Employee Ownership Association

The voice of co-owned business

# Charles Leadbeater

# Innovation Included

why co-owned businesses are good for public services

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## Acknowledgements

This paper would have been impossible without the support, advice and patience of Patrick Burns and Lo Waghorne, and the financial support of eaga plc and the Employee Ownership Association. I would also like to thank all the staff at Sunderland Home Care Associates, Greenwich Leisure, eaga and Central Surrey Health who gave so generously of their time and ideas in the course of my research. As ever errors and omissions are all my own.

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## About the author

**Charles Leadbeater** is a leading authority on innovation and creativity. He has advised companies, cities and governments around the world on innovation strategy. His book on the power of mass creativity, We-think, published in 2007, was the latest in a string of acclaimed books: Living on Thin Air, a guide to living and working in the new economy; Up the Down Escalator, an attack on the culture of public pessimism accompanying globalisation and In Search of Work, which was one of the first books to predict the rise of more flexible and networked forms of employment.

A visiting senior fellow at the National Endowment for Science, Technology and the Arts, he is also a senior research associate with the influential think-tank Demos and a visiting fellow at Oxford University’s Said Business School. Charles spent ten years working for the Financial Times where he was Labour Editor, Industrial Editor and Tokyo Bureau Chief before becoming the paper’s Features Editor.

## Employee Ownership Association

The Employee Ownership Association is the voice of co-owned business in the UK, representing a sector of the economy now worth an estimated £25 billion in combined annual turnover. A network of companies where employees own anything from a substantial to controlling stake in the business, EOA's members include the John Lewis Partnership; other long established co-owned companies such as Scott Bader, Tullis Russell and Swann-Morton; global corporations such as Arup, Unipart and Mott MacDonald; other major enterprises such as eaga, Pertemps, Wilkin & Son and Blackwell's; and a range of smaller companies from a wide spread of sectors.

Innovation Included is published under the auspices of Employee Ownership Insight, EOA's charitable research and publishing arm.

Visit EOA at **www.employeeownership.co.uk**

## eaga

The Employee Ownership Association is grateful to eaga for their sponsorship of 'Innovation Included'. Co-owned eaga is a green support services company, the UK's leading provider of residential energy efficiency solutions and an established deliverer of a range of outsourced programmes, products and services that promote social and environmental justice.

The company has an annual turnover of some £639 million. With 4,500 people, operating across the UK, Ireland, Canada and India, working with central and local Government, energy suppliers, social housing providers and a range of commercial customers eaga seeks to deliver sustainable living for the whole of society.

Visit eaga at **www.eaga.com**

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# Foreword

As a co-owned business, with more than 4,500 Partners across the UK, Ireland, India and Canada, we are delighted to have supported this paper, and to continue to advance the cause of employee ownership as a means and a model of sustainable business success.

eaga is the UK's leading provider of residential energy efficiency solutions, and we strive to deliver sustainable living. That means that our business is about protecting the environment, promoting social inclusion and striving for social and environmental justice in all that we do. We work with central and local Government, energy suppliers, social housing providers and commercial companies amongst others across what is a diverse customer base.

That customer base has grown as the company has expanded over the last few years, and we have undergone a number of changes as an organisation. One thing that has remained constant though, is our commitment to employee ownership. More than 37% of the shares in eaga are owned by our Partners. We know that our investment in them, and the benefits that being a Partner brings, is rewarded countless times over, as they themselves are our greatest source of energy, innovation and success.

This research draws on those same factors across many of the businesses in the employee-owned sector today. Large or small, local or multi-national, the spirit of employee ownership in these businesses is what fosters the extra commitment, rigour and enthusiasm that they find in their people.

And that's why it's right that we should look at the role the employee owned sector has to play in delivering public services, amongst many other new avenues and routes for those in this space. The fact of an employee-owned model isn't a charming anomaly, or an anachronism that will eventually drift away into the mainstream. The principles of employee ownership, and more importantly the businesses that embrace them, have limitless potential for future growth, innovation and success.

The leaders of these businesses know that to be true. Just ask our people. Or, in our our case, our Partners.

**John Clough MBE**
**eaga Chief Executive**

# 1. Introduction

The public sector needs more organisations in which employees have a stake.

Co-owned organisations, as they are known, can play a vital role in helping the public sector overcome the mounting challenge of improving services despite limited resources.

The public sector faces growing demand for higher quality, more integrated and personalised services, available where and how people want them. Society faces intractable and complex social challenges, both new and old, for example an ageing population and the threat of climate change, which will require new public service responses.

Public services will face these challenges over the next ten years with tighter constraints on public spending than in the previous decade. With investment to improve services in shorter supply, it will become more important than ever to find alternative ways to motivate staff to improve services.

That is where co-owned public service organisations can play a critical role.

Studies of co-owned organisations in the private sector show they invariably engage staff at all levels of skill and pay in innovation and service improvement because employees feel they have a stake in the business that is being transformed.

Co-owned companies have an open culture and ethos that encourages the two-way communication and collaboration that underpins service innovation and improvement. Staff in co-owned businesses tend to be more engaged and open to change because they have less to fear from it.

The public sector will be in desperate need of this recipe to motivate staff to improve services.

The relatively small scale of co-owned business in public service provision is both a handicap to innovation and a mark of the potential to expand it.

Co-owned organisations are growing across the economy, from established employee owned business such as the retailer John Lewis to newly formed architectural practices such as Make, the civil engineering firm Arup and the Unipart group. The best estimates suggest the annual turnover of co-owned businesses is worth between £20 - £25bn and growing.

Co-owned businesses are suppliers of public services in health and social care, recycling and transport. But as a whole they play a smaller role in the public sector than the conventional private sector. The contracting out of public services has fuelled the rise of large private sector providers such as Tribal, Capita and Serco. The role of the voluntary and third sector has also expanded, for example through the growth of housing associations as social housing providers. Co-owned public service providers - partnerships, mutuals, cooperatives - have grown more slowly.

The public sector would benefit enormously from having more co-owned businesses to add to the diversity of organisations providing public service. The public sector is searching for a new story of modernisation and renewal. Centralised and target driven approaches to public service improvement can create significant downsides in terms of low morale, limited initiative and innovation. That is why politicians and policy-makers are searching for less bureaucratic, more localised, and customer-centric forms of organisation, that are able to respond more directly and creatively to people's needs. Most proposals have focussed on schemes to decentralise and localise services, giving communities greater say in how services are designed and delivered,  and parallel plans to personalise services, for example, through the spread of individual budgets and self-directed services.

Co-owned public service organisations can provide the missing ingredient in this process of renewal: to motivate staff to improve customer service by giving them a clear stake in the process of transformation.

Staff in co-owned public service organisations frequently say they are willing and able to "go the extra mile" to deliver a better service for people. The public sector will need more of that spirit. That is why promoting greater co-ownership should be a strategic priority for the next phase of public service renewal.

# The Four Case Study Organisations

This study is based on case studies of four co-owned public service providers, including desk research and extensive interviews with managers, board members, staff and some customers.

**eaga**, a largely employee owned, Newcastle-based, provider of domestic heating and insulation services. eaga started life in 1990 as a four-person business: the Energy Action Grants Agency. It has since grown into a business employing 4,500 staff, including more than 3,000 installers, with an annual turnover of over £600m. eaga's main focus is on providing energy services to the most vulnerable and socially excluded households through the government's Warm Front scheme. eaga has expanded its business base, moving into carbon and emissions trading, benefits advice and connecting vulnerable households to digital television services. The eaga Partnership Trust is the largest single shareholder in the company with 37%. Employees, managers and senior directors hold a further 11-12%. Following a partial flotation in 2007 the remainder of the shares are owned by outside investors.

**Sunderland Home Care Associates** is owned by the more than 200 staff it employs to provide more than 4,000 hours social care each week. Care staff are paid about £7 an hour. Most visits last half an hour and can be from one to four times a day. SHCA started in 1976 as the Little Women Cooperative, which in 1983 became Little Women Household Services. SHCA started trading in 1994 with about 20 staff providing about 450 hours of care a week. SHCA has since helped to create Care & Share Associates [CASA] to help replicate its employee owned model for care services in Newcastle, North Tyneside and Manchester.

**Central Surrey Health** is a not-for-profit, social enterprise which is owned by all its 780 employees - the nursing and therapy teams who now run a range of health services in parts of Surrey. It aims to combine the public values of the NHS with a "can-do" business ethic. CSH was created in 2006 after East Elmbridge and Mid Surrey Primary Care Trust started to re-consider how to provide community based services. Staff took the opportunity to make the case for an employee owned social enterprise to run the services with an annual turnover of over £20m.

**Greenwich Leisure [GLL]**, created in 1993 through a staff-led outsourcing of leisure services in Greenwich south London, has a turnover of £70m a year, employs about 4,400 staff, one third full time, providing leisure services to 14 London boroughs, serving more than 20m customers a year. GLL innovated good quality, low cost, middle market leisure facilities when most private gyms were aimed at upscale consumers. Greenwich Leisure innovated a new business model that became widely copied for public leisure services to be floated off to a local trust. GLL is employee owned.

All these organisations have been recognised and had their work validated by regulators and external bodies. Sunderland Home Care has won awards for its innovation as a social enterprise as well as plaudits from the Social Care Inspectorate for the quality of its work. eaga's services were praised by the National Audit Office in its review of the Warm Front initiative, and have won a number of other important awards. Central Surrey Health has been highlighted by the Department of Health as a model for other community-based social enterprise health services. Greenwich Leisure has won a string of awards and recognition for its innovative approach to social enterprise.

# 2. The Public Service Innovation Challenge

Public services need innovation in all shapes and sizes.

The most immediate priority is to promote constant, incremental improvements to the quality and responsiveness of existing services, from rubbish collection to social care and planning.

Beyond that, alternative ways to organise existing provision are needed. In education, for example, academies and trust schools free from local authority control are meant to provide alternative models to existing schooling. Foundation Trusts play a similar role in health.

Yet more radical innovation is required to create more effective service solutions, especially to complex needs, by joining up previously discrete and separate services. The way that children's services have been brought together in integrated Children's Trusts is one example. Many of the biggest difficulties people experience with public services stem from the lack of coordination between different services. Many families at risk, for example, receive multiple services from health, education, housing and social services, often without effective coordination between them. More effective solutions often start by joining up services that operate in silos to allow more creative, less departmentalised approaches that are integrated around the needs of individuals or families.

Public services need to go beyond improving existing services. They need to be able to create new services to meet demand as society's needs change, whether that is new approaches to treating long term health conditions or climate change and energy usage. Public libraries built in the late 19th century are often not in the right place or able to provide the kind of services that people living in the early 21st century need.

The public sector needs to lead transformational innovation, not just to create new public services, but to lead society's adjustment to new conditions. The public sector needs to be able to lead a wider process of social and economic transformation in which much of the innovation may come from the private and voluntary sector. A prime example is coping with the demands of an ageing society. The growth in the elderly population requires more than changes to existing public services, for example social care provision. Helping people to live more successful lives in older age will require new avenues for work and participation, new kinds of social and leisure activities. That will require a process of collaborative social innovation drawing together public and private, voluntary and social enterprises.

Public services need a capacity for innovation that stretches from incremental improvement to existing services, to new models that draw different services together, to transformational innovation in which public services catalyse a collaborative process of innovation involving players from the private, voluntary and social sectors.

Although the public sector has its own, long track record for innovation, it also finds innovation difficult for a number of factors - some of which may have become worse in recent years:

- There are few discrete budgets earmarked for innovation and new business development.
- Public services are often organised into departmental silos which do not cooperate.
- Innovators often feel hidebound by central rules and regulations which inhibit local initiative, discretion and risk taking.
- Rewards for risk taking are limited while the downsides of experimentation that goes wrong can be career threatening.
- Feedback loops between consumers and producers are often elongated and complex. In the private sector, lead users who demand and adopt new products often drive innovation. In the public sector weak feedback loops between producers and consumers inhibits this demand driven innovation.
- Indeed producers and consumers of public services are often wrapped in a "collusive dependency": the power and identity of the producers turns on their relationship with a set of consumers who are dependent on a traditional service.
- Public sector innovation often stays trapped on location, where it first emerged. One of the biggest challenges is to propagate innovation.

The public sector's capacity for innovation is patchy, yet the need for innovation is incessant and growing. That mismatch between the need for and supply of public service innovation is why co-owned public service organisations - typically [but not always] social enterprises owned by their employees which provide public services - could prove to be so critical. Co-owned firms are adept at managing change and innovation. Their ownership and culture encourages high levels of productive employee engagement. In an Employee Ownership Association paper, 'Shared Company', Professor Jonathan Michie, then Director of Birmingham University Business School, now President of Oxford University's Kellogg College, states:

> *"Companies with employee ownership as part of their business model often demonstrate higher productivity, greater innovation, increased customer loyalty and enhanced talent recruitment and retention."*

Employee owned social enterprises may be capable of public service innovations that often escape:

- traditional in-house public services (because they are too hidebound by rules and too risk averse);
- private sector public service contractors (because their focus is usually on delivering a specific, existing service more efficiently rather than innovation);
- voluntary and community organisations (because they lack the business incentives and capacity of a social enterprise.)

# 3. Understanding Innovation

Innovation is the application of a new idea or the new application of an old idea, in a new context, which allows a more effective solution to emerge - one which generates additional lasting value, to consumers, providers and in the case of public services, to the public good.

Innovation is often identified with new technologies, embedded in products, like the mobile phone or the Apple iPod, products made by high growth, entrepreneurial companies. In this "pipeline" view of innovation a new product or service is created by specialists and delivered to waiting consumers. This account of innovation has increasingly come in for criticism for being too simplistic.

Innovation can apply to services as much as manufactured products. Many of the most significant innovations involve both manufacturing and services - Ikea's novel, low cost approach to furniture manufacture and retail for example.

Innovation can be animated by public as well as private purposes. The NHS, the BBC and the Open University are prime examples of social and technical innovations designed to create lasting public value rather than private profit.

Often innovation does not involve new technologies but the innovative use of existing technologies, by applying them in new ways. NHS Direct is a prime example of a public service innovation which utilises existing technologies - the telephone and the Internet - to deliver access to health advice in a new way.

Innovation is rarely a linear process, in which a new idea developed by researchers is then delivered to waiting consumers. Innovation is invariably a more collaborative activity, which often involves ideas flowing back and forth between developers, producers and consumers, to work out how to make a technology work in practice with a sustainable business model.

Innovation is difficult to measure, especially in services where innovation does not stem from formal R & D but from developing new services in situ with consumers. Many service innovations are not patented.

We assess the innovative capacity of co-owned public service organisations against this broader, more collaborative and social account of where innovation comes from, how it is developed and applied. This model of how organisations innovate is based on seven capacities. Co-owned organisations are more effective innovators than their competitors and alternatives in several of these capacities.

# 4. The Seven Cs of Innovation

The main thrust of public service reform has been to give more power to consumers at the expense of producer interests. The idea of giving producers more power by allowing them to own public service organisations might seem to fly in the face of this consumer centric approach. Employee owned businesses, moreover, do not always find innovation easy. They can reward insiders, their current employees, instead of welcoming unsettling ideas from outsiders and favour consensual decision making, which can mitigate against taking risks.

Yet as well as mobilising the power of consumers, good public service organisations need to mobilise the commitment, ideas and motivation of staff. The main comparative advantage of co-owned companies is the way they engage their staff. The more and better co-owned organisations there are in the public sector, the more able the public services will be to innovate and improve. The ideal approach combines pressure from demanding consumers for better services, with supplier organisations with an inbuilt tendency to learn about and respond to shifting consumer demand. That is the trick the best co-owned businesses are pulling off in the private sector. They are mobilising staff creativity and know-how in the cause of improved services for consumers. That is the recipe we need to transplant into the public sector.

Co-owned businesses have an advantage based on seven capacities critical to innovation.

## Crisis

Innovation often involves uprooting existing routines, working practices and business models. This is why innovation is such a costly and painful activity, especially for a large organisation with an established culture. Innovation often only gets started with a crisis that forces an organisation to reassess what it does.

Much of the modern welfare state emerged out of the social stresses and poverty associated with urbanisation in the 19th century and unemployment in the 1930s. War was a vital catalyst for social innovation in the form of the post war welfare state. In our day the public sector is often at its most impressive and creative in crisis, responding to the bombs in London in July 2006, the floods of 2007 or the financial meltdown of 2008. The public sector displays this capacity at the micro level as well. Public services often pull out all the stops to help people in crisis: the high ratings for many acute health services are a prime example. The critical thing for organisations is whether they can use crisis creatively to drive innovation.

Crisis of a kind played a role in the stories of the employee owned organisations in this study. Central Surrey Health was formed in response to repeated bouts of turmoil and restructuring in the health service - a syndrome that created a malaise of low morale. eaga's mission is to help some of the most vulnerable people in society cope with their energy needs more effectively: often these people are facing financial and personal crises. Staff at Sunderland Home Care Associates talk of being motivated to meet the extreme needs of their clients.

In their different ways all these organisations were set up to respond to a sense of urgent need - crisis - which they mobilise to legitimise innovation.

## Curiosity

A second source of innovation is curiosity: innovative organisations have to be curious about their changing environment and the emerging needs of their clients. Innovative organisations seek out interesting challenges and solutions; they are not complacent, inward looking or stuck in their ways.

Public sector accountability means service providers are often held to account for their performance against centralised targets and prescriptions that diminish the scope for localised, decentralised curiosity to explore emerging needs and possible solutions. Innovative cultures give people the freedom and the incentives to explore beyond their formal job descriptions. Detailed centralised target setting mitigates against that.

Employee owned social enterprises seem better placed than most public service organisations to license the practical spirit of curiosity that is essential for innovation.

In the mid-1990s, Greenwich Leisure, for example, decided to explore an entirely untested mid-market for low cost, good quality gyms that neither traditional municipal services nor upmarket private firms were providing. The impulse for this exploration came from within the firm's employee council. GLL had the means and the incentive to explore this new emerging market: it could be entrepreneurial in a way that a traditional public service agency could not.

eaga's welfare benefits advice business, which has a turnover of more than £20m a year, developed as a extension from the company's original business providing energy saving services to low income households. As eaga came across more families who were not claiming their full benefits it realised there was a significant unmet need and an opportunity to create a new business. Staff had the means and the incentives to explore this opportunity because eaga is a business with a drive to grow but one with a clear social mission to help vulnerable households.

This spirit of curiosity is also evident at Central Surrey Health where senior staff want to explore new opportunities to promote community based health care, including for example working with housing and leisure service providers.

At Sunderland Home Care Associates staff explained this capacity for curiosity was closely linked to the organisation's open culture. As one care manager put it:

> *"If you are going to be listened to then there is a point to coming up with new ideas. If you know in advance that the managers are not going to listen to you then there is little point in mentioning an idea."*

The open, collaborative and democratic culture of employee owned organisations means people believe their ideas are more likely to be listened to than in a more traditional, hierarchical organisation. That gives them more incentive to voice new ideas. Co-owned social enterprises seem to have an inbuilt capacity for curiosity-driven innovation.

## Combination

Most innovation comes from the combination of existing ideas, business models or technologies to create a new alternative. Creative combination is at the heart of innovation.

There was no new ingredient to Dell Computers' radically disruptive business model in the 1980s: it combined telephone sales, just-in-time manufacturing and home delivery. None of these ingredients was new. What was new was the way they were blended together at that time in that industry to create a new way for people to buy computers. Innovative organisations excel at creating new blends.

The same is true in the public sector. NHS Direct, one of the best known examples of public service innovation, adapted the telephone advice lines run by private sector health insurers such as Axa and married them to public sector emergency response centres run in ambulance trusts.

That process of blending involves identifying the right ingredients, and creating the right setting in which they can be brought together productively. At root this requires a way of bringing together people with different insights, knowledge and skills to create a shared solution. That requires a creative conversation in which ideas are aired, exchanged, tested and blended. Creative conversation is at the heart of most innovation. Co-owned organisations have a culture which makes it easier for staff to have these kinds of conversations. That is why they are more innovative.

Central Surrey Health, for example, brought together staff from different disciplines to create a new approach to foot complaints. Waiting times for musculo-skeletal services have been reduced from 16 weeks to four by different clinical teams working together to organise a quicker process. Co-ownership has encouraged staff to help one another to take responsibility for problems. As a senior staff member at CSH put it:

> *"In the past people would have identified with their discipline or their department or their area. As a result often you did not know other people working in your area or you did not know members of your profession who might work in another area. Now because we all work for CSH and we all have a stake in the business it has broken down a lot of those barriers. People are much more likely to meet, talk and share."*

Shared ownership can provide staff with a financial incentive to share ideas. Co-owned organisations tend to have a more open, egalitarian and democratic culture, which encourages communication up, down and across the organisation. It is that communication which promotes innovation.

## Co-evolution

Innovation invariably comes from the creative interaction of inquisitive, capable producers with demanding, sophisticated consumers. Innovation comes from the interaction between sophisticated demand and capable supply. The mobile phone is a prime example. The mass adoption of SMS messaging was driven by teenagers exploring the uses of an application that the mobile phone providers had largely discounted.

Organisations that are closer to their users - culturally and structurally - and learn from them, are more likely to innovate. In the private sector leading companies such as Lego and Procter and Gamble are seeking to learn from and innovate with key consumer groups. These open innovation techniques are less developed in the public sector. Professionals are often in charge of public service provision, allocating resources, deciding what should be done, in a way that allows little room for user participation. Some users of public services have little choice about whether they want to use them - drug users on a compulsory rehabilitation course, for example. Sometimes consumers are less knowledgeable and informed about what needs to be done than the professionals. Public service organisations often deal with at least two customers: the person who is the direct recipient of the service and the government department, council or other public body funding the service. Learning from consumers in the public sector is not as easy as it sounds.

Yet co-owned public service organisations seem culturally attuned to learning with and from their consumers.

Staff at eaga, for example, say it is impossible to make their service work unless they are able to get into the homes and lives of low income families, winning their trust. As one senior manager put it:

> *"Our expertise is in understanding these hard to reach families and getting alongside them. It is very much a partnership ethos, rather than a cut-and-dried service delivery approach."*

Staff at Sunderland Home Care Associates tell a similar story at the level of the individual receiving care services. Staff say they are given the latitude to "go the extra mile" which allows them to work closer to their clients.

At Central Surrey Health, senior managers say they are seeking to work more in partnership with funders, clients and partners to devise new approaches to community health care. Staff say that they are trusted to be able to respond to their clients needs. As Tricia McGregor, the joint managing director put it:

> *"We combine the values and principles of the NHS with the can-do culture of a successfully-run business. This means the people who are most in touch with patients' needs, our nurses and therapists, are now in charge of providing the services."*

Employee owned organisations are used to sharing financial information openly with their staff and so see no reason not to do so with their clients and partners. This open information sharing should help to foster partnership. Staff were trusted to be able to work creatively and responsibly with clients without constant oversight by managers or rigid rules.

## Challenge

Challenge is vital to innovation because ideas cannot be turned into prototypes and products unless they are tested and refined. Highly innovative organisations - the design consultancy Ideo for example - make constructive challenge a routine part of the innovation process. Complacency, conformism and conservatism kills off new ideas. Organisations that do not encourage creative and constructive challenge will tend to promote sustaining innovation that supports conventional business models.

The more open, egalitarian and democratic culture of co-owned organisations means ideas are more likely to be openly debated. Staff feel they have a stake in the business and so are entitled to question aspects of strategy and performance - questions that might be considered above and beyond them in a traditional organisation. Managers in co-owned businesses have to justify their decisions more openly rather than simply assume staff will follow their lead. Staff meanwhile have to think about their own jobs from the point of the overall business. They have to show more of a sense of responsibility.

Co-owned organisations are more likely to share financial information with their staff, so giving them more ammunition to question business strategy. Open information sharing means it is far more difficult for senior managers to “sweep” problems under the carpet. This also encourages a climate in which staff are more likely to challenge one another over poor performance and feel an obligation to their fellow owners to improve their performance. As a manager at CSH put it:

> *“People feel a responsibility to fix their own problems for the sake of their fellow shareholders.”*

The open information sharing, egalitarian culture, continual communication and ethic of shared responsibility that characterises co-owned organisations means they can be more demanding and challenging environments in which to work and manage. However this kind of challenge plays a vital role in innovation. That is why co-owned organisations may have distinct strengths as innovators.

## Commitment

Innovation turns ideas into action. That transformation takes commitment - resources, people, effort, goodwill, even faith. Innovation requires perseverance and tenacity as much as ingenuity and creativity.

Often in the public sector it is difficult to mobilise the kind of commitment needed for innovation. Resources for innovation are hard to come by as budgets are tied up in existing services. Mobilising personal commitment to innovation is often just as difficult. The personal rewards from innovation are limited and the downsides are so significant that it often takes special perseverance on the part of innovators to pursue an idea.

Co-owned organisations seem to be able to overcome some of the commitment issues involved in public service innovation. As they are businesses - albeit social businesses with a public purpose - they are more able to raise finance for expansion and innovation. eaga floated on the stock market and sold a minority of its shares to outside investors to fund its latest round of business expansion. eaga's evolution over 20 years from a charitable organisation to become a listed company is the product of its search for the right capital base to fund its business development.

As a result co-owned organisations have more scope than the pure public sector to spread their innovations. Sunderland Home Care Associates, for example, is expanding out of its traditional base in Sunderland by bidding for contracts in other areas where it is helping to set up employee owned home care businesses.

Mark Sesnan, chief executive of Greenwich Leisure put it this way:

> *"We draw down the skills that the business sector have, the freedom to act and react in the marketplace but we bring them together with a public sector ethos and hopefully get a win-win outcome."*

All these organisations argue that employee ownership gives them a more committed, "can-do" culture. A senior manager at Central Surrey Health explained it this way:

> *"Because everyone has a stake in the business, it's their business, there is more of a sense that people take responsibility for something when it goes wrong. They do not try to pass the buck or say 'it's not my job.'" The underlying culture of employee owned public organisations is more "can do" than many equivalent public sector organisations."*

Employee owned organisations may be better placed to mobilise the commitment needed to sustain innovation.

## The Co-owned Edge

Co-owned public service organisations are well placed to innovate, perhaps better placed than many of their public, private or voluntary sector rivals.

Co-owned organisations appear to be less risk averse, more curious, collaborative and committed to innovation than pure public sector organisations which tend to be more rule bound and organised into silos.

Co-owned organisations also appear more open to mission driven innovation than private sector providers that run contracted out services with little incentive for innovation. All these co-owned organisations were founded around a social mission that drives their search for innovation.

Co-owned businesses also have advantages over their voluntary sector counterparts: they tend to have an entrepreneurial outlook and can raise capital to match their ambitions.

Co-owned organisations tend to have an open, egalitarian culture which can encourage the emergence of ideas from many sources compared with more hierarchical organisations in both the public and private sectors. They license curiosity; encourage the kind of lateral communication that allows people to combine their ideas; promote co-evolution in partnership with customers; allow ideas to be improved through challenge because they have relatively open cultures; mobilise the “can-do” commitment needed to turn ideas into action.

Most significantly Greenwich Leisure,CSH, eaga and Sunderland Home Care have a recipe for engaging frontline service staff in continuous service innovation. That recipe is needed across the public sector. In co-owned organisations staff are motivated to do a good job for their clients because they have a stake in the business.

Co-owned organisations can answer some of the innovation challenges facing the public sector. They:

- Increase staff commitment to improve customer service by working together more collaboratively, taking more responsibility for solving problems.

- Create a strong shared interest among staff from different disciplines to create more joined up solutions to customer need.

- Provide the incentives and the means for organisations to explore new markets and reach new customers.

- Co-owned organisations could be vital players in the transformational innovation the public sector needs to tackle longstanding, intractable social issues and to create new solutions to emerging issues such as ageing and climate change.

All four businesses have shown that organisational innovation can be the key to service innovation. Both eaga and CSH's innovative approaches to services are based on their innovative approaches to ownership. GLL pioneered the model for services to be outsourced to a local not-for-profit trust which has been widely adapted in other areas and services. The next generation of public services may well have to be more collaborative and distributed to encourage a greater degree of public engagement to change public behaviour.

Sir David Varney, the prime minister's advisor on public service transformation, predicts a shift to post-industrial public services away from the provision of mass, standardised services. Such a shift in the types of services the public sector provides may be possible only through organisational innovation involving how public services are owned and managed. More co-ownership, combining the interests of the local community, consumers and employees could be critical. To give just one example, Central Surrey Health is keen to explore new partnership based approaches to preventative, community-based health care that reduces reliance on hospitals and doctors, combining fitness, diet, leisure and health. These partnerships may include housing, leisure and transport providers.

Co-owned organisations are not a panacea for all the ills of the public sector. Employee-owned organisations need to refresh themselves and adapt to changing circumstances. Both Sunderland Home Care Associates and eaga have had different forms of common ownership. Maintaining the mix that makes them innovative is no easy matter, especially as the founding generation of employee owners moves on.

Yet when co-owned organisations work well they promote ingredients of innovation all too often lacking in the mainstream public sector: curiosity, collaboration, co-evolution, challenge and commitment.

Giving employees a stake in the business does not, on its own, create that innovative capacity. Nor is employee involvement in the formal governance of the firm the decisive factor. A minority of staff tend to participate in the formal processes that give employees a voice in decision-making.

The key is the way employee ownership and involvement in decision making creates an everyday culture of open communication, collaboration and responsibility that is conducive to innovation. These organisations' values - open, collaborative, customer focused - feed their capacity for innovation. Those same values explain why they are employee owned.

Co-ownership is not the only source of this culture. The best performing local authorities in the Audit Commission's Comprehensive Performance Assessments allow staff to show initiative, give them regular feedback on their performance and scope to plan their own work. Top performing authorities build higher levels of staff motivation to the extent that staff become advocates for their organisation. That extra motivation comes from more effective two-way communication and leaders who are prepared to delegate responsibility to staff while motivating them with passion and a clear vision. Effective leaders set the tone for a "can-do" culture. What is striking, however, is how many of these features of effective public service organisations co-owned businesses have as a product of their culture and ownership.

The context organisations operate in matters as well as their internal culture. The organisations in this study innovate because they operate in competitive and contested public service markets that keep them on their toes. Getting that mix right is vital: organisations that mobilise staff commitment and ideas to improve services for consumers.

# 5. Promoting Co-owned Public Services

Public services face a mounting innovation challenge to provide higher quality, more personalised versions of existing services; tackle intractable social challenges stemming from ingrained inequality, family breakdown and social exclusion; respond to emerging challenges of ageing and climate change, which will require radical and transformational social innovation.

Co-owned organisations have proven strengths as innovators, which stem from the way that employee ownership and involvement in decision making create a can-do culture of collaboration.

Yet there are still too few of these organisations in the public sector despite the growth of contacting out. There is considerable room for expansion especially in :

- Community based, primary and preventative health services which depend on higher levels. CSH is a model which could be followed in other areas of the country.

- Social care, where new kinds of approaches will be needed to cope with a rapidly ageing population. SHCA provides one model others could follow. New forms of mutual support will be needed to support an ageing population.

- Education, where cooperative schools which combine local community ownership with a substantial employee stake can provide an alternative to academies and traditional local authority control. Co-owned schools provide a new model for social ownership of education but outside traditional local authority control.

Similar opportunities may exist in other areas of public services such as provision of job search activities and offender management and rehabilitation.

And it will be important to look beyond the scope for increased co-ownership in existing services but to how alternative forms of ownership may open up solutions to both emerging and intractable issues which require radical new approaches. New services may well emerge from new combinations of employer and community ownership of energy provision, early years services, transport and elder care networks. It may be impossible to imagine new public services without imagining new forms of social ownership. Future models of social organisation are more likely to resemble clubs, federations, mutuals and networks that mobilise the commitment of employees, volunteers and staff.

Expanding the scope for co-owned public services should focus on five strands.

- First, there is very little systematic research on the extent of and benefits of employee ownership in public service provision. This gap should be filled to clarify the **value** of co-owned public services.

- Second, it should be easier for groups of public service employees and managers to create co-owned businesses as outsourced public service providers. At the moment it is very difficult: CSH for example had to create a bespoke model. Easy to use organisational models should be developed to increase the **supply** of co-owned organisations.

- Third, policy should promote **demand** for co-ownership by encouraging more outside providers to include an employee benefit trust as part of their business model. A more radical option would be to make co-ownership the default model in contracting out, which should be pursued before other options are explored.

- Fourth, the public **procurement** regime should be reviewed to address reports from some co-owned providers about widespread lack of awareness among commissioners about co-owned business and the value added it can offer; and the possibility of inbuilt bias against at least smaller co-owned suppliers.

- Fifth, the political case for employee ownership in public services needs to be built up to create the overall **authority** for this kind of innovation. Co-owned services are hybrids that speak to and win support across the political spectrum as a direct form of local social ownership which allows for competition in the provision of public services and individual involvement in share ownership. Given the practical and political advantages of co-owned public services it seems amazing that more effort has not been put into promoting this approach to public services improvement and innovation. Perhaps its time has finally arrived.

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