New models of public service ownership

A guide to commissioning, policy and practice

Public interest research report
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The Office for Public Management (OPM) is an independent centre for the development of public services. We have, for the past 20 years, supported organisations across sectors to achieve social outcomes for service users, employees and citizens. As part of our commitment to public service improvement, we publish and disseminate our research findings on topics of pressing public interest.

The specific aims of this public interest research are to:

• clarify what alternative models of ownership are and their actual or potential relevance to public services
• increase awareness of why these models are viable and their potential for enhancing public services
• deepen understanding of how to establish or adopt these different organisational models
• present the existing evidence for making these models of ownership sustainable.

A second phase will involve case-study research into the experiences of employee and user-owned organisations in public services.

This report draws on an extensive literature review and a series of seminars, workshops and round-table discussions. It aims to clarify the choices facing commissioners and potential providers across the public sector, and examine the factors to be considered when making those choices. It is likely to be of particular interest to three audiences:

• MPs and local politicians, policy-makers and commissioners who have responsibility for creating the conditions and designing the overall system for the delivery of public services
• organisational leaders and entrepreneurs who might consider either supporting the transfer of an existing service to a new form of ownership, or establishing such an organisation themselves
• employees, users, other stakeholders and the organisations that represent them, who will be assessing the likely risks and benefits of alternative models of ownership.

OPM is 100 per cent employee-owned. We are members of the Employee Ownership Association (EOA) and Co-operatives UK. Our knowledge of the practical challenges facing public services – in central government, local government, health and social care and the education and criminal justice sectors – combined with our direct experience of employee-ownership, enables us to contribute to a vital debate on how best to capitalise on the potential for alternative forms of ownership of those services.

We recognise that levels of expertise in this area vary widely. Rather than include too much of the detail of different models in the body of the report, we have set out in appendices the main terms and models that relate to shared ownership organisations and a summary of evidence demonstrating the benefits of new ownership models.
Organisations that are owned by their employees, in some cases alongside other stakeholders, now represent a significant section of the economy. Recent policy initiatives from all political parties seek to extend their contribution, and the government has recently outlined plans to extend their role in public services.

This report draws on research evidence to suggest which models are likely to be most appropriate in different circumstances, and identifies the public services where greater employee control might add value. It sets out some of the issues for government and commissioners, and for leaders of provider organisations, to consider.

Recent studies suggest that alternative ownership models offer three potential benefits for public services:

- improved organisational performance and efficiency
- employee and user engagement, with its resulting influence on service improvement
- wider benefits to society resulting from a greater sense of citizen empowerment and responsibility.

For potential commissioners and policy makers, or for provider organisations considering a transition from existing public services to new ownership forms, there is a confusing range of labels and organisational forms to choose from. However, three models are likely to be most relevant:

- employee owned organisations
- community ownership
- employee plus other stakeholder owned organisations.

The choice of which sort of ownership might be most appropriate depends on both the organisation’s purpose and the benefits of change. The right legal form for each organisation will be that which reflects the best balance of control between employees, users and other stakeholders to achieve the organisation’s purpose and the desired benefits.

Hybrid or multi-stakeholder models may be attractive for public services making the transition to new forms of ownership. However, the evidence suggests that if the stake of employees is simply tokenistic the potential benefits are far weaker.

Some of the most appropriate areas in which to explore the potential of a transition to the three generic models of alternative ownership include:

**Employee-owned, which is most appropriate for:**

- community based, primary and preventative health services
- social care.

**Employee plus other stakeholder owned organisations, which is most appropriate for:**

- education (school improvement services may have the potential for employee or user ownership models)
- children’s centres and childcare
- housing
- health
- welfare-to-work services.

**Community ownership, which is most appropriate for:**

- ownership and management of community facilities
- leisure, culture and sports.

The role of government and commissioners will be crucial to the success of new ownership models. Government cannot force employee ownership from above, since successful organisations require strong leadership and commitment from within. However, government and local commissioners can create a supportive policy environment, removing obstacles and making it more likely that employees will take the plunge.
Policy makers and commissioners will need to pay attention to:
- making space for new ownership models to grow
- creating the right commissioning environment
- creating a level playing field
- ensuring access to finance.

For transfers from existing public services additional issues will need to be addressed:
- dealing with public assets
- creating the right conditions of accountability
- managing potential failure
- removing barriers
- balancing risks and incentives
- building active support and capacity.

For public sector organisations considering a transition to new ownership forms, the evidence suggests that a successful transition depends on making the case effectively to a wide group of stakeholders, securing employee buy-in and building the right business skills.

Crucial to long-term success will be putting in place a governance model that accurately reflects the balance of interests that matches the purpose of the organisation. The governors will be responsible for sustaining that equilibrium, and ensuring that the outcomes of the organisation reflect the right balance between, for example, commercial success and achieving social goals.

Successful employee owned organisations will also need to achieve a radical change of culture. This is essential if they are to achieve the benefits of employee and user participation by:
- developing greater transparency and better listening and communication
- preparing their organisations for a looser and more competitive market environment
- developing the sharper commercial skills and customer focus required.

The leadership challenges will be significant, and organisations in transition will therefore need to develop their leadership and organisational capacity.

Employee owned organisations will also need to think carefully about the right size of organisation to achieve their purpose, and balance the commercial pressures towards growth with the ease of communication with staff and the deeper community links that come from being relatively small-scale.

This is the first stage of a research programme that OPM is undertaking as part of its public interest research. Stage two will look in depth at ‘live’ examples, analysing the journey of several organisations towards new models of ownership. We hope in this second stage to test out some of the hypotheses generated from a review of the current literature.
1. Introduction

‘Co-operatives’, ‘mutuals’, ‘employee-ownership’, ‘user-led organisations’ and ‘social enterprises’ – these are just some of the many terms used to refer to a simple idea: that taking a different approach to ownership of organisations brings significant rewards in terms of organisational performance, staff and user satisfaction, as well as benefiting society.

Shared ownership models have a long and prestigious heritage in the UK, beginning with the establishment of the first worker co-operatives in the mid-19th Century.

The 1990s heralded a new phase of expansion. Tax incentives for employee share ownership were introduced (some of which have since been discontinued) and, as a result, co-owned organisations – where employees have a stake above 25 per cent – now represent a sizeable part of the UK economy.

Co-owned organisations generate an estimated £25 billion in revenues.¹ Mutuo estimates that the combined annual revenues of mutuals exceeds £95 billion a year, and that mutuals employ more than 940,000 people in the UK.² Analysis by Co-operatives UK shows that there are over 4,990 independent co-operatives in the UK, owned by more than 12.9 million members.³ These figures are not cumulative – because of the double-counting caused by different and overlapping definitions of what counts as, for example, a ‘mutual’ or a ‘co-operative’ – but the size and significance of the shared ownership sector is clear.

It is only recently that alternative forms of ownership have begun to be significant in the public sector. As public ownership has given way to a mixed economy, models are beginning to emerge that are neither state owned nor privately owned. The housing sector has the longest track record, with 2,000 mutualised housing associations in the UK by 2009, and a smaller co-operative housing movement that includes tenant-owned co-operatives, self-build co-operatives and tenant management associations.

Ellins and Ham cite Central Surrey Health as the first employee owned health service organisation, established as recently as 2006, but there are 40 GP co-operatives and mutuals, with almost one-third of the UK’s entire GP out-of-hours services provided by mutuals and 115 NHS foundation trusts currently covering acute and mental health services.⁴

In education, the first co-operative trust school – Reddish Vale Technology College – was founded in 2008. Earlier examples can be found in other sectors, for instance Greenwich Leisure was set up in 1993. It is expected that there will be a rapid expansion in the education sector over the next year, and that by 2010 there will be at least 100 schools that are part of co-operative trusts.

Nevertheless, until recently, employee and other forms of shared ownership were rarely discussed in government circles, and played little part in previous transformations of public services. It has been a relatively poorly understood sector, seldom studied or considered as a serious alternative to conventional shareholder capitalism. In previous waves of privatisation, employee ownership didn’t really feature and, despite encouragement for small businesses and start-ups, there was little direct encouragement for employee owned models. So why the renewed interest?

1.1 Our focus

The number of different terms and financial and legal structures in the field of shared ownership models can be bewildering. This report does not cover all of the options open to those considering the potential of shared ownership models. There are a number of other reports that explore these options – for example full user ownership – and that discuss the opportunities and barriers to alternative models in the private sector.

Here, we want to focus on public services, on the new drivers for services to transfer to shared-ownership models for services that are currently provided by the state, and on some of the conditions that might be necessary for success. Because we think there are some specific challenges to achieving a successful transition to shared ownership when employees are
part of that process, we focus only on new ownership models that include employees as a significant ownership group.

For the purpose of this report, we use ‘shared ownership models’ and ‘alternative models of ownership’ as our umbrella terms, where we are referring to the generic benefits or challenges facing the different models. We also use the specific terms below where necessary.

- **Employee-owned organisations** are those with more than 50 per cent of the value of the organisation in employee hands; co-owned organisations are those with a smaller but still significant employee share (and with the other value in the hands of investors, for example).

  In such organisations, ownership can be direct, where employees (for example) as individuals own shares in the company, or indirect, where a block of shares is held in an employee trust that exercises control of the company on behalf of the employees, or may be a combination of the two.⁵

- **Co-operatives** are employee and/or user-owned organisations that operate according to specific, well-established principles, for example equal participation or democracy. (A full list of the principles that apply is in appendix 1.)

- **Mutuals** are organisations which exist to raise funds from a group of members in order to finance the provision of common services to those individuals, although in some cases mutuals are established to serve the needs of a broader community, with each member having a ‘share’ only in a notional sense. The term ‘mutual’ is one of the least consistently defined in the literature, and appendix 1 contains more details of the different uses.

- **Community trusts** – or community land trusts to give them their legal title – were defined in law in July 2008 as corporate bodies established for the express purpose of furthering the social, economic and environmental interests of a local community. Community trusts achieve this by acquiring and managing land and other assets in order to provide a benefit to the local community and ensuring that the assets are not sold or developed except in a manner which the trust’s members think benefits the local community. Crucially, individuals who live or work in the specified area must have the opportunity to become members of the trust, but community trusts are prohibited from paying benefits directly to members.⁶

As well as land and housing, community trusts may also provide work spaces, community facilities (such as leisure or advice facilities) and parks and gardens – hence our decision to drop ‘land’ from our use of the term throughout the report.

- The **social enterprise model** is an important option for public services, and one which has received significant government backing in recent years, especially in the health sector. Social enterprises have primarily social objectives and reinvest surpluses in the business or a particular community in order to support those objectives.

  Whilst there are many employee-owned social enterprises, there is nothing intrinsic to the social enterprise model that says it has to operate along any principles of shared ownership, and there are very many social enterprises that have no element of employee or user ownership at all. This report does not, therefore, include the social enterprise model *per se*, but only social enterprises that are also employee-owned to a significant degree.

- There is some uncertainty as to whether and where NHS foundation trusts fit into the taxonomy of shared ownership models. Foundation trusts are legally independent entities called ‘public benefit corporations’, which have as their primary purpose the provision of NHS services to NHS patients and users according to NHS principles and standards.

  Foundation trusts are not, properly speaking, ‘owned’ by local people, service users and staff, but individuals in each of these groups are eligible to elect representatives to serve on a board of governors. This board is responsible for representing the interests of the local community, and appoints the chair and non-executive directors of a separate board of directors, which is responsible for the management of the trust.

  With these points in mind, one can draw parallels between the foundation trust model and ownership by multiple stakeholders.

Appendix 1 contains further clarification of the range of different models available, and a summary of their characteristics.
2. The new agenda: drivers of employee and user ownership

As policy-makers look to maximise efficiency, increase the plurality of providers in the market as a means of increasing user choice, and – crucially – put power in the hands of local people and frontline professionals, employee and user-owned models have become more attractive.

In the autumn before the 2010 general election, political parties all expressed interest in extending user and employee ownership into public services. Tessa Jowell, then secretary of state for the Cabinet Office, said:

‘Public service reform has been on a long journey over 10 years. The next stage of reform has to capture the needs and wishes of those who use public services, for them to become more reactive, sensitive and empathetic. We think mutuals have a much broader potential across the public sector, especially now where they can become an expression of the new national soul post-credit crunch.’

The 2010 Conservative Party manifesto stated:

‘We are pledging to give public sector workers a powerful new right to bid to form co-operatives and take over the running of the services they deliver. We will give public sector workers the power to come together with their colleagues to form co-operative enterprises and bid to run services.

These will be organisations that operate on a not-for-profit basis and are fully owned by all staff....We will work with key organisations in the sector to establish, within government, a Public Sector Co-ops Service to advise and support groups of public sector staff who want to set up co-ops.’

Reflecting this, the Coalition’s programme for government includes the commitment to:

‘Support the creation and expansion of mutuals, co-operatives, charities and social enterprises, and enable these groups to have much greater involvement in the running of public services.’

In addition to education, where the ‘free schools’ programme has a strong emphasis on shared ownership, health is the other sector where, to date, there has been clearest commitment from the Coalition Government to the widespread promotion of alternative models of ownership. The white paper *Equity and excellence: liberating the NHS*, published in July 2010, says that the government’s ambition is to ‘create the largest and most vibrant social enterprise sector in the world’, and that:

‘As all NHS trusts become foundation trusts, staff will have an opportunity to transform their organisations into employee-led social enterprises that they themselves control, freeing them to use their front-line experience to structure services around what works best for patients.’

The Coalition Government has also said that the Transforming Community Services Reform Programme will continue, which includes as one of its principal options the right for staff – whether as a small group of clinicians, large numbers of staff across a variety of organisations, or even a whole PCT provider service – to submit a ‘right to request’: a business proposal for the establishment of a social enterprise, which the PCT board has to consider.

The case for shared ownership models has been made across local government, too. Recently, for example, the Leader of Lambeth Council has said ‘mutual and co-operative values will be our compass’ for the future of council services.

In 2010 the Council published a white paper which forms a proposal to make Lambeth ‘the first co-operative council and Lambeth the first co-operative borough’, with a Co-operative Council Commission established to work to develop detailed plans. At this stage the extent to which such a model would involve actual widespread shared ownership of public services is unclear, and the white paper focuses primarily on principles of co-operation, such as co-production, personalisation and shared commissioning.
For both central and local government, a key issue is not simply the ability of shared ownership models to provide public services as part of the conventional mixed economy of provision, but to encourage many of the public sector organisations currently responsible for providing public services to make the transition to employee ownership. This raises new questions about benefits and risks, and presents new challenges for commissioners and potential providers.

2.1 The benefits of alternative ownership models

Appendix 2 summarises the findings from recent research into the benefits of alternative ownership models. In summary, three main benefits can be evidenced, all of which are currently important to policy makers: improved organisational performance and productivity, improved employee engagement, and wider benefits for society. The balance between these benefits varies between models, and it will be important, therefore, for policy makers to be clear about which of these benefits they most want to see, and to choose the right models to match their purpose.

Recent studies show that employee-owned companies outperform the market as a whole, and have been shown to be more resilient, with more stable performance during the turbulence of business cycles. Employee-owned businesses are seen as more creative and innovative, and employees tend to have higher productivity, lower rates of turnover and absenteeism and to care more about service quality. They are also seen as engaging staff more effectively and encouraging innovation.

Finally, there is some evidence of wider impacts on community and society, although this is less firm. Employee-owned organisations, co-operatives and mutuals create a sense of ‘corporate citizenship’ among their staff and positive attitudes that can extend beyond the workplace, creating greater transparency and accountability and generating social values that play a role in wider society.

2.2 What are the potential benefits to public services?

While there has been considerable discussion of the benefits of employee ownership and co-operatives within the private sector, there are also potential benefits for public services, although the evidence on this front is still emerging.

Public services would clearly gain from higher performance and productivity; and commissioners, users and tax payers would all benefit if employee-owned companies out-performed both public sector and conventional private sector organisations. Comparisons have conventionally been made with other private sector companies rather than with public sector providers, but if public service bodies expect to make savings by outsourcing services to private sector companies, then even greater efficiency might be possible through transfers to employee-owned organisations.

Whether or not this is true will depend on the extent to which new ownership leads to a radical change of culture, without which the new organisation may struggle to survive in a commercial environment. It will require considerable leadership and management skills to balance the competing expectations of staff, service users, commissioners and any investors – so in the short term, expectations will need to be realistic. A better understanding of the alternative models might be helpful when commissioners are trying to choose between competing providers, and might balance concerns about new businesses having less of a track record.

Equally important in the context of public services is the evidence that employee ownership boosts staff creativity, and increases the sense of engagement and commitment to the workplace. The central argument of the Innovation Unit’s report The Engagement Ethic, for example, is that the limits of the potential of the traditional private sector approach to service improvement have been reached, and that because of the complexity of the conditions under which public services operate, and the fact that there are almost always differing views about how they should be provided, a new form of engagement with staff and citizens is needed, based on shared responsibility. Shared ownership can be a viable answer to this need. Stronger engagement with employees can enable staff to feed their knowledge and experience into service improvement and efficiency, while a direct engagement with users could make public services more responsive, better fitted to changing needs and better able to harness the energy and enthusiasm of local people.

In housing, for example, research has shown that co-operatives produce higher satisfaction levels among tenants and concluded that they were able to draw positively on the local commitment that flowed from tenants being both managers and residents. OPM’s research concluded that ‘resident control brings clear benefits in terms of better housing management, capacity building and community sustainability’. Co-operative childcare models in Sweden have been
shown to provide for client involvement and are preferred by parents.\textsuperscript{12}

Shared ownership models can also have a positive impact on community and society when citizens feel, in different aspects of their lives, engaged and empowered. By having a stake in their workplace or the services provided to them as taxpayers, citizens can play a role in shaping their communities, in caring for their surroundings and their colleagues or neighbours, and in ensuring that services provide transparent value for money.

The Innovation Unit report cites evidence to suggest that mutual and co-operative governance structures help to encourage citizens to participate in service provision. This chimes with a growing body of research which emphasises that people are ‘strong reciprocators’: actors who co-operate with others on condition that their co-operation is returned.

Engagement in ownership and control of services may contribute directly to building social capital and community resource. Research into tenant-managed housing suggests that, above and beyond the improvements to tenant satisfaction, there was added value to tenants arising from new skills gained as part of active involvement.\textsuperscript{13} Research into housing co-operatives in the UK, medical co-operatives in Japan and shared ownership approaches to childcare in Sweden supports this claim.\textsuperscript{14}

In the case of new developments such as energy-producing co-operatives, attitudes to renewable energy may be changed as a result of the way that financial and less tangible benefits stay within the community.

\section*{2.3 Which form of ownership might be most appropriate?}

Appendix 1 sets out in greater detail the range of current and proposed models, and their characteristics. Having reviewed the literature on different models, our conclusion is that while there is no single preferred model, there is a relatively narrow range of possibilities for public services and the choice of model depends on the answers to a series of questions:

\begin{itemize}
  \item What is the organisation’s social purpose?
  \item What are the most important benefits it hopes to achieve – the motivation for change?
  \item What is the balance between control by employees, users and other stakeholders that will achieve those benefits?
  \item What are the legal organisational forms that match that balance of control?
\end{itemize}

For public services, the detailed questions about the form of ownership (such as how shares are distributed), the best governance arrangements and the correct legal structure to adopt will be informed by answers to the first two questions in the list above, which relate to fundamental principles of ownership.

\textbf{What is your purpose?}

All organisations have a mission or purpose, which may be more or less explicit. Broadly speaking, public services will either be seeking to enhance public value – benefits for any or all people (often, but not necessarily, those living in a particular local area) – or social value – benefits for a specific, defined group of people, for example a group of disabled people who use a particular care service.\textsuperscript{15} Of course, public services can also deliver both types of value simultaneously.

In order to be fit-for-purpose, any model of ownership needs to be able to carry forward the specific public service objectives of an organisation successfully.
There are two key rights usually associated with ownership: the ability to influence the direction of the organisation and hold accountable the people who run it on a day-to-day basis; and the entitlement to a return on investments made or assets used. So the question is: how does the exercise of these rights enable the delivery of the purpose?

One way to ensure the stability of organisational purpose is to ‘lock it in’ in some way, for example by including reference to the main elements of the mission in a memorandum or set of articles of association.

What is your motivation for changing ownership?
The second question relates to the motivation for changing ownership. For most public services this is a not a ‘year zero’ scenario: in the public sector, services will be looking to change their model of ownership in response to some internal or external stimulus, rather than starting from scratch. Which catalyst is the driving force will help to determine which ownership model is most appropriate.

There are three main motivations for public services looking to transform, and each starting point naturally leads to a different generic model of shared ownership. These three categories of motivation and model are described below.

- If the primary motivation for transferring ownership is to reap the benefits of increased productivity and improved cost-effectiveness, then the evidence suggests that this is most effectively provided through employee-owned organisations, without ‘clouding’ the ownership and accountability to staff with ‘stakes’ held by the public sector or by other investors. The benefits such as reduced staff absenteeism, improved innovation, lower staff turnover apply across the board to employee-owned models, but only in the case where employee ownership is substantive rather than tokenistic (i.e. where more than 50 per cent of the shares of the company are owned by employees, either directly or via a trust).

- Where the chief motivator for moving to a different model of ownership is to create a sense of ownership and responsibility within a specific and recognisable community – for example in relation to a public park – it is often most appropriate for a public service to consider establishing a community owned organisation, where the social purpose of the organisation is strongly ‘locked in’ and where the governance model means that trustees are strongly accountable to a specific group of citizens (but not at the risk of having to compromise the original broad social purpose). Where a sense of ownership is needed for the specific reason that without the financial contributions of service users the service in question will no longer be funded by the public purse, a mutual model (run on traditional lines, with member-owners paying a subscription) may be appropriate.

- If the desire to have greater engagement between staff and users or citizens is the strongest motivator – from a belief that this will lead to innovation, higher satisfaction and more successful outcomes – then employee-plus-other-stakeholder-owned organisations may be the way forward. Giving both parties – service users and employees – a stake can lead to a strengthened link between staff and service users. As the authors of The Engagement Ethic suggest:

  ‘When parents and community volunteers are part of public service staffrooms, they unavoidably change the character of professional conversation. When public service leaders are in part accountable to their own staff, the significance of professional development is unavoidably changed.’

The Cabinet Office report Mutual Benefit suggests:

  ‘The greatest value can often be derived from mutual organisations that have membership comprised of a wide variety of stakeholder groups and interests’ and that this approach ‘maximises the potential for strong collaborative relationships to develop between the users of a service and professionals’.

Employee and other stakeholder group ownership models have been suggested as being particularly relevant in the public sector, offering the freedom to tailor new delivery models to meet particular funding needs, and enabling organisations to experiment with different structures to match a range of funding models.

These employee-plus-other-stakeholder-ownership models are probably those most likely to win support as part of a transition from the conventional public sector, and to answer fears about ‘producer capture’. They do so by balancing the interests of a range of stakeholders, through a combination of user and employee ownership, or through models that represent service users, employees and other stakeholders such as private investors or government.

However, a note of caution needs to be sounded. While these models may have the potential to offer the best
of all worlds, the evidence shows that improvements in productivity, staff and user engagement, innovation, and so on, seem to be far weaker in models which are simply tokenistic. Where employees only own a small proportion of the business, or where users have a small stake and are outweighed by other stakeholders, there is far less evidence of measurable benefits.

Our research and experience also suggests that, across the different models, as the ownership ‘lever’ becomes less of a dominant influence on the way the organisation is run (i.e. as the ownership structure is more dispersed and individual owners have less of a direct say, for example in multi-stakeholder or community ownership models, as opposed to employee-owned models) the way that ownership is operated – through the governance arrangements of the organisation – becomes absolutely vital if the benefits of greater employee and user ownership are to be achieved.

The benefits of any model will depend, of course, on the success of each individual organisation’s business model, and the strength of their management in the context of the competitive environment in which they are working. Balancing the needs of service users, funders, commissioners and staff is never easy at the best of times, and new ownership models will need to be able to do this in a way that achieves organisational purpose, and enables them to deliver high performance to customers.

2.4 Which public services are best placed for change?

The Cabinet Office’s Mutual Benefit report suggested that user-owned organisations were most appropriate for public services where there was a clearly defined community of people to take on the task, for example a group with a strong shared interest or common identity. Where these ties were absent, an employee-owned organisation may be preferable:

‘Where neither users of a service nor the wider community are likely to be interested in becoming involved as members of a mutual organisation, there may be scope to run and deliver services through employee-led mutuals.’

The health white paper, Equity and Excellence: Liberating the NHS, notes that in many cases a hybrid model of governance, involving staff, the public and patients works well, but that for smaller organisations, such as those providing community services, an employee only model may well be appropriate.

The Innovation Unit report, The Engagement Ethic, suggests that the presence of a clear community or constituency is a success factor for any mutual or co-operative, not just for user-owned organisations.19 Both the Cabinet Office and Innovation Unit reports agree that shared ownership organisations work best where they can build long-term relationships with members, and that in services where there is a high turnover of staff or citizens, engaging them in ownership may be too difficult or costly to be beneficial.

To these first two criteria – the presence of a clearly defined community of people and the ability to form lasting relationships – the Innovation Unit report adds a further three. It suggests that co-operatives and mutuals are most likely to add value if they:

- do not ‘outgrow their community’ – i.e. that growth is steady, managed, and that membership structures adapt as necessary, and that the size of the organisation does not exceed the capacity to build strong relationships
- focus on services where the contributions of citizens are critical to their success – on the basis that transactional models work well for transactional services, where there is no need for deep, personal relationships with service users
- focus on services with which citizens aspire to engage – i.e. co-operatives and mutuals are unlikely to work in the case of services that involve some policing of behaviour.

Several reports such as Leadbeater (2008) identify key areas in the public sector where there is ‘considerable room for expansion’ of provider organisation with alternative models of ownership.20 Through a process of synthesising these various lists (including, for example, the list included in the Cabinet Office’s Mutual Benefit) and adding our own suggestions and those from experts whom we engaged in the process of writing this report, we are proposing the following list, structured according to the three main categories of shared ownership.

**Employee-owned (one stakeholder group)**

- Community based, primary and preventive health services – Central Surrey Health is suggested as a model which could be followed in other areas of the country. GP consortia could further develop within a mutual framework
- Social care – an area where new approaches to provision will be needed to support an ageing
population, with Sunderland Home Care Associates suggested as an employee-owned model that could be replicated in other areas of the country

**Employee plus other stakeholder ownership**

- Education – an area already experimenting with models such as co-operative schools which combine local community ownership with a substantial employee stake that can provide alternatives to academies and local authority controlled schools. School improvement services may also have considerable potential for employee or user ownership models.

- Children’s centres and childcare – extending the parental voice in childcare. In other parts of Europe childcare services are often provided by mutuals or co-operatives.

- Housing – extending an already developed sector of tenant management associations, community based housing associations, co-operatives and mutuals

- Health – building on the emerging models of GP and community health mutuals and foundation trust hospitals

- Welfare-to-work services – where a number of local authorities are considering co-owned models, for example community-run versions of Jobcentre Plus.

**Community ownership**

- Ownership and management of community facilities – building on the community trust models, for example the community-owned park in Lewisham

- Leisure, culture and sports – building on leisure trusts, and extending the sector to own museums, cultural facilities and so on.

Government can ‘get the ball rolling’ by investing particular effort in creating the right conditions in the service areas where politicians feel there is most potential for such models to succeed.

In each of these and other areas it will be vital to look at the history of past successes and, just as importantly, at past failures. We will be developing case studies to do this in the second stage of our research.
3. The commissioning perspective

National and local policy-makers and commissioners will be faced with a number of considerations when thinking about how to support or encourage organisations run along shared ownership models. These include how to create a level playing field, in policy and commissioning practice, how to overcome barriers and how to balance incentives and risks.

It may be that new uncertainties experienced within conventional public services will encourage more professionals and public service workers to want to take up the different opportunities that employee ownership offers. This brings new opportunities, but also the risk of snatched or hurried attempts at establishing new models of ownership, with too little attention paid to the quality of the models created and what further, proactive support is needed. It will be vital for commissioners to balance the urgent pressure for savings with understanding of the timescales needed for new organisations to have a fair chance of success.

As we have seen, there are potentially many different motivations for pursuing shared ownership models for public services, from productivity and reducing the size of the public sector to building user engagement and capacity in civil society. This breadth of motivation makes it impossible to create a single ‘offer’ that will resonate across a range of services and employees, policy makers, commissioners and local users.

Government cannot force employee or other forms of shared ownership from the top down, since success will require strong leadership and commitment from within. However, it may be possible to create a supportive policy environment, removing obstacles and making it more likely that employees will consider taking the plunge.

Some of the elements of that supportive environment are already in prospect. One important factor is a stable policy environment, and the Coalition Government has already identified problems created by the relentless pace of policy making over the past decade and a ‘stop–start’ approach to reforming public services.

Public services will be in one of two situations when considering the potential of alternative forms of ownership: they may be thinking about moving an existing service out of in-house provision and encouraging or supporting the setting up of an employee or user-owned organisation to deliver that service; or they may be responding to the opportunity for new providers to have a share of the market.

The choices, challenges and opportunities will differ depending on which set of circumstances is faced. Public service leaders looking to transfer existing services into new forms of ownership will need to take account of a range of additional risks and help managers and staff find a response, including clarifying what approach they are willing to take to potential service failure.

Our research indicates that a number of factors will be vital in creating the right conditions for an expansion in employee and user-owned organisations:

- building awareness
- creating the space for new ownership models to grow
- adapting the commissioning environment
- creating a level playing field
- ensuring access to finance.

For public services making the transition from public ownership, commissioners need to consider ways of:

- dealing with public assets
- creating the right conditions of accountability
- managing potential failure
- removing barriers
- creating incentives
- balancing risks and incentives
- providing support and building capacity.
3.1 Building awareness
Statutory commissioners often have low levels of awareness and understanding and/or misconceptions about alternative ownership models and the quality of services that can be provided by these organisations and this can lead to ‘nervousness’ amongst commissioners and others in strategic roles when providers wish to make the transition to a different model of ownership. This ‘nervousness’ can contribute to the uneven playing field within which smaller providers operate.

Some co-operatives, like many other small and medium enterprises (SMEs), compete on an uneven playing field against larger organisations that may have a record of large-scale contract delivery. However, co-operatives face a further unique barrier, in that public-authority understanding of co-operative working can be poor or misinterpreted. This can lead to unjustified scepticism about the ability of a co-operative to deliver high standards of service.

While this evidence relates primarily to providers in the health and social care sectors, it is likely that providers in other sectors face similar challenges. For example, in the health field, GP consortia will need to explore the range of models available both for themselves as commissioners and to potential providers. Business advisors, and services providing support to business also need to develop a better understanding of the range of models available, as do banks and providers of financial services. There is evidence that some banks also have low levels of awareness and understanding about alternative ownership models.

Devolution of power to local commissioners would enable them to shape the local markets in which the employee-owned co-operative and mutual models can thrive. Awareness needs to be built in the wider commissioning environment, extending to local politicians and partners to ensure that options of new ownership models can form part of wider strategy.

3.2 Creating the space for new ownership models to grow
At a national level, it will be important to create a policy environment which recognises the circumstances facing employee or user-owned organisations (whether moving into or moving out of in-house provision) and reflects the Coalition Government’s commitment to the inherent value of such ventures.

This could build on some of the recent work conducted by the Office for Government Commerce, National Audit Office and others to encourage SMEs to enter public service markets, and could include guidance for commissioners on issues including recognising core and start-up costs of these new organisations, the need for a transition period to be reflected in funding agreements, and the importance of building the business skills of managers and staff who may have little experience of bidding.

It may be that without additional pressure for change, only a few services will take advantage of emerging opportunities. The Mutuals Manifesto 2010 suggests that there could be a requirement for each local area to transfer some health or local government services, for instance, into partnership trusts – businesses majority owned by all-employee trusts – with first refusal being given to in-house teams. Phillip Blond suggests a new ‘power of civil association’ which, if granted, would allow a group of staff in the public sector to self-organise and constitute a new civic organisation.

However, without a culture change that would equip staff and managers to survive in a more commercial culture, new shared ownership organisations may struggle. In the private sector, commercial pressures are generated by the need to win custom in competition with other providers – but commissioning relationships within the public sector are varied, and do not always generate the same focus on customer needs and business efficiency.

While some localities will be very supportive, some local authority councillors and senior managers will be concerned about losing control of services. Offering a national ‘right to mutualise’ may have a place. Success will, however, depend on the ability of managers and staff to judge accurately their commercial viability and the strength of their business model. New shared ownership public services may struggle in their first few years to adapt to a new environment, which may itself be far from stable.

Policy makers and commissioners will need to decide how far they want to ‘protect’ new start-ups from market pressures in their early stages on the one hand, to create time for users and staff to feel fully engaged, and on the other hand, how far they want to ensure that efficiencies and performance improvements are achieved quickly.

A positive local relationship is better for both sides, and there will also be voices arguing for the benefits for councils, such as providers with more room to innovate, reduced central functions (HR) and reduced liabilities (pensions) over time.

Other suggestions include extending the right to request to a wider group of services, or beyond staff
to citizens, enabling groups of service users to request changes to governance that give them a greater voice.26

A right to request, however, assumes that the commissioning skills are in place at local and central government to make good judgements about the viability of new governance and ownership models in different circumstances. Government could at the same time, open up a wider debate on the right sorts of design and delivery systems for public services.

3.3 Adapting the commissioning environment

For new start-ups within the private sector, or for shared ownership organisations competing with the public and private sectors, much depends on the fairness of the commissioning environment, and the level of understanding they encounter from public sector commissioners and decision makers.

The complexity of procurement and commissioning processes in the public sector and the preferences given to large organisations capable of working at scale creates a challenge for all smaller and start-up organisations, including new ownership models. Leadbeater argues that if the scope for co-owned public services is to expanded, the public procurement process should be reviewed in order to address any bias against smaller shared ownership organisations.27

While the guidance given to commissioning organisations, and recognised best practice, has for some time understood that direct experience from users and staff in the design of services is vital, this needs to be more fully recognised in the role that user-and-staff-owned-and-led organisations might play in helping to design and deliver excellence.

There is little point creating innovative and creative organisational forms and then forcing them to deliver to detailed specifications designed in a vacuum. Creating scope for a commissioning process to reflect the knowledge and expertise generated by user and staff engagement will be essential if the public sector is to benefit fully from new organisational forms.

If, as has been suggested, part of the benefit of new ownership models would be the impact on wider society as users feel more empowered to shape and control their own services, then this also needs to be reflected in the commissioning and decision-making environment.

Again, guidance and recognised best practice encourage commissioners to pay close attention to user and employee voices, and to value the potential for community capacity building, social capital and the additional resources that come from voluntary effort. The design of services, and the wider strategic choices that frame that design, needs to reflect the importance of an 'ethic of engagement'. Local providers, with direct links to communities, need space to compete – often against the strong pressures towards centralisation and a search for economies of scale.

3.4 Creating a level playing field

While many shared ownership organisations compete within a highly commercial environment, there are some specific financial barriers which newly transitioned or newly established organisations face. For example, the health white paper sets out an economic role for Monitor in licensing all health providers. These licensing arrangements will need to take account of the fact that new organisations will not have financial track records.

A second issue is access to capital: public and private sector organisations have well-established routes, but many, even long-established, shared ownership organisations experience some constraints and new ones will face difficulties.

Shared ownership organisations often rely on generating surpluses to raise funds and maintain reserves for long-term stability. Whilst this task is made easier by the fact that there are (usually) no external shareholders to satisfy with large dividends, many non-charitable public service employee- or user-owned organisations are subject to corporation tax on those surpluses.

Public services run along shared ownership principles also face challenges regarding non-exemption from VAT. In the health sector, for example, VAT exemption is by no means guaranteed, which can result in organisations being at a competitive disadvantage compared to other providers.

3.5 Ensuring access to finance

Obtaining finance not only to cover start-up costs but also to meet ongoing operating costs and investment for expansion is likely to play a key role in the success of shared ownership organisations. (This is similar to the experience of third sector organisations, and has had some recent attention through, for example, the IDEA managed National Programme for Third Sector Commissioning.)

Accessing finance is highlighted by Davies as being particularly difficult for organisations that are indirectly
owned without any shareholders. Despite employee and user-owned organisations being able raise capital through banks and specialist lenders such as the Baxi Partnership, Co-operative and Community Finance and Futurebuilders, both Davies (2009) and Ellins and Ham (2009) conclude that raising capital is still a challenge for many employee and user-owned organisations.

A survey of British employee-owned companies conducted in 2005 found that more than one-third of these companies reported difficulties in accessing finance for investment (Burns, 2006 cited in Ellins and Ham, 2009). This may be attributable to the comparatively undeveloped state of the equity finance market for organisations operating alternative models of ownership, with banks having a limited understanding of such models.

Davies (2009) attributes difficulties in accessing finance as a result of market failure to ‘provide equity for organisations that are profit making but not profit maximising, and operate according to longer financial time horizons than orthodox venture capital and private equity can currently support.’

Other sources of evidence highlight that other income sources for funding expansion, such as reinvesting profits back into the organisation rather than distributing profit amongst owners, may not be sufficient to fund the increased levels of investment necessary for a large-scale enterprise.

However in the health sector, Ellins and Ham (2009) note that ‘social enterprises set up under the right to request will have a guaranteed contract of up to five years’. They therefore argue that guarantees such as those offered under the right to request to make incomes for new organisations more reliable and predictable will help in negotiations with lenders, thereby improving access to finance.

Other possible ways for the sector to increase access to finance for expansion have been proposed by Co-operatives UK, with particular reference to social enterprises (Brown et al, cited in Reed and Stanley, 2005). These include:

- align better with, and thereby attract investment from, the ethical investment market
- work with financial regulators to define new legal models for shared ownership involving multi-stakeholders
- a promotional campaign to raise awareness of social enterprise co-operatives
- seek government support for creation of a co-operative venture capital fund.

Similarly, Davies (2009) argues that government should have a role in intervening financially to support growth in the sector, and suggests that interventions could happen via regional development agencies, enterprise capital funds, the Post Office and through banks in which the government has major stakes.

For transfers from existing public services additional issues will need to be addressed. We look at these below.

### 3.6 Dealing with public assets

There is often public concern when it is proposed to transfer organisations which own or control public assets into the private sector. Towards the end of the last government, the Cabinet Office publication, Mutual Benefit, suggested that public commissioners should consider the following questions when assessing the potential for shared ownership organisations to take on public services:

- *Is the asset and any associated savings – or could they be – a public good with significant social benefit?*
- *Might a non-commercial structure best serve to maximise and continue to deliver these social benefits?*
- *Is there a viable option for sale/disposal to the non-commercial sector or one that can be created?*

Transition may be easier when assets remain publicly owned, because the new owners are freed from the difficult choices and accountabilities that come with deciding what should happen with any income generated. Ellins and Ham (2009) note: ‘the experience of Central Surrey Health suggests that PCT provider arms will be able to make the transition into employee ownership without having to take responsibility for capital assets which remain in public ownership.’

Many commentators have suggested that an asset lock that prevents the transfer of the public assets out of the control of the new organisation would be essential. Many shared ownership organisations often also have memoranda of agreement which set out the values and the purpose of the organisation in perpetuity, and prevent the use of assets for purposes which don’t contribute to the public good.
3.7 Creating the right conditions of accountability

Commissioners worry about issues around accountability, and risk of failure, and when they are not familiar with new organisational forms, may want to stick with tried and tested organisations. In reality, shared ownership organisations are more, rather than less, resilient and present no greater problems in relation to service failure than conventional private sector organisations, but these advantages are not currently widely known.

The approaches chosen need to build public confidence in unfamiliar models. The public might see employee ownership as privatisation by another name, or worry about ‘provider capture’ or about profit taking from public assets. It is probably the case that in all cases, to create public confidence, it will be important that public assets such as parks, allotments, community facilities, schools, hospitals and other buildings are ‘locked’ so that capital could not be transferred away from the public interest.

However, the extension of user, community and employee ownership also renders accountability more complex. For example, which organisation would be more fully ‘accountable’ – an employee and user-owned hospital, with its own mechanisms to represent and report back to local people – or a GPs’ commissioning consortium? What happens when user-owned or controlled organisations are seen as meeting needs that can no longer be afforded or funded? The different accountabilities of commissioners and providers will need to be articulated and made clear to local people, as well as to local stakeholders.

3.8 Managing potential failure

In many cases, shared ownership organisations present no greater difficulties if they fail than private sector organisations. But where the service they provide is linked to community assets or geographically ‘fixed’ – such as a local school or hospital, commissioners may want to ensure that failure will not threaten the continuity of service.

It will be important to identify those services that require zero failure regimes (and put in place a regulatory framework that supports this) and to devise contingency plans for other services that are mutualised.

Commissioning and transition plans need to take account of the possibility of failure or delivery problems, and provide reassurance to service users about what would happen to their service if anything were to go wrong. Generating discussions between commissioners, funders and potential providers at an early stage will be important, ensuring that commissioning and governance arrangements include contingency plans.

3.9 Removing barriers

For some public services, such as health, some of the barriers to change centre on concerns about pensions and terms and conditions. For public service staff, a change to an unfamiliar model creates all sorts of anxieties and uncertainties, and the risks involved in moving away from the protection of the public sector into a more commercial and competitive world are compounded by worries about the potential loss of pensions and benefits. Some of the barriers are psychological and cultural, but others are practical.

There are significant psychological, cultural and practical barriers to increasing public involvement in service provision, and these should be acknowledged by thinking about how to stimulate public involvement in ownership of public services. For example, recent research conducted by Ipsos MORI on behalf of the 2020 Public Services Trust, found:

‘The type of empowerment that people want in their relationship with public services is probably more subjective (feeling able to influence/control/affect a situation) than de jure (power
manifested in rights provided by law) or de facto (actual control or influence over an outcome).

Nevertheless, the report’s authors conclude that there is a significant minority who do want more active involvement with public services, and perhaps the role of local politicians, commissioners and managers is to identify and tap into that minority, whilst also providing information and raising awareness to expand the size of that group in the local community.

In a parallel piece of qualitative research to delve deeper into the findings of the survey, participants were asked specifically what they thought about giving multi-stakeholder co-operatives responsibility for managing services. The research found that initial reactions amongst participants were favourable, although as potential obstacles to this approach were uncovered – for example how decisions would be reached or how accountability would be achieved – levels of support fell away. Co-operatives were viewed as most desirable for ‘non-core services and for services where local variation based on an understanding of the community’s needs is perceived as important’.

Phillip Blond suggests an asset lock of current pensions so that staff would know their future was secured. A major barrier could be removed by agreeing to protect the rights of staff both during transition and for a sufficient time thereafter, at least for existing employees. The extent of this ‘lock’, and the length of time it would need to last, would depend on the funding or commissioning model in use, and on the stability of the market that organisations are entering.

3.10 Creating incentives

Given the psychological and cultural barriers noted above, simply removing barriers to entry may not be sufficient to persuade employees or users to take the leap towards ownership. There are other steps that policy-makers and commissioners can take to encourage potential new owners, including increasing freedom from regulation.

For entrepreneurial professional staff and managers, the opportunity for greater autonomy and scope to be more creative, and the excitement of working in new ways with users and citizens could be very attractive, especially when they look ahead to the difficulties facing public sector organisations.

For this incentive to become real, however, government would need to offer tangible evidence of the freedoms that might be experienced; and demonstrate the greater flexibility that might be available to an organisation that could innovate, based on employee and user insight into service delivery at front-line level.

Other proposals for incentives include a reward for ownership via a co-operative distribution and a profit share in the savings and efficiencies that staff generate.

3.11 Balancing incentives and risks

The role of central government can be to frame the risk/reward calculus appropriately, at the highest levels, and to help catalyse widespread adoption of different models of public service ownership, by identifying and backing service sectors where there is likely to be a ‘quick win’.

The balance of incentive and risk is likely to be different depending on whether or not mutual service providers are seen as operating inside or outside ‘the system’ of government. To what extent would mutualised public services still be seen as part of the systems of performance management, regulation, inspection and accountability of government organisations (and some third sector organisations) and to what extent would they be seen as private sector providers? How much freedom would they have to innovate to meet user needs? How constrained would they be by regulation? What guarantees would be required by users, or by commissioners or government in terms of accountability for spending public money?

Getting this balance right will be essential for success, and will involve carefully balancing the drivers toward innovation and creativity and those that protect against unnecessary risk.

The closer organisations stay to the current public sector ‘system’, the more protected they will be from risk, but the less likely they will be to innovate. Conversely, a more radical solution freeing organisations up to innovate, raise capital and operate outside regulatory frameworks would encourage entrepreneurial flair, but would carry greater risk.

3.12 Proactive support and capacity building

As well as removing the obstacles, commissioners and policy-makers can also provide support and capacity-building. As the Innovation Unit report The Engagement Ethic notes: ‘individuals can found a company in half an hour, but it makes sense that creating a co-operative or mutual takes longer’.

Much of this could happen at local level, given the importance of knowledge of the local conditions,
services and organisations for tailoring the support appropriately, but there may also be a case for a central support function. One option for this is the ‘business conversion unit’ recommended in The Mutuals Manifesto 2010 (a joint publication from some of the main umbrella bodies of the shared ownership sector), which would have a role in sharing and promoting best practice to help public bodies looking to convert to mutual status.44

The evidence hitherto does not support the idea of a single ‘most desirable’ model that fits all circumstances. As a minimum, however, government could promote a wider understanding of the advantages and disadvantages of the different models, and the conditions likely to be needed for success. A range of government funded bodies gives advice to new businesses, and departments could ensure that they include detailed knowledge of employee and user-owned models.

Government could help to move policies into practice through, for example, supporting pilots and widespread learning from experiments through action learning networks and practice exchange workshops (real or virtual), evaluating and sharing success, and keeping departments and agencies offering advice to both commissioners and providers up to date.
Commissioners and policy-makers have an important role to play both in managing the ‘demand side’ of the shared ownership market and supporting the ‘supply side’. However, many of the key choices and decisions will fall to organisational leaders – both officers in public services seeking to move in-house services out to organisations run under new ownership models, and the leaders of those organisations themselves, not to say their new owners, be they employees and/or users.

This chapter of the report presents a synthesis of the evidence relating to how to manage a successful transition to shared ownership.

4.1 Success factors for transition

Many of the success factors for any change process are important when making a transition to a new ownership model. There is a consensus in the evidence reviewed that the following activities act as facilitators for a successful transition:

- making the case for transition
- investing time and effort to secure employee buy-in and commitment
- building business skills.

Making the case for transition

To win support for a change, leaders have to convince not only staff, but also commissioners, stakeholders, including local politicians, service users and the public. Given the evidence about the lack of understanding of new models, this can be a formidable task.

Leaders should think early about the potential benefits that a new ownership model might offer and hold discussions about the potential, for example, for greater freedom and flexibility within a different delivery model; so that a realistic analysis of possible benefits to staff, users or commissioners could be made.

Securing employee buy-in and commitment

Gaining the support of employees is, unsurprisingly, one of the key activities highlighted by the evidence reviewed for facilitating successful transitions:

‘The concept is not viable without the active involvement and wholehearted support of the staff that are the main resource available to deliver the services. Unless staff understand and sign up to the potential benefits which can be delivered, then the initiative is unlikely to be successful.’ 45

The research echoes general good practice in relation to the management of change:

- Communication. Good communication with employees before and throughout the transition process is essential. Leaders need to build understanding, reassure employees and dispel misconceptions, particularly as concepts of ownership are likely to be new for many employees.46 Similarly, creating opportunities for employees to articulate and debate their objections to participating in the transfer and new arrangements may lessen anxiety.47

- Incentives. We have suggested above that the communication of incentives may be an important factor in winning support. For professional staff, Lewis et al (2006) highlighted that the benefits of increased autonomy resulting from independent contractor status may be particularly influential in encouraging these staff to buy into the transition. Other incentives may relate to the protection of terms and conditions, the scope for distributing financial rewards for high performance, and commitment to social outcomes.

- Developing employees’ sense of ownership. The transition is an important opportunity to model the new ways of working that will engender a sense of ownership – employees need time and space to explore their new roles and begin to exercise them during the change process – and the new sense of transparency and engagement should be built into the preparations and consultations for change. The transition process should build and foster a sense of ownership amongst employees. Although a fully fledged ‘ownership culture’ will take time to develop even after an organisation has completed...
its transition to the different ownership model, the benefits of investing time and effort in this activity is highlighted by Cobbetts (2009):

'It is within organisations that possess such a culture that the strongest impacts of employee ownership on employee attitudes and behaviour have been found.'

Building leadership and business skills

Leaders will require the same generic capabilities as leaders of public services operating within traditional models. However, a specific set of leadership skills is found to be required specifically by leaders of organisations operating with alternative models of ownership, with much of the evidence pointing to skills around facilitating successful employee engagement and fostering a culture of ownership. This may be a significant change for managers unused to this environment, and willingness to accept the shift in ownership relations is essential:

‘Whilst managers can still manage and decide, they inevitably have to share knowledge and power in ways that enable the employee to feel that he or she can genuinely affect change within their co-owned organisation.’

As well as playing an important role in terms of bringing other employees with them on the journey towards a new model of ownership, managers may also take on responsibility for income as well as expenditure, which will be new to many in public services:

‘Earning income, generating income for future years, and strategic business planning based around a selling or marketing strategy are the norm for those in the private business world. They are largely unfamiliar to those within the public sector.’ (Cobbetts, 2009)

Cobbetts (2009) observe that the transition from state ownership is likely to be a ‘steep learning curve’ for many leaders of organisations providing public services, and leaders will require ongoing support around business skills and advice not only to help them transition but also to ensure long-term sustainability and stability.

‘A lack of sufficient business management skills, marketing, and failure to wholly embrace a market-orientated approach (perhaps where managers come from a public or voluntary sector background where this is not seen as necessary) inhibits enterprise and can result in a lack of innovative solutions to sustainability barriers.’ (Reed and Stanley, 2005; p.29)
Support and advice for organisational leaders and members on both the decisions to be made around the transition (such as the type of ownership model to adopt, the transfer of staff, and all of the accompanying legal, financial and practical issues) and the formulation of a coherent and robust business plan are of paramount importance to successful transition. However, Co-operatives UK warn that there is currently a paucity of high-quality, affordable, and appropriate business advice and support to organisations in the UK and, according to Rayner (2008), this support is actually becoming scarcer. The Quirk Review highlighted in 2007 that another area where organisations (and local authorities) need advice relates to the transfer and management by communities of land and buildings. Rayner (2008) identifies several opportunities for improving the provision of expert advice on employee ownership at local, regional and national levels, for example through local area agreements, Business Link, and Co-operative UK’s network of specialist advisors.

4.2 Creating the right governance structures

The governance structures for new ownership models need to accurately reflect the balance of interests that match the purpose of the organisation. It is for the governors of the organisation to sustain that balance and ensure that the outcomes of the organisation reflect the right balance between, for example, commercial success and achieving social goals.

Many of the principles of good governance set out in the Langland’s Commission on Public Service Governance apply to new ownership models – but the possible dilemmas and tensions may be greater – and good governance will be all the more important as a consequence. Lewis et al (2006) note that in the context of community and primary healthcare sectors ‘the interests of suppliers and recipients are not always identical’ and it is likely that achieving an appropriate balance of interest between employees, service users and financiers will be relevant in other public service sectors.

Even where organisations are wholly employee-owned, there is a case for governance mechanisms to include a wider stakeholder group to reflect the public interest. Even where service users or citizens are not involved as owners, it may be important that they have a voice in shaping services and ensuring that they are user-centred.

OPM, for example, is employee-owned, through a trust, and the company board has non-executive directors drawn from voluntary sector and public service organisations to represent a user perspective, and a ‘public interest general council’ responsible for holding the organisation to account for achieving social value. More information about the origins of the public interest company idea can be found in OPM’s 2001 pamphlet The Case for the Public Interest Company, available for download from OPM’s knowledge website (www.opm.co.uk).

Lewis et al (2006) advocate that in the health sector patients and the public should have membership status within any mutuals set up and that at the very least ‘patient interests need to be recognised in any formal governance arrangements’. Suggestions for possible governance solutions around achieving an appropriate balance of interests through formal mechanisms include:

- A board of governors or other representative body holding the board of directors to account on behalf of the community served. In this case it is advised that the representative body is appropriately sized in order to ensure that everyone participating feels involved and valued, as learnt from experience in NHS foundation trusts.
- The majority of people sitting on a representative body could be directly elected by members or there could be provision for local organisations with shared commitment to the public good to appoint individuals to the representative body.
- Where a public service is being provided by an organisation with an alternative model of ownership in more than one local authority area, local boards of governors or other representative bodies could be set up to ensure accountability to community interests at local level. For example, Greenwich Leisure Ltd has set up local boards for many of the local authority areas it operates in, with these local boards operating with a degree of autonomy.

It may take time to evolve the right balance of interests, and in many cases governance is still at the experimental stage. Lewis et al (2006) note that mutuality in community nursing and therapy services would represent an evolution in their public sector status due to their history of public ownership, whereas mutuality in general practice would represent a more radical cultural change. Where_mutuals begin to operate in new sectors, there may need to be other mechanisms to ensure a public voice but within a staff-led governance structure.
4.3 Wider stakeholding – the role of investors and government

Governance becomes more difficult in those organisations with wider stakeholding, particularly where capital is required and either private investors or financial institutions hold a substantial stake; or where government wishes to retain a stake. There is less of a track record here of past success. Governance arrangements would need to be robust enough to ensure the right balance of interests, and make sure that tensions between the requirements of government and private investors didn’t crowd out the interests of either staff or service users.

Ellins and Ham (2009) cite evidence from Pendleton (2001) that the extent to which an organisation is dependent on external investment may influence governance arrangements as investors are ‘often wary of employee involvement in corporate governance, due to concerns about its effectiveness and the risk that employees will put their own interests before successful financial performance’.64

The authors indicate that employee involvement in organisations that are highly dependent on external investment may be limited in its scope and degree through conditions attached by investors.

4.4 Creating the right organisational culture

As highlighted in the section above on governance for public interest, organisational culture may act as either as a facilitator or a barrier to making alternative ownership models work in practice. Without a radical change of culture, alternative models of ownership are unlikely to bring about the benefits usually associated with employee or user ownership. For example, a report detailing the proceedings of a parliamentary seminar published by the Centre for Mutual and Employee Owned Businesses notes:

‘Employee ownership only produces … benefits when two further factors are present: human resource management practices that foster staff participation; and a culture of ownership that is associated with staff having a collective voice in the organisation.’ (Centre for Mutual and Employee Owned Businesses, 2009: p.14)64

Similarly, in its review of evidence on the effects of employee ownership, Matrix (2010) found that while employee commitment and job satisfaction tends to be stronger in employee-owned businesses compared to traditionally owned organisations, this benefit appears to be dependent upon the extent to which employees feel that they can influence decision-making.65

According to a review of employee share ownership plans by York University, a sense of ownership develops in at least three ways: through enhanced control over particular organisational factors such as the job, department, procedures, or product lines; through increased information about, and more intimate knowledge of particular organisational factors; and through self-investment (of one’s time, skills, ideas, energy) into the potential target of ownership (Kaarsemaker et al, 2009).66

The culture within an employee or user-owned organisation needs to enable managers to respond appropriately to stakeholders in their roles both as employees and users, and as owners and governors. In practice this means far greater transparency than is usually the case in public and private sector organisations, and taking time to explain issues carefully, giving all stakeholders a chance to identify with the purpose of the organisation, to explore and shape direction, to review progress and to hold managers to account.

Important aspects of a ‘culture of ownership’ will include:

- non-confrontational management approaches (Bibby, 2009)
- staff engagement and consultation (Bibby, 2009; Postlethwaite et al, 2005)
- small board and flat management structures, with that of Central Surrey Health given as an example of an effective approach to progressing towards a ‘can-do’ culture, away from the more traditional bureaucratic culture in the NHS (Centre for Mutual and Employee Owned Businesses, 2009)67
- making visible changes to management practices following a transition to a new model of ownership (Postlethwaite et al, 2005). For example Postlethwaite et al (2005)’s review of evidence found that making visible changes can reduce employee cynicism.68

At the same time, organisations making the transition from the public sector will need to shift the culture from one that operates within the relatively stable requirements of a large-scale bureaucracy to the customer-focus and commercial awareness necessary in a looser market-place. Even within a mutual organisation providing services to its own members, the demands of a more engaged membership will require a highly responsive and flexible approach.
The cultural change required is not simply that of greater transparency and engagement of staff and users; but to do this in the context of generating strong performance and competitiveness. Staff will need not only to exercise their roles as owners and governors in their own interest, but to do so in ways that ensure business success.

Cultures don’t change easily or fast. Organisations planning a transition will need to pay particular attention to the leadership behaviours that will model and engender the new culture, to create spaces where the right conversations can take place, and to ensure that the systems of the organisation make change possible. If organisations are to make the most of user and employee feedback, they will need to develop creative and engaging processes that offer opportunities for everyone to think and learn. Given the pressures on a new business to ‘win work’ and to create effective systems to underpin competitiveness in new markets, it takes resilience and strong leadership to ensure that attention to organisational culture does not waver. On the other hand, attention to staff and user needs cannot be at the expense of highly efficient organisational systems and attention to competitive performance. Leadership and personal development, individual and team coaching and regular time set aside to work with and consult staff are all part of a sustained organisational development process.

4.5 Relationship with trade unions

Experience suggests that trade unions have ambiguous feelings towards alternative ownership models. The evidence reviewed has tended to focus on the NHS and highlights several areas where unions have concerns about the move towards new forms of provider organisation:

- general unease about what is seen as dismantling of the NHS family and erosion of public service values
- conditions of employment for staff transferring into non-NHS organisations
- the capacity of a plural provider market to deliver coordinated services and ensure continuity of care
- the potential for employee ownership to weaken trade unions, with ownership rights effectively replacing the need for union membership and collective bargaining
- potential confusion and undermining of the representative role of trade unions through putting them in a position where they are representing both employees and owners, and perhaps are even involved in governance institutions; in addition to this, through promoting employee identification with the firm, employers may seek to undermine or avoid trade union representation.70

Despite these concerns, a report for Unison published in 2007 acknowledged the potential of the social enterprise model as an acceptable alternative to commercial provision, because it is in essence more closely aligned to the values of public service (Marks and Hunter, 2007).71 Furthermore in their review of evidence on employee share ownership, Landau et al (2007) found that there is an association between share ownership and unionisation of organisations, and that the increased employee engagement associated with share ownership may in fact enhance the employee voice that unions seek to promote.72 Therefore maintaining a positive relationship with unions may be seen as beneficial to share ownership organisations as part of their employee engagement agenda.

4.6 Size matters

The number of employees or members of an organisation operating an alternative ownership model may have implications for how it should be run, and likewise the type of model chosen may have implications for what size is optimal or feasible.

Much of the evidence on alternative ownership, particularly that focusing on co-operative and/or social enterprise models, tends to assume that these models are more compatible with smaller organisations.

This is due to two perceptions, first, that if employee or member organisations are committed to democratic structures with important decisions regarding business strategy being taken on a one-member one-vote basis, then while this is a reasonably straightforward operation for organisations with a small number of members operating in a single location it becomes complex in larger organisations.73

The second perception is that smaller organisations are more likely to experience the benefits associated with alternative ownership models such as increased innovation and employee commitment. For example Blond (2009) argues that:

‘Evolutionary and behavioural psychologists tell us that there is an optimal size for human group behaviour. Roughly speaking this appears to be around 150 people – any more than this and horizontal sanctioning and ethos building begins to suffer from the old managerialism and the rise
once more of sectional interest and disengaged piece work by workers and staff.”

However the evidence as to whether smaller organisations are indeed more optimal is patchy. In their review of evidence on the effects of employee ownership, Matrix (2010) found while there is some evidence that productivity gains might be higher for smaller employee-owned organisations, there is a paucity of evidence that directly compares the success of smaller employee-owned organisations with larger ones. This is because where the evidence does seek to compare organisational performance, it tends to compare the effects of employee ownership with traditional forms of ownership after organisational size has been controlled for.

In addition, Davies (2009) highlights that there are examples of co-owned companies operating not only at national but also at international levels, such as Arup and Mott MacDonald, and that these examples indicate that co-owned organisations can be scaled-up effectively.

However, where there is consensus in the evidence, it points to how smaller organisations providing public services in a competitive market economy may face challenges in two key areas:

- First, the costs associated with the competitive tendering process in winning public service procurement contracts (for example, the cost of producing a tender document and the investment in staff training to enable them to produce it to a high standard) are largely independent of the size of the organisation, so will cost a small organisation relatively more. This leads Reed and Stanley (2005) to argue that alternatively owned organisations such as co-operatives may need to ‘scale-up’ to a larger size in order to compete effectively for public service contracts.

- Second, smaller organisations may lack capacity and knowledge in terms of HR, finance, governance, equality and diversity strategies etc, which may affect their ability to deliver high-quality services, leaving them disadvantaged compared to larger organisations (Marks and Hunter, 2008).

It could therefore be argued that organisations with alternative ownership models providing public services need to arrive at a size large enough to enjoy some economies of scale, without compromising the benefits of the smaller scale in terms of members’ connection with the organisation. This has led to commentators such as Blond (2009) advocating a ‘mass micro’ approach – implementing small-scale units of organisation ‘that when repeated across the public sector can yield a macro-gain.’ For example, Lewis et al (2006) suggest that in the health sector, mutuals consider sharing administrative and clinical staff in a way that allows for both efficiency and specialisation. It is likely that this would be applicable to other public service sectors.
5. Moving forward

The preceding sections demonstrate that once the conceptual and terminological mists have receded, the choices to be faced are clear, and that it’s important to make them in the right order and for the right reasons. They also make clear that there are a number of practical approaches that have the potential to help the transitions and future success.

In the next stage of our public interest research on ownership, we are building on the findings from stage one to look in more depth at ‘real world experiences’. We are developing dynamic and analytical (rather than descriptive) case studies which will draw on and test out the hypotheses developed; and begin to offer more detailed advice about potential good practice. The case studies will analyse journeys to new models of ownership, including:

- the internal conditions and the external/systemic climate in which the development or transition of that organisation took place
- the motivations and variables that affected choices of model (taking account of type of service, size, local environment)
- the key decision points and milestones, the evolutions of that particular model, risks and benefits
- the personal and organisational experiences of operating in this way and the sustainability and success factors (e.g. culture, leadership, trust and relationships).
Appendices

Appendix 1. Key terms and models

Employee owned
Definitions published by the Employee Ownership Association (EOA) suggest that for an organisation to be classified as ‘employee owned’, employees must have ownership of at least 51 per cent of the organisation:

*There is a wide range of ways in which employee ownership is structured, although there is consensus that the principle that employees can own a controlling stake – or in other words at least 50 per cent of the voting shares – is a fundamental one.*

Co-owned
The EOA uses the term ‘co-owned companies’ for those firms where employees have ‘a significant stake’ in the business, but one that is less than 50 per cent.

In such organisations, ownership can be direct, where employees – for example – as individuals, own shares in the company; or indirect, where a block of shares is held in an employee trust that exercises control of the company on behalf of the employees, or through a combination of the two. Many organisations that begin with employee shares being held in trust move to at least some of those shares being held directly by employees, to give access to potential financial reward and, if the shares are voting shares, a more direct sense of employee control. This transition can occur via a number of routes, including employees buying or being given shares, or granted share options.

Co-operatives
Organisations which call themselves ‘co-operatives’ may take many different legal forms and the owners of co-operatives may be workers, citizens, users, other organisations or any combination thereof. The key thing that differentiates co-operatives from the other forms of shared ownership organisations described here is that they subscribe to a set of long-established and widely recognised common principles, which are:

- voluntary and open membership (anyone who is eligible to become a member should be able to become one)
- democratic member control (all members get an equal say, regardless of size of financial contribution)
- member economic participation
- autonomy and independence
- education, training and information
- co-operation amongst co-operatives
- concern for the community

Mutuals
The term ‘mutual’ is particularly fated to be confusingly deployed but essentially refers to an organisation where the primary purpose is to generate benefits for members – whether employees, service users or a combination – or a defined community. Some experts and policy-makers almost use it as an umbrella term, to refer to any model of shared ownership. The Cabinet Office's *Mutual Benefit* paper says:

*Mutual organisations are either owned by and run in the interests of existing members, as is the case in building societies, co-operatives and friendly societies, or – as in many public services – owned on behalf of the wider community and run in the interests of the wider community, for example, NHS foundation trusts and co-operative trust schools. There is also scope for other local services, like community buses, to be run as mutual or co-operative groups. To help ensure the organisations best serve the interests of their members, mutuals are characterised by their democratic governance arrangements. They usually have ‘one member, one vote’ systems for balloting members and governance structures that formally incorporate a variety of stakeholder interests.*
In the interests of preserving clarity, however, it is important to recognise that there are two types of mutuals, as alluded to in the quotation above.

The first type are organisations that do not have external shareholders and are owned by, and for the benefit of, their membership. Stakeholder groups with a stake in the ownership of a mutual and its governance may include service users, employees and others.

The second type of mutual exists for the benefit of a defined community. In this case, the notion of the individual member’s ‘share’ or ‘benefit’ is specifically defined, as follows. No individual member can take away his or her ‘share’ of the asset(s).

The member’s share in the mutual organisation is nominal only. Any person receiving services is entitled to become a member and own a share. Unlike shares in a company, membership of the new mutual organisation gives each member one vote only, and it gives no right to a share in the underlying value of the business.

The member has no entitlement to a dividend. Instead, the surplus (profit) generated from the trading activity is returned to the community in the form of better quality, or cheaper service. In other words, individual members hold their share – that is to say they own the mutual organisation (nobody else owns it) – on behalf of the community.

Community trusts
A similar, but distinct, model to the second type of mutual are community trusts, where an organisation is set up to serve a specific, defined community (and where that purpose is enshrined in its constitution) but where the assets are put in the hands of a group of trustees.

Community trusts – or ‘community land trusts’ to give them their legal title – were defined in law in July 2008, through an amendment to the Housing and Regeneration Act 2008, as corporate bodies which are established for the express purpose of furthering the social, economic and environmental interests of local communities.

Community trusts achieve this by acquiring and managing land and other assets in order to provide a benefit to the local community and ensuring that the assets are not sold or developed, except in a manner which the trust’s members think benefits the local community. Crucially, individuals who live or work in the specified area must have the opportunity to become members of the trust, but community trusts are prohibited from paying benefits directly to members.85

Social enterprises
There are also many other organisational forms which do not fall under the specific category of ‘shared ownership’, but are often used interchangeably. In particular the ‘social enterprise’ model is an important option for public services, and one which has received significant government backing in recent years, especially in the health sector, and has been reinforced by the July 2010 white paper. The definition, developed by the Social Enterprise Unit, is that a social enterprise is:

‘... a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or the community, rather than being driven by the need to maximise profit for shareholders and owners.’86

We can see from this definition that there is nothing intrinsic to the social enterprise model that says it has to operate along any principles of shared ownership (and, in fact, there may be something positively inconsistent between this and some shared models which are driven by the need to maximise profit for owners). As another author notes:

‘While social enterprises were distinguished by their social aims and objectives, they could adopt a wide range of legal forms and governance arrangements to reflect the purpose of the organisation. Social enterprises should therefore be considered as a means to an end. They could be initiated by a range of organisations (such as the trading arms of charities, new provider initiatives within the NHS, or other organisations already delivering health or social care), developed as a result of partnerships, or set up from scratch to meet specific needs.’87

Examples of social enterprises run along co-operative or other shared ownership models do indeed exist, but in order to avoid some of the conceptual and practical confusion, it is important to differentiate between the purpose of an organisation, which may or may not be to reinvest surplus in the business itself or the community (as social enterprises do), and its ownership.88

Public interest companies
What we have termed the ‘public interest’ model is based on OPM’s own experience of combining full
employee ownership with governance mechanisms to include a wider stakeholder group to reflect the public interest. OPM combines: employee ownership through a trust, the company board having non-executive directors drawn from voluntary sector and public service organisations to represent a user perspective, and a ‘public interest general council’ to hold the organisation to account for achieving social value.

**Civic companies**

Civic companies, as proposed by Phillip Blond in *The Ownership State*, rest on the basis of a ‘new power of civil association’ to allow staff and/or users to take over ownership of public services, each owner having an equal share. Delegation of responsibility for delivering public services would be accompanied by full budgetary responsibility, although the model also proposes an asset lock to prevent public assets being transferred out of the new organisation.

User-led organisations have been developed in the field of disabled people’s organisations, and whereby all members of the management board and trustees must be service users. The organisation’s purpose – that of benefiting a prescribed group of service users – will be locked in, for example to its articles of association or constitution.

**A taxonomy**

Section 2.2 of the report argues that there are two main principles that should define which shared ownership model is most appropriate for a particular public service: purpose and motivation for change.

It further argues that motivation for change correlates with types of ownership (with, for example, the employee-ownership type of model being most appropriate if the motivation is principally to maximise productivity and/or cost effectiveness).

Our taxonomy therefore focuses on these two dimensions.

**Purpose**

- owner value
- social value
- public value
Ownership
• employee ownership
• employee and other stakeholder ownership
• community ownership.

Other frameworks relate ownership characteristics to dimensions such as whether an organisation is profit-driven or not, or the type of market or services provided (see for example the typology used in the Cabinet Office Mutual Benefit paper, which distinguishes between mutuals operating in ‘traditional’ and ‘open’ public service markets).

In public service delivery there are already successful examples of organisations that are positioned to get the desired combination of benefits, and the picture can be extended if services make the right choices.

Our taxonomy does not address legal forms – but these are secondary questions.

The map on the previous page illustrates our taxonomy. Of course, one of the features of the ownership sectors we are addressing is the infinite flexibility and creativity, so we are sure that there will be other examples that could be included.

Appendix 2. The evidence for specific benefits of alternative models

This appendix provides a summary of current evidence concerning the benefits associated with alternative models of ownership.

Improved organisational performance

Evidence exists to reinforce the claims that alternative models of ownership produce an interlinked and combined set of outcomes. The combined impact is clear from headline figures, such as the fact that the share prices of public companies that are more than 10 per cent owned by employees outperform the market as a whole by on average 10 per cent per annum.9

Work conducted by Professor Jonathan Michie and reported by Richard Reeves for the Employee Ownership Association, finds:

‘Evidence that does exist suggests strong links between shared compensation schemes and corporate outcomes … strong links between co-ownership and a range of business outcomes, including productivity, innovation, customer loyalty, talent recruitment and retention and shareholder value.’90

A recent study by the Cass Business School found that employee-owned businesses are more resilient, with more stable performance than counterparts in the traditional private sector during business cycles.91

Evidence has been collected by the private sector for some time and is now being used to suggest that the benefits seen in this sector from alternative models of ownership may also be realisable in the delivery of public services. Bryson and Freeman recently cited work from the National Bureau of Economic Research (NBER) which investigated, with a large sample of employees, the impact of alternative models of ownership:

‘Researchers at the National Bureau of Economic Research (NBER) have surveyed tens of thousands of workers about what makes shared capitalism work more or less effectively. They find that shared capitalism improves outcomes both for companies and their staff. For example, owning company stock strongly predicts both a culture of innovation and a willingness to engage in innovative activity.’ (Kruse et al, forthcoming)92

Supporting this, evidence collected from a survey of employee owned businesses suggests that employee
reactions to being involved in the ownership of the organisation include:

‘80.9 per cent saying staff are prepared to take on more responsibility … and 67 per cent believing people in co-owned companies are more creative … 65.8 per cent think innovation happens more effectively.

The top rated advantage was the extra staff commitment the businesses felt they gained from employee ownership – 90.6 per cent felt this was an advantage with the vast majority strongly agreeing … 72.3 per cent saying employees tend to work harder … 60.6 per cent consider higher productivity is an outcome of employee ownership … 56.4 per cent think co-ownership improves the control of product and service quality … 44.1 per cent report the ownership status results in higher profits.’

Much of the improvement in organisational performance created by alternative models of ownership can be also be attributed to the empowerment of employees, which can lead to a more productive working environment where staff are able to work autonomously, but with a collective purpose, and self-regulate against free-riding colleagues.

One study (looking at mutuals in the healthcare sector) found that employees in employee owned organisations are much more likely to confront non-performing colleagues, a key factor in driving performance and productivity within an organisation.

Several studies also highlight the link between organisational performance and individual productivity. Typically employees in an employee owned organisation are more willing to work hard and harbour a sense of individual enterprise that directly drives productivity and therefore overall organisational performance. Where employees feel they have a larger stake in an organisation, they tend to be more motivated for the organisation to perform well and where they have ownership, they tend to be more focused on organisational outcomes.

Against this, the recent review commissioned by the Employee Ownership Association found that evidence is mixed on whether employees in employee-owned businesses have higher levels of productivity than their counterparts in other types of businesses, and that employee ownership by itself is not a simple, determining factor in promoting higher productivity.

There was some evidence to show that productivity is likely to be higher in organisations with a broader ownership base, and in the case of smaller companies (one study found that the addition of 100 extra workers led to a decrease in productivity based on sales per employee).97

In his influential paper, The Ownership State, Phillip Blond cites research and evidence from the private sector:

‘On the productivity side, there is evidence from the literature on options that widely dispersed ownership has a powerful effect (one study reported “unambiguous evidence that broad-based stock option companies had statistically significantly higher productivity levels and annual growth rates compared to non-broad-based stock option companies in general and among their peers”). Treasury literature and research has also confirmed this effect, citing a 5 per cent productivity increase. One of the most compelling statistics is that in the UK, over the last 17 years, employee-owned companies have outperformed FTSE All-Share companies each year by an average of 10 per cent.’

Employee ownership directly tackles the principal-agent problem, where the interests of the owners of an organisation are different to those of the people running it, by ensuring a symmetric information exchange between those who own the organisation and those running it (as they are both the employees). This ensures that the organisation is run in the long-term interests of the organisation. In the context of public services, these interests include the longer-term interests of members of the community that use the service.

Philip Blond suggests:

‘Not only do engaged workers and citizens promote better public services, they also make them cheaper. The experience of private sector businesses from Toyota to John Lewis is that empowered staff are better at cutting costs and correcting failure than those managed by command and-control methods. Wasteful middle management can be reduced. Examples of this approach applied in the public sector suggest that empowering frontline staff to drive service improvement can result in very significant savings.’

One of the key benefits of employee ownership is to increase employee engagement in an organisation’s decision-making processes. Employee owned organisations are able to stimulate higher levels of staff responsibility and self-direction in employees through involving them in decision-making discussions.
This can lead to the added benefit of an increase in employees’ understanding of their organisation, thereby improving their performance within it, and can create a more active sense of ownership amongst employees. Citing research by The Society of British Aerospace Companies’ Human Capital Audit, Phillip Blond noted:

‘The contribution of engaged and trusting employees to performance cannot be underestimated. The Society of British Aerospace Companies’ Human Capital Audit found that high performing firms benefited from 62 per cent more value added per employee than other businesses. The high performance model places great emphasis on keeping workers informed and involving them in decision-making.’

Perhaps most significantly, by involving employees in decision-making, organisations are able to draw on a larger pool of knowledge and experience. As one study identifies, where decisions about frontline public services are being made, decision-makers often ignore a substantial and diverse knowledge reserve held by frontline staff that frequently identify problems and opportunities long before their strategic managers.

Another study found that frontline staff, in this case social workers, can become ‘de-motivated, overwhelmed by bureaucracy and deprived of autonomy’ as a result of over-dominant managerialism and put forward employee ownership as a way of tackling these issues.

Several studies refer to employee ownership as boosting staff creativity and leading to higher levels of innovation. This is linked to the increase in employee engagement as outlined above and the creation of a more innovative working environment on the basis that more employees are now involved in decision-making. In the case of public services, one study finds that any improvements in productivity and customer focus in the public sector requires significant ‘co-creativity’ between employees if the ethos of the sector is not to be damaged.

It is not just that employee ownership gives employees the right to have their views heard in decision-making discussions, but it also provides them with more opportunities and the environment to have these views listened to. This means that generally employee-owned organisations are better at managing change as they are able to encourage the necessary innovation, ensure staff involvement in decision-making and maintain staff morale.

Employee ownership is also associated with lower levels of staff turnover and absenteeism, as well as greater investment in staff development and well-being. In creating a working environment where employees have a sense of belonging, ownership and pride in their organisation, employee owned organisations are able to retain staff for longer, thus exploiting the higher levels of staff satisfaction and commitment to their own advantage. These factors also contribute to employee well-being, which is often linked to an employee’s feelings of autonomy, trust and involvement in the organisation that they work for.

There is also evidence that employee owned organisations are more likely to focus explicitly on the issue of staff well-being than non-employee owned organisations.

Several studies found that increased well-being in the workplace can also have positive externalities, for example higher individual productivity, better health outcomes and improvements in employee family and community life.

One study found:

‘Employee ownership is a force for loyalty, inspiring commitment and creativity which benefits the company, and improving the level of business and financial literacy amongst employees.’

Wider impacts on community/society

Several studies refer to the positive impacts that working in an employee owned environment can have on the wider community or society in general. As employee owned organisations create ‘corporate citizenship’ amongst their employees, these positive employee attitudes can extend beyond the workplace, thus creating more active and engaged citizens that can contribute to the formation of a more ‘cohesive, mutually respectful and positive society’.

Positive impacts for communities lie at the very core of public service provision, and employee ownership offers an alternative model that produces further positive effects for communities compared with the traditional model of provision. As one study identifies, ‘the way employee owned companies are structured means they achieve high standards of accountability and corporate social responsibility’, which are key for public services to be responsive to the needs of the communities they serve. This is linked to the argument that a public service that is run by employees is also better able to understand and react to local needs than
a public service run more remotely, for example by central government.  

Specifically, there is also evidence to suggest that alternative models of ownership generate organisations that are more socially responsible – in a sample of employees participating in one survey, 82 per cent felt that companies acted with more social responsibility and that this was an advantage.

Public trust and confidence in organisations and services may also be strengthened through the use of non-traditional organisational structures – evidence outlined below suggests that an alternative model of ownership (in this case a co-operative) may be appealing to service users and the wider public:

‘Customers of co-operatives delivering public services believe that the co-operative is operating according to the principles of honesty, openness, social responsibility and caring for others, they will have an advantage in securing trust relative to private sector PLCs who are legally mandated to maximise shareholder value. At the same time, the autonomy and democratic structure of co-operatives, plus the fact that they have to operate efficiently to survive in the marketplace, make them more accountable to service users than the traditional bureaucratic public sector delivery model. Co-operatives have the potential to combine the best aspects of public and private sector provision into a genuine alternative model for public service organisation.’
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About OPM

OPM is a public interest company that is dedicated to improving social results. We help organisations that want to make a greater social impact and respond to change. We work with clients across public services and the voluntary and community sector.

Our members have wide experience in leadership and management development, policy development, organisational and system change, evaluation, research and public and stakeholder engagement. Strong project management, user engagement and use of evidence underpin all our work. As leading thinkers about the future of public services, we publish our ideas and invest in public interest activities.

Founded in 1989 as an independent, not-for-profit centre, OPM is now fully owned by its members through an employee share ownership trust.

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