiary care or health maintenance services increases. Common conditions such as hypertension, diabetes and high cholesterol can be managed with relatively inexpensive medication and life-style modification in order to prevent—or at least delay the onset of—serious complications such as stroke, blindness, gangrene and heart attacks. Sufferers will need to have their condition monitored and be given support to make and maintain lifestyle changes such as smoking cessation and weight loss. Such services exist in countries with well developed health services. In other countries, there may be gaps in provision which could be a business opportunity if there is a customer that will pay either a health insurance company or private individuals. People affected by

these conditions are more likely to be middle class and be able to afford it as well as be willing to invest money and effort in maintaining health.

## Urbanization

A further trend which is important and relevant is urbanization.<sup>11</sup> The World Cities Report highlights in great detail the implications of this especially in terms of pressures on health services.<sup>12</sup> This presents a potential greater demand for on services such as those offered by Falck and in an urban context which is, in business terms, easier to serve. (See Case Studies in Chapters 9 and 10). The global trend is strongly towards urban growth and a continued population move from rural to urban settings.

The world is undergoing the largest wave of urban growth in history. More than half of the world's population now lives in towns and cities, and by 2030 this number will swell to about 5 billion. Much of this urbanization will unfold in Africa and Asia, bringing huge social, economic and environmental transformations.<sup>13</sup>

The implications of this are very considerable especially in many of the countries where Falck operates (or may operate). The trend is not simply a factor in developing countries (such as Latin America) but also will impact upon growth in the USA where the pattern is both a move to inner cities in some cases and also of a growth of metropolitan areas.<sup>14</sup> It should be noted that it is not simply that urban populations represent an easier market to service—there also needs to be a remuneration model which works for a for profit supplier.

## Technical Trends Especially Related to Health

Advances, particularly in the following areas, will have an impact on the emergency and rescue services of the future.

## Pre-hospital Treatment

There will be immense advances in medical treatments, but the area of particular interest is in pre-hospital treatment. The need for this will increase in communities undergoing changes in arrangements for hospital care with fewer, more specialised hospitals. This means that there will be greater distances to travel with a casualty and a greater need for pre-hospital treatment. The developments in communication technology now makes it possible for paramedics to treat patient en route in close liaison with a hospital based specialist and its application is likely to increase.

The evolution of pre-hospital treatment will also be linked to the importance of trying to minimise the demand on the 'highly qualified' aspects of paramedics and ambulances. Newton and Hodge describes this as a 'shift left' whereby there will be a resource pressure to ensure that there is maximum appropriate use made of community care resources to enable people to remain in their own homes or to be supported in the community through a range of services such as pharmacies and assisted living provision (Newton and Hodge 2012). Though Newton and Hodge do not specifically refer to 'civil society' and non profit organizations in this context it is a logical assumption that as the resource pressures mount on state funded health care (including ambulance and primary care) that such organizations and indeed families will be encouraged to take on an increasing role. The country where this has perhaps been demonstrated is China where in 2013 the government introduced an 'Elderly Rights Law' which created a legally enforceable obligation upon children to visit their parents (Liu and Sun 2015).

Rescue and Emergency are areas closely linked to health and Falck is also strongly involved in health care. This is an area where there has been a strong growth in technology and expertise. The development of more sophisticated equipment and techniques means that an ambulance is not simply a form of transport but it is also possessing an increasing amount of on-board equipment. With trained staff and advanced communications this means that interventions which used to require the facilities of a hospital (and the presence of medical specialists) can now

take place in the vehicle or even, with appropriate personnel, without the need for the ambulance so long as the equipment or medical provision is available.

## Trends in I.T.

A game changer could come with advances in robotic applications in health and social care.<sup>15</sup> Some doctors are even speculating that the future may involve ‘doctorless hospitals’.<sup>16</sup> There is active discussion about the use of robot assistance in social care to enable people to be supported and monitored at home in a more cost effective manner (Dahl and Boulos 2013).

This is an area where the changing technological environment has major implications for a rescue and emergency organization especially where there are strong associations with health care. During the preparation of this book there was speculative discussion about whether Google would develop ambulances (though there could be challenges in respect of the ‘fast’ response aspect for such as service the area of simple non-emergency patient transport could be amenable to an automated provision).

The growing pressures on ambulance and hospital provision and the need for appropriate utilisation and fast response also underscores the need for sophisticated protocol and dispatch systems. The advances in GPS technology and on line data systems may lead to further enhancements in ability to rapidly and effectively respond to emergency situations. Drone technology is already heading in this direction.<sup>17</sup>

## Environmental change and implications

The predicted consequences of climate change in terms of not just the longer term effect of global warming but in terms of more extreme weather events has a very definite implication for emergency and rescue services. Events such as flooding or storms create a huge demand on emergency and rescue services. The nature of such events is unpredictable; the

time and location cannot be forecast much in advance. Some countries are well equipped to deal with national disasters while others are less so.

However, such services are not likely to be paid for unless part of an international disaster relief initiative. They may need to be engaged in as a voluntary or pro bono initiative. Services may be indirectly involved if they participate as back-filling. The global presence of Falck may position it well for responding to extreme events where the capacity of government is overwhelmed.

The consequences to health of pollution (perhaps associated with urbanization) has obvious implications for ambulance and other medical response (and health maintenance) activities.<sup>18</sup> Though there is no current indication of legislation which sets emission limits on ambulances and other emergency vehicles it is not inconceivable that this could be a future issue. There is already evidence of this in the USA.<sup>19</sup>

## Legal Complexities and Trends

The number of countries in which Falck operates inevitably creates a complexity of legal environments. In the setting of the EU (as it is now) there is a degree of communality and predictability. However, as the USA Falck case study describes the USA involves a considerable range of contractual and licensing situations such that each legal arrangement for ambulance provision can vary.

Falck is also operating in a more complex environment than a public service provider because it (especially in its various business streams) has B2B, B2C and B2G customer/client agreements. The industry settings in which it operates are typically subject to considerable regulation and reporting structures. It is also a setting which possesses a (sometimes high) degree of risk and a high expectation of reliability in service.

The law may set down the minimum requirements but in the emergency and rescue business simply adhering to the legal minimum (working to contract) is often neither an appropriate nor desirable strategy. The reputation of the company is not secured simply by contract compliance but also by actually 'living the values' espoused by the company.

## Scenario Analysis

The final part of this chapter will briefly explore four possible scenarios focussed on the emergency and rescue aspects of Falck's business. The key in setting out such an analysis involves taking two variables which represent considerable difference and then constructing a  $2 \times 2$  matrix to depict the four options which arise. Then each scenario is explored in more depth and the possible implications for the company are described.

Clearly the scenarios are constructed and not necessarily the only possibilities which may occur. The construction of boxes with boundaries is a heuristic device and the real world is more nuanced.

The two variables which have been identified for the purpose are as follows

1. The extent to which the public sector will take an active role in the provision of emergency and rescue services. This has two possible states. On the one hand the public sector may regard these as public services which it should take a significant if not major role in providing. On the other hand, it may seek, whether through choice or fiscal necessity, to withdraw from provision and permit or otherwise enable non government entities (which could be private or non profit) to fill the void.
2. The extent to which technology will have a transformative effect on the nature of emergency and rescue services. This also has two possible states. On the one hand there is a situation where any technological advance is incremental in nature and does not fundamentally change the current paradigm of how the service is provided. On the other hand, major technological advance changes the basis of the service paradigm and transforms at least major aspects of how the service is provided.

The result is set out below and the author has sought to 'label' each of the four scenarios with a title which hopefully provides an image to illustrate the scenario (Table 13.2).

**Table 13.2 (Devised by Alex Murdock)** Four scenarios for emergency response

Level of technology and format of provision	Level of public sector engagement	
	Continues the same or higher	Reduces by contracting out or withdrawal
Only changes incrementally	<i>Scenario A</i> "Keep Calm and Carry On"	<i>Scenario B</i> "Hollowed out state"
Changes radically and dramatically	<i>Scenario C</i> "Robocop state"	<i>Scenario D</i> "I Robot"

### Scenario A "Keep Calm and Carry On"

In this case the situation is where the public sector regards provision of emergency and rescue services as significantly a public sector responsibility. It also envisages that the current level of technology will not change other than incrementally. The title 'Keep Calm and Carry On' may be familiar to anyone who has visited the UK. It implies reassurance and 'tradition'.

In this case the public sector views itself as having a major role in actual delivery of the service. It is found in many countries especially in urban settings in respect of municipal fire services. There is a probability of adherence to traditional ways of responding and a reluctance to divert from this unless there is a very strong reason to do so. There is an aversion to risk whether it be through contracting out or to a major innovation in technology.

Changes in such a service will be approached cautiously and the preferred mode of change would be gradual in nature.

The implication of such a scenario is to not give much space for a new entrant to take on responsibility for service provision. The potential maybe on the fringe of the service or in terms of providing back up capacity. Training and specialist expertise may also be a possibility.

### Scenario B "The Hollowed out state"

Here the public sector has for whatever reason deemed that that it does not wish or have the capacity to provide the service. Therefore, the provision will be via a non state entity. This may be a private provider or

it may be through a civil society provision such as a volunteer rescue organisation. The state may licence or regulate the provision.

The scenario sees little transformational change through technology. The public expectation may be that the current form of provision is what is expected or that form of provision may be mandated by regulation. There is no radical technological change but rather incremental change (a slightly better fire extinguisher or improvements to the equipment on the ambulance).

The potential here for a non state provider is obviously high but the terms of provision are based on a traditional technology and the potential to transform the service is limited. Rather it is about running the service to meet the specifications and to try and do this as economically and effectively as possible.

### **Scenario C “Robocop”**

Here the public sector regards the service as one which the public sector should provide but there is a technological paradigm shift in how it takes place. This may involve the use of communication technology. A patient who would normally be monitored in hospital instead is allowed home with technology which monitors his or her condition, for example.

The use of enhanced technology in medicine is already with us and there could be a dramatic change in the technology with regard to emergency rescue. The google car technology has not yet been applied to patient transport but if it were it could enable a driverless vehicle to move some categories of patient. Implanted technology could facilitate in the monitoring or at risk patients.

The potential here is for private companies to work with the public sector in order to enable the introduction of radical and paradigm changing technology.

### **Scenario D “I Robot”**

Here there is a paradigm change in technology but the state does not see itself as the provider. The potential for the private (or non profit) provider is obvious. The state would almost certainly still have some sort of regulatory or licensing role. However, such contracts as emerged would

probably not take the form of traditional contracts which specified process. Rather they would be outcome based and leave the format of delivery to the provider.

The challenge may be in such a case to gain acceptance of new technology especially if the client group was older and perhaps less comfortable with a highly technical and paradigm changing provision. The development of 'robotic' carers for people with multiple and chronic ailments is already taking place significantly driven by a population demographic which means there is simply not the care staff available to provide for the need.<sup>20</sup> Given the population demographics in most developed countries this may highlight an inevitable future trend.

Which (if any) of the above scenarios happens has to be a matter of conjecture. Indeed, depending on location and service all are possible. The use of scenarios raises an interesting question over whether an emergency and rescue service should seek to be proactive and develop new products and services which may have a viable market but where the need or demand is not yet proven. The conventional public service approach arguably is more reactive and waits for a clear public need to be established before committing resources which could otherwise have been used to meet current (and established) need. A private provider does seek to be proactive and to search out new markets and new products and services especially when it aspires to be a global player.

## Notes

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## Appendix 1: Jakob Riis Appointed New President and CEO of Falck

01/03/2017

Falck A/S today announced that the Board of Directors of the company has appointed Jakob Riis as new president and CEO of Falck. Jakob Riis will take up his new position on 1 May 2017.

“It is a great pleasure to announce that Jakob Riis will join Falck as president and CEO. He possesses the qualities and competencies Falck needs to create a strong basis for the future. His proven leadership skills are second to none, he can execute and deliver on a both ambitious and profitable growth agenda and he has a strong international background. He comes from a world similar to Falck’s where it’s all about human beings and improving—or even saving—lives”, says Peter Schütze, Chairman of Falck’s Board of Directors.

Falck’s future president and CEO joined Novo Nordisk in 1996. Since 1 September 2016, he has been the Executive Vice President North America.

Jakob Riis is Chairman of Copenhagen Institute of Interaction Design and member of the board of ALK-Abellò. He holds an MSc (forestry) from 1992 and a PhD (Econometrics) from 1996, both from University of Copenhagen, Faculty of Life Sciences. Jakob Riis is a Danish national and 50 years old.

“An iconic company with strong roots in Denmark, Falck is on a journey to becoming a truly global company. I’m motivated by the values and the mission of Falck and excited to lead Falck through a transition where we will aim to set new standards for all our business areas”, says Jakob Riis and continues “I look forward to working with everyone to build a strong future for the entire company, our customers, partners and owners”.

For further information please contact Falcks Press Office: +45 7022 0307.

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