Public Service Mutuals: Transforming how services are delivered through social enterprise and democratic governance?

Final Report on Case Study Research

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Contents

Executive summary

Public service mutuals ('mutuals') have been created in a process of 'spinning out' from the public sector as part of a wider programme aimed at reforming how public services are delivered. Mutuals generally take social enterprise forms and incorporate a significant degree of employee (and sometimes user community) ownership, control, and influence in how they are governed. They are concentrated in health and social care, but also operate in sectors such as sports and leisure, culture, library services, education, employment/skills, youth services and housing.

This study examines the experiences of 12 recently established mutuals, chosen to represent different sectors, sizes and stages of development, legal/ownership forms, and different types of locality across England. The research demonstrates the effectiveness of the mutual model and how it has been adapted in diverse contexts to deliver public and community services. Key capabilities associated with good practice are identified alongside suggestions for policy and support for the sector.

Working with the public sector

Public service commissioners (the key interface between mutuals and their main market, i.e. the public sector) and other external stakeholders generally viewed mutuals in a highly positive light and emphasised their strengths and good practice in relation to:

- *Innovation with multiple outcomes* – any surplus generated can be invested in innovation that can lead to new services being commissioned
- *Local knowledge* – responsive to the needs of diverse communities and engagement with users, including the co-design and co-production of services
- *Diversifying income* – able to supplement income from core contracts with other sources
- *Partnership working* - with public sector bodies and other providers, which can be encouraged by commissioners through their invitation documents
- *Added value* - demonstrating social benefit as well as a competitive price, in line with the Public service (Social Value) Act

Mutual leaders and staff representatives also reported experiences of supportive and collaborative relationships with their 'parent' public sector bodies that have continued to be a primary source of income in most cases. However, some significant areas of difficulty were also reported:

- *Competitive procurement processes are demanding and resource intensive*, particularly for smaller mutuals that are often working to very tight margins and making little, if any, surplus
- *Commissioners often have high expectations* but budgets for public service delivery are not increasing to cover mutuals' overheads or inflation, yet there are no alternative (non-public sector) sources of funding for many key services
- *Large contracts and requirements for geographic scale favour corporate providers and disadvantage many mutuals*, as well as short notices and tight deadlines for tenders making building consortia harder

- *Public sector austerity and financial pressures*, particularly on local authority budgets, have seen staff cuts to commissioning groups and related loss of capacity. High staff turnover levels in commissioning groups can also undermine continuity, and newly appointed commissioners were perceived to be less qualified and experienced by some mutuals.

The Public Service (Social Value) Act 2012 is an important policy framework for the commissioning and procurement of public services and for enabling contributions to sustainability and social value that are neglected by traditional metrics. The evidence of this study finds that the SV Act is gaining traction but slowly and is often variably applied. Scoring criteria continue to be heavily weighted towards price and SV weighted at a small percentage if at all. The procurement process can also require bidders to state SV in simplistic fixed terms, e.g. numbers of service users and volunteers taken on.

Growth and diversification

The limited and declining funding available to mutuals through their core public service contracts has driven many to seek alternative sources of income in order to reduce their dependency on these original contracts and to grow. All 12 case study organisations have grown since their inception, although to varying degrees and in diverse ways, reflecting factors that include their different starting points, resource bases, opportunity structures and challenges faced in different contexts. The main mechanisms or modes of growth found across the cases, often in combination, were:

- *Public service integration and development* – addressing complex health and wellbeing needs, reducing fragmented provision and ‘policy silos’
- *Geographical expansion* - beyond the home territory, often to other local authority or NHS Trust areas
- *Diversification into new services and sources of income,* both within and beyond the home region
- *Acquisition of other profitable businesses* - to complement and support core services and drive growth

Key capabilities and good practices shown to underpin mutuals’ successful growth and diversification include:

- Good awareness of the commissioning/funding landscape and alertness to possibilities for diversification into new (but often related) service areas and sources of income;
- Building alliances and pooling resources with other organisations to bid for new contracts, maximise innovation potential and mitigate risk;
- Good understanding of the strengths and innovation potential of the organisation, as well as recognition of gaps in capacity and skills and how they can be addressed by:
    - nurturing and training staff and other stakeholders
    - recruitment of fresh blood to bring in new skills and expertise
    - specialist external support – making timely use of this where needed
    - networking/mentoring relationships with other mutuals and social enterprises

- An ability on the part of entrepreneurial leaders and staff to persuade other organisation members that risks are worth taking while building consensus and support across the organisation for innovative initiatives;
- Managing the challenges and risks of growth:
  - careful monitoring and management of the resource demands of new services to avoid compromising the delivery of existing core services or the social mission and mutual identity
  - requisite development of functional/management systems (HR, finance, IT, customer service etc) as well as governance structures as the organisation grows.

Recruiting and retaining the skilled professionals needed to deliver services was reported as a particular challenge in the health and social care sectors, although mutuals are responding to this by offering attractive employment conditions and work environments and building their reputations as good employers.

External sources of support

Mutuals have been assisted in their transitions from the public sector under the Mutuals Support Programmes run by the Office for Civil Society. This has been crucial to new mutuals becoming established, and the support was reported to be of good quality, delivered by trusted sources, and responsive to emerging needs with the provision of new advice and toolkits.

Although the spin-out/start-up support was experienced as readily available and easy to secure, some interviewees felt that support for growth and scaling-up had been more limited and difficult to access. Peer support and networking between mutuals themselves and other social enterprises were particularly valued as sources of mentoring and sector specific knowledge and advice.

Grants have been vital for many mutuals, underpinning growth and helping with the purchase of infrastructure. Access to repayable (debt) finance appears to have been adequate for the needs of most mutuals, with a range of debt finance available from banks and social investors. However, social investment funding was often seen as an unattractive and expensive form of finance, despite being relatively easy to access.

Implementing and embedding mutualism

Democratic inclusivity is a core principal of the mutual model and the success of public service spin-outs depends on how effectively they are able to implement and embed the new governance structures and organisational cultures. The legal forms taken by the 12 case study organisations are broadly representative of the distribution found across the mutuals sector as whole, with two dominant forms:

- *Community Interest Company (CIC)* - generally chosen for its flexibility and being relatively ‘light touch’ with respect to reporting and regulatory requirements, as well as the asset lock providing control and accountability to stakeholders.
- *Community Benefit Society (CBS)* - favoured by organisations needing a stronger membership framework for multi-stakeholder engagement in collaborative governance,

as well as locking the organisation's assets on behalf of the community. Exempt charity status also allows significant savings in terms of business rates, which can be important for mutuals that own or lease multiple properties.

The varied ownership structures of the 12 cases can be summarised as follows:

- Eight had provision to be *directly owned by employees*, with four of these also including service users as shareholders/members
- Two were *'indirectly' employee-owned* by their boards of directors/trustees
- One was a *publicly owned social enterprise*, with three parent local authorities retaining strategic control, enabling economies of scale while also allowing staff and managers greater freedom to innovate as a semi-independent CIC
- In one case *sole legal ownership was held by the CEO* following the dismantling of its successful shareholding scheme due to a clash with the NHS pension regulations.

Despite the lack of direct employee ownership in some cases and questions raised by some interviewees about whether they were 'true mutuals', the evidence supports that in all 12 cases employees were more empowered and able to innovate than when they were within the public sector.

Governance arrangements and mechanisms

The choice of organisational governance arrangements can initially be represented in terms of two simple ideal type models:

- *Stewardship (top down) model* – a board of governors or trustees, with no employee representation, is selected to support the CEO and the senior leadership team in managing the organisation's assets for greater return on behalf of stakeholders.
- *Democratic multi-stakeholder (bottom up) model* – employees, user communities and other stakeholders are directly involved in collaborative governance including with respect to setting organisation strategy and policy.

The actual structures and mechanisms adopted by the 12 mutuals generally include combinations of the following main elements:

- *Boards of directors/trustees* – with provision for employee (and sometimes user) representation in most of the cases.
- *Representative bodies (or staff/community councils)* - particularly in larger organisations, the key roles of which can include approving policy and strategy and appointing the board. Members of these bodies may be elected by the membership or appointed/selected by governors/trustees and directors.
- *Sub-committees, groups and forums* that include employees and sometimes users to address specific issues and report back to the board and/or representative body.
- *Other feedback mechanisms* to engage with staff and clients/users including surveys, organisational intranets, and social media.

In most cases governance arrangements and their functioning had matured considerably since the organisation's establishment, often following periodic reviews and adjustment. The recruitment of effective boards has been particularly crucial for the ongoing viability of mutuals, providing oversight and guidance on strategic direction and organisational policy. External (non-executive) board members have been an important source of professional skills and specialist knowledge, helping mutuals respond to opportunities and navigate the challenges posed by their complex operational environments.

Ownership, as well as being a *legal-formal* property, has a *cultural-psychological* dimension, which is particularly salient for public service spin-outs given their need to forge and consolidate new organisational identities and cultures. This includes factors relating to employee/stakeholder agency, 'voice', sense of belonging, and the enabling role of visionary leadership and cultural change in underpinning democratic inclusivity.

The case studies reveal how implementing mutualism in practice often involves an ongoing process - a *journey* or *learning experience* - of exploring and testing the new mutual identity and overcoming barriers to co-ownership and democratic governance. Achieving target levels of stakeholder ownership and engagement in decision-making can be a slow process, sometimes with disappointments and set-backs along the way. This can be for a variety of reasons relating to the capacities of staff and other stakeholders, understanding about what participation can mean, varying levels of acceptance and willingness to be engaged with the new mutual model, as well as the sectoral context in some cases.

Combining democracy with strategic oversight and agility

A key consideration affecting the choice of organisational form and governance structure relates to the tension between *democratic inclusivity* and *stewardship/strategic oversight*. This can be understood in terms of three main levels of decision-making and accountability:

- *Strategy* – relating to forward business planning, growth and diversification
- *Policy and procedures* – with HR and people management functions having a particular role in realising the new mutual culture and ways of working
- *Operations and day to day service delivery* – where delegated decision-making, empowerment of frontline workers, and engagement with service users can enable innovative co-design and co-production of services.

Mutuals and other social enterprises need to achieve a practical balance between 'too much' and 'too little' democracy in ways that meet the expectations of different stakeholders. Most adopt some combination of the *stewardship* and *democratic multi-stakeholder* models, the balance between which may change over time. Some are positioned at the 'stewardship' end of the spectrum. For instance, the local authority owners of one CIC had prioritised their retention of strategic control and oversight as the principal stakeholders or 'commissioning members'. The stewardship approach can also be justified in circumstances where organisations need to be agile, and entrepreneurial leaders and senior staff able to respond quickly to external opportunities. For smaller mutuals operating in dynamic markets, detailed policies and procedures for democratic decision-making may prove too slow and unwieldy.

The four CBSs in the sample were positioned towards the democratic multi-stakeholder end of the spectrum and exemplify the advantages of developed and formalised mechanisms for consultation and decision-making. For instance, a housing sector mutual had adopted an ambitious multi-stakeholder approach involving both direct ownership by staff and housing tenants and other mechanisms for democratic governance. Although sometimes slow, this resulted in more robust outcomes and shared ownership of the decisions taken. It was also reported that decision-making processes were often still faster than had been possible in the public sector. Other cases were found to occupy the middle ground of the spectrum, seeking to balance democratic deliberation with organisational agility.

Managing democratic tensions

Despite mutuals being dedicated to a shared social mission and empowering their stakeholders to realise this, tensions can still arise between stakeholders holding conflicting perspectives on some issues. External funding/income and resource allocation issues were recurring areas of tension in many of the cases, including debates and sometimes *"challenging conversations"* around how to re-invest any surplus generated, such as whether to spend on development within the organisation, to improve the pay and conditions of employees or to invest in community services and projects.

An important aspect of the learning process around collaborative governance relates to how dissonances and disagreements are discussed, understood, and moderated. This requires trust building between different standpoints, developing shared understanding and resolving conflicts through dialogue and deliberation.

Engaging stakeholders

Even high levels of formal membership or shareholding may not readily translate into high levels of engagement and participation. Factors mitigating against employee involvement include individuals' lack of confidence, skills or capacity; lack of understanding or acceptance of the mutual model and culture; and the difficult operational context and budgetary limitations which can limit mutuals' ability to offer remuneration and incentives for involvement.

Engaging user communities can pose an even greater challenge, even in CBSs where the number of user members typically far exceeds employee members. Similar barriers to those limiting staff engagement are compounded by the more arms-length relationship, and that clients/users may also be vulnerable and disadvantaged, and sometimes geographically dispersed. A reliance on voluntary input and budgetary limitations on compensating users for their input can also be a constraint, particularly for smaller mutuals.

Mutuals were seeking to address such barriers by a combination of measures to motivate and support participation, including by extending representation within their governance structures as well as other mechanisms and less formal practices, or *"a cultural development process"*. Good practices for catalysing and building engagement include:

- *Raising awareness of the different levels of involvement* - ranging from 'passive' membership, occasional inputs involving little time and effort, up to fuller, more active, and formalised roles within the organisation's governance structure.
- *Provision of support and incentives,* particularly for people who have never previously been involved in formal organisational procedures and may lack confidence in their ability to contribute. Hence in a number of cases strategies for engagement included measures to help talent spot, nurture and train prospective candidates for roles involving greater responsibility, such as being a member of the board or representative body.

Recommendations for policy and support

Looking to the future (just prior to the Covid-19 pandemic) mutual interviewees were cautiously optimistic that their organisations would continue to thrive, with some anticipating further significant growth. However, there was also a general view that various challenges and barriers still needed to be addressed, including a need for clearer government commitment to supporting and promoting the mutuals agenda going forward.

Commissioning, procurement and social value

The Public Services (Social Value) Act has potential to substantially transform commissioning and procurement practice by driving greater consistency in the reporting of social and environmental impacts, alongside the assessment of price and specific quality criteria. Given the evidence of considerable variation and inconsistency in how the Act is being applied, there is a need for further research on how commissioners are scoring social value and applying social value clauses across different service areas and local contexts.

There may also be a need to provide clearer guidance for commissioners on how they should interpret the Act; and this should be widely communicated across the sector. This would ideally include recognition of the benefit of mutuals being able to make a surplus/profit that can be reinvested in the organisation and its social mission.

Actions could also be taken to provide bespoke training for commissioners (including on mutuality and public service delivery) and, where possible, address the capacity constraints affecting commissioners while also ensuring continuity in the management of contracts.

Other potential areas of support

Further actions are needed to support smaller mutual to operate in the quasi-markets which are often dominated by large competitors. Possible areas of intervention include:

- Bid writing skills, consortia building and earlier provision of relevant information on forthcoming tenders.
- Support for mutuals to develop spaces or platforms for learning from each other, particularly focused on the issue of scaling-up and the challenges involved. Newer mutuals in particular can benefit from the accumulated experiences of successful growth in different contexts.
- A number of further regulation-related challenges were identified and suggest the need to review areas where there may be scope for easing regulatory constraints and liabilities affecting mutuals, notably with respect to the Transfer of Undertakings (Protection of Employment) Regulations (TUPE).

Choice of legal form and governance structures

Most public service mutuals adopt legal forms with asset locks providing control and accountability to stakeholders (e.g. CIC, CBS, Charity). There is merit in retaining diversity and allowing mutuals to choose the legal forms and constitutions which best suit their needs and circumstances.

Related to this, majority employee ownership need not be an essential requirement although all public service mutuals should be required to incorporate a strong framework for democratic governance, including the following elements:

- Elected staff/members on the Board of Directors/Governors
- Staff and/or member voting rights
- A formalised representative body with direct links to the Board and staff able to elect their representatives.

Clarity is needed on the minimum influence to be extended to employees to ensure democratic representation for all staff at all levels, not just senior/managerial staff.

1. Introduction

This independent study examines the role and potential of public service mutuals ('mutuals') as a viable way of delivering public services. Mutuals are organisations that have left – or 'spun-out' - from the public sector to become independent enterprises that deliver an increasing variety of public services. They generally take social enterprise forms and incorporate a significant degree of employee (and sometimes user community) ownership, control and influence in how they are governed (Mutuals Taskforce 2011, 2012).

The case study research on which this report is based took place between May 2018 and February 2020, in parallel with an annual 'State of the Sector' survey conducted by Social Enterprise UK (SEUK 2018, 2019, 2021). The overall aim of both these research strands has been to collect evidence in order to:

- Monitor the current health and development of the mutuals sector;
- Contribute insight and learning to help make the case for the mutual model as a viable way of delivering public services;
- Inform policy decisions about how government and others can further support the growth and sustainability of mutuals.

The case study research draws on the experiences and perspectives of diverse stakeholders – CEOs and leadership teams, employees, service users, public service commissioners and others, to gain a rich in-depth picture of mutual organisations, their success factors, and the various challenges they face.

Context of public service mutuals

Public sector spin-outs have been championed across party political lines over several decades and there are probably more than 400 such spin-outs across the UK that take some combination of social enterprise, employee-owned, not-for-profit or mutual characteristics (SEUK 2019). During the 1990s under the Conservative government, some housing associations and leisure trusts were encouraged to spin-out from the public sector. In 2008, under the New Labour administration, the Department of Health initiated the 'Right to Request' policy to enable managers and employees within community health services to establish themselves as independent public service mutuals (Department of Health 2008). These organisations were allowed to leave the public sector with a guaranteed but fixed term contract, usually three years (with early termination clauses), along with other start-up support with substantial funding streams for grants and loans (notably the £100 million Social Enterprise Investment Fund being specifically allocated to help build their capacity). At a conservative estimate, there are around 120 mutual spin-outs in England that have a combined turnover of at least £2 billion per year, with an adjusted average turnover of around £18 million per organisation (SEUK 2021: 11). Although concentrated in health and social care, they also operate in sectors such as sports and leisure, culture, library services, education, employment/skills, youth services and housing (CIPFA 2017; SEUK 2019).

After spinning out, mutuals did not receive any further special treatment in the public tendering process but many have been successful in winning new tenders and retendering for their existing contracts. Further measures were supported by the Coalition government of 2010, notably the Cabinet Office's Pathfinder Mutuals Initiative and related support offering advice and mentoring (Cabinet Office 2010; Mutuals Taskforce 2012).The Department for Digital, Culture, Media and Sport (DCMS) is currently responsible for advancing the Conservative government's civil society agenda including public service mutuals.[1]

Our approach to the case study research

Twelve mutuals were invited to participate in the longitudinal case study research. These were selected to represent the varied characteristics of the mutuals sector in terms of service activities, ranging from small to large organisations, the different legal forms taken, at different stages of development, and in different regions and types of locality. The service areas represented are health & social care (5 cases); education, youth & children's services (2); culture, media & libraries (2); employment & skills (1); housing (1); sports & leisure (1). The study builds on previous research by revisiting four organisations that participated in our previous study on the role of mutuals in public service innovation,[2] thus adding to the longitudinal dimension of the research. Profile details of the case study mutuals are given in Table 1.1.

The research has involved over 100 qualitative interviews conducted over nearly two years (May 2018 - February 2020) to provide longitudinal insight into mutuals' success factors and the challenge they face. The interviews were held with CEOs (both at the beginning and end of the field research), other leadership team members, staff at different levels of seniority and experience, and other stakeholders: commissioners, delivery/innovation partners, providers of support and, in a few cases, user community representatives. The interviews gathered qualitative data on the following main topic areas: experiences of working with the public sector; growth, diversification and innovation; support and access to finance; leadership and governance; productivity and impact measurement. Further details of the case study methodology are provided in Annex A.

Subsequent sections of this report present the detailed findings as follows:

Section 2 examines mutuals' experiences of working with the public sector, focusing on their core public service contracts, innovations since leaving the public sector, challenges arising from the commissioning environment, support provision and access to finance, and the influence of the Public Service (Social Value) Act.

Section 3 looks at how mutuals have grown as businesses and diversified into new areas of provision and sources of income, and the strategies (and challenges) that often accompany growth and diversification.

Section 4 begins to dig more deeply into the 'mutual advantage' by examining the varied organisational/legal forms and governance structures adopted by mutuals in different

[1] https://www.gov.uk/government/collections/public-service-mutuals
[2] https://www.mdx.ac.uk/our-research/centres/ceedr/social-enterprise/mutuals

contexts and introduces a framework for understanding the complex choices involved and different models adopted.

Section 5 builds on Section 4 by introducing the theme of *the mutual journey* and the challenges encountered when seeking to extend and embed inclusive ownership and governance. This is shown to involve a gradual process of learning, sometimes with set-backs along the way followed by phases of advancement. A framework for understanding is introduced to help explain the diversity of mutual experiences and stages in the maturation of the structures and cultures needed to realise democratic ownership and governance.

Section 6 concludes by summarising and discussing the main findings of the study, draws out the lessons for good practice, and suggests some recommendations for future policy and support provision for the mutuals sector.

Table 1.1: Overview of the 12 case study mutuals

Case	Service area	Date incorporated /commenced trading	Size	Legal form
1	Children's Health Services	2016	Small	Community Interest Company (CIC) – Company Limited by Guarantee (CLG)
2*	Health	2011	Large	CIC - Company Limited by Shares (CLS)
3*	Children's Health & Social Care	2011	Medium/small	CIC CLG
4*	Health	2011	Very large	CIC CLG
5*	Community Health	2011	Small	Community Benefit Society (CBS)
6	Children's Services	2014	Large	CIC CLG
7	Youth Services	2017	Medium	Charity CLG
8	Cultural Services	2015	Small	CIC CLG
9	Libraries	2016	Medium	CBS
10	Employment & Skills	2015	Small	CIC CLG
11	Housing	2012	Large	CBS
12	Leisure and fitness	2018	Small	CBS

Note: * Previously researched during 2012-13 (CEEDR 2014)

2. Working with the public sector to deliver public services

2.1 Introduction

Most mutual spin-outs are dependent on the public sector as their main source of income – hence the State of the Sector survey found this source to constitute 80% of the income of 72 respondent mutuals (SEUK 2019). Similarly, most of the mutuals examined in this report were dependent on contracts, service level agreements or grants to deliver public services, although many have also grown by winning new contracts and diversifying their sources of income. This chapter explores these experiences, the challenges faced and examples of good practice, based on the views of both the mutuals themselves, commissioners (10) and other external stakeholder interviewees. There is a specific focus on how the concept of social value, which is at the heart of the mission of many mutuals and other social enterprises, is being incorporated within public sector commissioning and procurement practice.

2.2 Sources of income

Table 2.1 summarises the main income sources and critical incidents affecting the growth patterns of the 12 cases. As can be seen, 11 of the 12 were dependent on public sector sources for at least half their income, the exception being Case 11 which derived most of its income from rents paid by housing tenants, many of whom were also co-owners/members of this mutual. Of the 11 cases dependent on public sector income, all had been awarded contracts, or service level agreements[3] (i.e. Cases 8 and 9), to deliver their core public services, usually for 3 or 5 years. These 'anchor' or baseline contracts have been crucial to the establishment of mutuals as independent enterprises following their transition from the public sector. Grants were also important in several cases. A few were reliant on a single contract for more than half their income, although most had developed a portfolio of contracts as they have grown and diversified. Mutuals can also gain income from personal care and health budgets, although this appears to be a relatively small proportion of overall trading income in most cases.[4]

In most cases contracts to deliver public services had been awarded by a local authority (LA) body or NHS clinical commissioning group (CCG) but some had won awards from national bodies (e.g. Cases 8 and 9), such as Arts Council England, British Council, the Education and Skills Funding Agency, as well as EU sources in three cases (8, 9 and 10). Mutuals can also take the role of subcontractors with another organisation acting as the prime contract holder, as in Case 2. The State of the Sector survey found that half the responding mutuals were still delivering their original contracts while most of the others were doing so following

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[3] A service level agreement is an informal form of 'contract' between a customer and a service provider.

[4] Personal budgets are given to an individual to help them design a package of care support from clinicians and others, allowing them more control over the nature of the treatment provided and choice of a range of specialist providers.

an extension or retender (SEUK 2021). Similarly, the 12 case study mutuals were either still delivering their original contracts or, in the longer established cases, had seen them being renewed.

Table 2.1 Sources of income

Case	Founded	Size	Sources of income and critical incidents affecting growth
			Health & Social Care
1	2016	Small	3 contracts (in consortium) + 1 grant: Lost main 3 year contract which enabled spin-out - withdrawn by LA after 9 months
2	2011	Large	Significant growth in contracts and geographic areas served, including both as a lead contractor and as a sub-contractor; Lost 2 core contracts within 3 years of spin-out
3	2011	Medium/ small	Multiple contracts: expanded to 10 services across 3 counties
4	2011	Very large	Multiple contracts; lost some core contracts; Also income from acquisition of other (often profitable) health and social care businesses funded by accumulated reserves
5	2011	Small	Income is 50% public sector and 50% trading with the general public; Significant growth - diversification into new service areas - mainly childcare
			Education, Youth & Children's Services
6	2014	Large	Owned by 3 LAs ('commissioning members') to delivery statutory big budget services; Some income from consultancy - 10 contracts across the country
7	2017	Medium	Core contract recently renewed for 5 years; Some diversification into closely related public services
			Culture, media & libraries
8	2015	Small	Service level agreement with LA (25% of income) recently renewed for 1 year but arts funding under review and could be further cut. Other grants/contracts: EU funded European partnerships (25% of income) – undermined by Brexit; Arts Council work (25% of income); British Council project - support for social enterprises in Southeast Asia, working with disabled artists
9	2016	Medium	Service level agreement with parent LA – entering 5th year and coming up for renewal Other sources: Adult education & learning service - Education & Skills Funding Agency and Lottery; Arts Council National Portfolio award; Youth Arts award; Delivery partner on EU funded Way to Work project led by LA with LEP; Heritage Lottery conservation project with skills & employment element
10	2015	Small	Core contract ran for 5 years with extension, but then effectively brought back in house - cut by two thirds and awarded to an LA trading company (joint venture between two LAs); Geographic expansion – 3 new contracts with LAs in two counties; EU/BLF funded project

Case	Founded	Size	Sources of income and critical incidents affecting growth
			Housing
11	2012	Large	Rental income from housing tenants (95% of income); Some diversification – e.g. sheltered and extra care accommodation around hospital discharge working with adult care and local NHS (<5% of total income)
			Sports & Leisure
12	2018	Small	Core 5 year contact with LA; Also: Community facilitation work for statutory bodies/primary care networks; Work with hard-to-reach/homeless people – 7 community cafes

A third of the cases had lost some of their core contracts (1, 2, 4, 10). In two of these, contracts had been awarded to other providers following competitive re-tendering (Cases 2, 4). Despite these experiences, both organisations have continued to grow by diversifying their income sources. Two other cases – both smaller organisations – experienced their original contracts being withdrawn or not being renewed without the expected process of competitive re-tendering. Although these losses had had negative impacts at the time, both organisations were able to recover:

- Case 1 had its contract withdrawn after 9 months with "no explanation" from its parent body funder, resulting in the loss of most of its original staff. The organisation was able to recover from this loss by winning three new contracts in other regions as well as a large grant to develop a new innovative service.
- Case 10 recently lost its 5 year anchor contract to deliver employment services, the budget for which was cut by two thirds and awarded to a joint venture trading company owned by two LAs. The organisation has been able to recover from this loss by redeploying staff to other contracts.

Another organisation, in early 2020, was particularly concerned that they were facing a 'cliff edge' of multiple contracts finishing at one time: "*I think there will be a significant drop, just because we're at the point at the moment where all of our major scale partnerships and our big contracts are finishing in March*, *every single one, which is challenging."* (CEO Case 8).

2.3 Change and innovation since leaving the public sector

A defining feature of mutuals and other mixed purpose or 'hybrid' organisations is their social mission which prioritises the needs of users and beneficiaries in ways that can go beyond their core areas of specialism. The needs of the most vulnerable are often complex, cutting across the boundaries of service areas such as health, care, education and employment. Commissioners reported on how mutuals are able to deliver on wider benefits as well as their core services. Later in this section, we explore the influence of the Public Services (Social Value) Act and how the concept of social value is being adopted within commissioning and procurement. Here we focus on what is distinctive about the contributions of mutuals by examining the changes and innovations introduced by the 12 case study organisations since departing the public sector.

Previous research has shown how desirable change and innovation can be easier and faster in spin-out mutuals compared to prior experiences in the public sector (CEEDR 2014; Vickers et al. 2017). The 12 mutuals examined in this study were similarly found to have introduced many new ideas and approaches since transitioning from the public sector. Evidence from across the cases shows how the new organisational cultures were experienced as being much less restrictive than in the public sector, with employees feeling more empowered to contribute to decision-making, including with respect to the design and delivery of services and mechanisms for recognising and supporting innovative thinking. As independent enterprises, mutuals also have greater freedom to access new sources of funding and to engage in new collaborations and partnerships which can also facilitate innovation.

The changes identified by the case study mutuals include many small or incremental improvements to existing services, organisational/process changes, as well as some more 'radical' innovations in service design and delivery. Although not necessarily completely novel (i.e. new to the world), many of the changes can be seen as innovative in the particular service or geographic contexts. The key capability here relates to being open to new ideas and concepts, sometimes identified by front line workers and including approaches that have worked well elsewhere. Some interviewees also emphasised the importance of the ability to work closely with funders and to respond in creative ways to the needs of user communities.

Some mutuals had initially funded service innovations from their own retained surplus, and subsequently gained support for these scaled up successful ideas in their commissioned services. This was corroborated by commissioner interviewees who reported how innovative mutuals are able to develop new services that fit a particular need, as well as being able to present these solutions in a way that is acceptable to commissioners.

> *"With innovation comes risk. I think the public sector is extremely risk adverse and I can understand that they really don't want to waste the public's money but what you can end up with is services that aren't the best possible at that time in that area because if you're at the leading edge of things there's always gonna be risks that it doesn't work. So we've taken a specific approach to that and just do it on a small scale and to learn as much as possible before scaling it up and that reduces and minimises the risk, although it doesn't take it out completely."* Director Case 3

Table 2.2 summarises the main areas of successful innovation and diversification in relation to organisations' core sectors/activities and helps to show how many initiatives have involved linking different sectors and areas of activity.

Table 2.2 Innovation and diversification activity – indicative examples by sector

Sector	Areas of innovation and diversification

Health & Social Care
 	
(Cases 1-5)
	• Green care' model - garden centre and forest school:
	  ○ social/green prescribing for mental health recovery
	  ○ vocational & employment services
	  ○ childcare & youth services
	  ○ diversified income - trading with the general public + commissioned services
	• Community outreach/preventive interventions for wellbeing - sexual health, smoking/alcohol/substance misuse, lifestyles, fitness, diet:
	  ○ mobile health units and roadshows
	  ○ services delivered to 'hard to reach' groups in diverse community contexts
	• Sports and music project – engaging children/young people with behavioural issues who are not ready for talking and group therapies
	• Creative Minds – programme for young vulnerable people & award-winning service user participation group
	• Young and Old – bringing together children in day care nurseries with elderly residents in care homes, many of whom suffer from dementia
	• Functional Family Child Welfare model – alternative and more cost effective approach (US-originated) to meeting the needs of 'children on the edge of care' and their families (bid for further support in process)
	• Digital technology creative and efficiency applications:
	  ○ in frontline services to improve mobility and flexibility in collaboration with university research centres (e.g. use of iPads)
	  ○ reducing reliance on inherited 'antiquated' public sector infrastructures and practices to enable smarter and more sensitive cultures and working practices (Case 4) and cloud-based working (Cases 1, 7).

Education, Youth & Children's Services
 	
(Cases 6 & 7)
	• Strengthening Families and Youth Resilience services – integrated teams working with children with complex needs to prevent them being taken into statutory care
	• Youth Creative Hubs:
	  ○ in conjunction with European partners (funded by Erasmus Programme)
	  ○ includes virtual reality application to develop empathy around disabilities
	• Working with police and community partnership to prevent young people being drawn into criminal activity and gang culture

Culture, media & libraries
 	
(Cases 8 & 9)
	• Arts and culture projects:
	  ○ to engage disadvantaged/socially excluded young people
	  ○ linking arts with nature conservation, tourism and community engagement in rural economy
	• Library based adult education and learning service
	• Music events in libraries (Arts Council funded)

Housing (Case 11)	• Housing provision for health recovery – relieving strain on hospital care • Sheltered housing with social network approach to addressing isolation and loneliness amongst older people • Developing a more differentiated service offer for main client base, away from 'one size fits all'

Many of the innovations were guided by the philosophy that early intervention and prevention is usually better than later interventions which are often more expensive. The new services often also responded to pressure points where the public sector is under strain or where there are gaps in provision. These pressure points were often identified in discussion with commissioners and include, for instance:

- acute care services and the need to relieve pressure on hospital beds;
- police and social services trying to prevent young people being drawn into gang culture and organised criminal activity ('county lines');
- the need for vocational training and adult learning services in local communities;
- concerns around mental health, social isolation and economic exclusion.

Example of innovative diversification – Case 5:
'Green care model' - horticulture and nature for mental health recovery

This mutual specialises in public health and social care contracts that run alongside social businesses, such as childcare nurseries, training, a community gym and forest schools. Some five years ago the organisation purchased a profit-making garden centre in a joint venture with a mental health charity to convert it into a support project for recovering clients and others. The garden centre has operated successfully since its introduction and now runs alongside a recently established forest school, further strengthening the 'green care model' including by extending into childcare services.

"So if we had gone to our commissioners back then and said: 'we want to help more people who are struggling with mental health, we want to buy a garden centre'. I think we would have got some very strange looks. […] So in a nutshell people go to volunteer at the garden centre and do activities, it's linked to the garden centre so it's horticultural as well as the upkeep of the garden centre itself. It's positive activity for people, surrounded by people who've been through similar issues, so it is peer supported and it's something that people look forward to going to do. It's a very, very effective way of helping people through mental issues. It's very cost effective. People can take medication and go to therapy and then go to the volunteering services and it works very well together […] I think maybe five or six years ago, it wasn't so clear to the people who were responsible for commissioning how that might help. So we've been able to take research and to take a prototyping approach rather than a piloting approach and to hit on some things that I think give a big bang for the buck. So when you are looking at services that prevent conditions escalating or happening in the first place that's where the savings are to be made and of course now that the pressure is really on lots of public services, there is much more focus to those kinds of services. So I'd say that's the biggest benefit we've been able to decide for ourselves what to do. We've been able to be more innovative."

Director of Business Development

Interviewees were asked if the new ideas and approaches introduced since becoming an independent mutual could have happened when they were part of the public sector? Although responses were mixed, many felt the changes could not have been developed within the public sector, or only more slowly or on a reduced scale. This was generally attributed to bureaucratic obstacles, risk averseness and lack of support for innovation often experienced in the public sector.

Some interviewees felt that, in principle, some of the changes could have happened in the public sector, although probably more slowly. It is also notable, however, that some of the teams involved appeared to have been highly entrepreneurial and innovative from within the public sector, as found by previous research on spin-out mutuals (CEEDR 2014; Vickers et al. 2017). Similarly, Cases 7 and 8 in the current study had seen the teams involved continue with their existing approach but with greater freedom to realise their potential.

> *"I think they were innovators before […] they were given a certain amount of freedom before they became a public service mutual and I think that's just then been enhanced […] they don't have to come up the chain of command for the local government in order to make stuff happen. They don't need to seek permission for a wide range of things that they might have done before and I think that's quite important for them, to kind of help release them to do things that they feel is the right things to do."* Commissioner Case 7

2.4 Delivering social value

The Public Services (Social Value) Act

Mutuals and other social enterprises combine the objectives of meeting public service and social needs while also having to survive and operate as commercially viable businesses. This hybridity of objectives is a key differentiator between social and private sector enterprises, and was acknowledged as a distinctive strength of mutuals by most of the commissioner and external stakeholder interviewees.

The Public Services (Social Value) Act 2012[5] requires public bodies in England (and some in Wales) to consider how the services they commission and procure can better contribute to social value. This stands in contrast to procurement that is based solely on the cheapest price for delivering a service or 'value for money'. The Act states that public authorities should *"consider (a) how what is proposed to be procured might improve the economic, social and environmental well-being of the relevant area, and (b) how, in conducting the process of procurement, it might act with a view to securing that improvement."* The Act therefore encourages commissioners and procurement officers to assess bids based on social value as well as 'value for money' and financial efficiency, but without this being a statutory requirement.[6]

The Act provides an important legislative context by enabling contributions that are not captured by traditional metrics. As one of the commissioner interviewees stated:

> *"We aspire to [its] principles and values and it's the fabric which underpins everything we do. SVA provides an important legislative framework and context within which we operate"*

[5] http://www.legislation.gov.uk/ukpga/2012/3/enacted

[6] Initial proposals for the Act included powers to enforce the inclusion of social value, but this requirement was subsequently diluted during the course of parliamentary debate. The Civil Society Strategy (HM Government 2018) expressed a commitment to increasing social commissioning across all levels of government by improving the application of the Act, initially by requiring central government departments to 'account for' the social value of new procurements, rather than just 'consider it' as currently.

Mutuals are often well-placed to respond to commissioners by identifying areas where they can add social value based on their understanding of public service and user community needs, as previously shown. The longitudinal element of this study reveals a growing policy interest in how organisations delivering public services contribute to local economies, particularly where there are concentrations of poverty and disadvantage, although this is not necessarily translated into how social value is accounted for. One CEO stated in 2020:

> "*What's interesting though is that there is increasingly a drive, it feels, towards being able to demonstrate that you are based locally, so there seems to be a sort of emerging narrative around favouring people who are from a place, but you're still not necessary being asked to justify that in terms of the social value, the added social value."* Case 12

In this case, the local authority had included social value as a key element of its 'Business Charter for Social Responsibility', which aims to boost the local economy through support to the local supply chain, creation of job opportunities and ensuring employees are paid a fair wage. One mutual was working with LA procurement teams to secure extra funding within big contracts and had had some positive responses from corporate contractors wanting to demonstrate their contribution to social value by providing training and opportunities for young people, also sponsoring events for children (Case 6). It was also noted that the potential may be greater when there is a devolved administration and single budget for a range of services, as in Greater Manchester, where one mutual felt they were in a unique position due to the opportunities provided by devolution.

The SV Act also compels social enterprises to better evidence their outcomes, and not assume everyone understands the full range of beneficial impacts they bring to their communities. One commissioner commented that social enterprises and others in the voluntary and community sector *"maybe haven't been as good at identifying the outcomes that they help to deliver"*.

While some examples of good practice were identified, many mutual leader interviewees felt that the overall impact of the SV Act on practice remains limited and there appears to be considerable variability in how it is applied by commissioners in different contexts. In some cases it was reported to be a simple 'tick box' response, asking if the bidder had considered social value (Case 5). Mutual leaders in several cases reported that, although social value was considered, it was often as little as between 1% and 3% of the scoring system used to assess bids (Case 1, 3, 4).

> *"As far as we've encountered it, probably not as much as you would hope, I think there has been movement but there is still tremendous financial pressure on local authority budgets, so sometimes price trumps other considerations."* CEO Case 11

> "[Commissioners] *always ask about social value, but it's like a tiddly-squat percentage, so it's like, 'Oh, we've been told we've got to talk about social value', and it's like […] 'Oh, quick, let's add a question in about social value and give it five marks' or whatever, so yeah, I haven't seen any really robust questions around that […] The commissioners are really only interested in clinical outcomes, they are not interested in anything else and to be honest, I'm interested in everything else because I think that is how we can present*

ourselves to the world. But we don't spend a lot of time on it, not anywhere near enough" (CEO Case 3).

What to measure and how?

How social value is measured and recognised within commissioning and procurement is a topic of ongoing debate, with interviewees referring to the uncertainties involved and need for more guidance and consistency in how it is applied. Some approaches are limited to how an organisation can demonstrate added value based on traditional metrics, such as number of jobs created or number of volunteers trained. One interviewee observed:

> *"I think the commissioners are still working out what that means, there's a little bit of confusion about what social value is. I think we're still looking at the economic impact of social value and not necessarily the social impact of social value, so we're trying to quantify the economic benefit, rather than the social benefit […] we've just put a bid in […] and there was quite a big section on social value, but it was kind of quantifying it in the sense of how many volunteers you might use or how many local businesses you might procure services from, it wasn't really social value in the context of what is the impact of the services that you're providing and how would you maximise the impact to the individuals."* CEO Case 5

Later in the study, the same interviewee suggested a distinction between the 'social value of the service' and the 'social value of the organisation' delivering the service:

> *"They have a different version of what social value is, so you might be measuring social return on investment on social prescribing […] but as an organisation we also do a social audit […] but the commissioners not always want the same metric. So, there is organisational value socially and there is also service line value as well and when you are going for a contract, it's not always clear what metric they are looking to judge you against, so there's no standardisation of what social value means nationally."* CEO Case 5, 2nd round

Productivity 'as if social value matters'

The concept of social value allows for a reinterpretation of the meaning of productivity as a way of maximising outputs of wellbeing from a wide range of inputs. The conventional view of productivity focuses on increasing turnover or sales for the same labour or capital costs. The State of the Sector survey findings show how mutuals have made productivity gains since leaving the public sector (SEUK 2019: 16-17). The previous section on change and innovation indicated how the 12 case study mutuals have been able to introduce more efficient and cost-effective approaches to their organisational processes and the design and delivery of services. There were also a number of examples of how the new context had enabled better tools for managing productivity and performance compared to the situation within the public sector, as in the case of managing sickness absence:

> *"We're starting to look at sickness, so we've always had a reasonably low percentage of sickness, but that would have been across our department and we were in a £100 million department, with [other services], so our sickness rates would be hidden, whereas we can see them now and then we can see where the pockets are of poor performance. So*

we know now that the library service, for example, is slightly higher and we can identify those two sites, which happen to be our two busy sites, sickness is really, really high and we can then drill down. So, I think we've started to get the tools to do that." CEO Case 9

However, mutuals have a broader objective beyond conventional measures of performance, financial efficiency and profitability, which suggests the need for a more sophisticated view of productivity that includes contributions to social value. Some mutuals were using a Social Return on Investment (SROI) approach to explore these issues in more detail by measuring the outcomes and putting a proxy financial figure on these benefits. These are then related to the 'investment' in terms of money spent, but also other inputs not often used when assessing productivity, such as the use of volunteers. Interviews with commissioners reveal how they too are starting to take a more nuanced view of productivity by examining multiple criteria of quality and quantity of services. This includes benefit to users, long term sustainability, exit strategy, and fit with overall service provision. These broader views on productivity are articulated in the key performance indicators (KPIs) attached to the contracts as defined by the commissioners.

"There's a lot of performance measurements, you know, we meet all our contractual obligations all the time. How we would measure our impact is quite difficult. These days, the contracts are so KPI and outcome measures heavy anyway […] *we're probably doing about 300 different quality indicators within each contract, so it's an industry in itself, but we do achieve our contractual obligations".* Finance Director Case 2

Commissioners have discretion and agency to respond to these issues and interviewees provided examples of how they have been seeking to implement approaches which respond to local needs and as suggested by the SV Act.:

"We want to see that that investment is delivering a set of health and wellbeing outcomes, because that's the core of the contract, but we are trying to assess the social value that's added through that provision, so things like employing local residents, employing people with disabilities, giving people opportunities for work assessments, doing skills and works programmes, […] there's kind of a core provision and what does that give us in terms of return of investment, but then it's also what are the wider benefits of, from more of a social value perspective, so those are the things that we look at in terms of trying to assess whether we get a good level of return on investment." Commissioner Case 5

The assessment of social value in the bidding process is an example of how this broader view of value for money and productivity is being put into practice. However, there remains a danger that 'money comes in silos' and many commissioners remain focused on narrow criteria (i.e. cost) and are constrained by 'silo thinking'. There is greater potential for more nuanced view of productivity when devolved administrations allow multiple budgets to be combined for particular places and breaking down the boundaries between services. This process also requires relationships between mutuals and commissioners, as well as capacity and continuity of commissioners, as seen in the next section.

2.5 Challenges for mutuals in the commissioning process

A significant barrier identified by mutuals responding to the State of the Sector survey is 'poor commissioning and procurement practice' (SEUK 2019 and 2021). In this section we further explore this area of challenge, but also show the positive role played by many commissioners, despite the impact of a decade of public sector austerity on the capacities of many commissioning and procurement bodies.

The commissioning process and competitive tendering

The process of bidding for contracts was identified as a major challenge by mutuals, particularly for smaller organisations that are often working to very tight margins and making little, if any, surplus. Firstly, getting included in commissioning frameworks of approved contractors often requires mutuals to show that they have financial reserves and a specific minimum turnover – one reported being constrained by the requirement to show that their turnover was double the size of the contract.

Secondly, bid writing is demanding, particularly for smaller organisations. The short notice and limited time allowed for preparing some bids can also make it difficult for smaller mutuals to build up consortia. Larger organisations often have bid writing teams that can more readily respond at short notice. Three mutuals referred to the challenge of having to compete against private providers or larger charity sector organisations that had teams of bid writers. Larger private sector businesses are also better able to afford the risk of 'loss leaders', i.e. in terms of committing resources to multiple bids in order to gain strategic advantage:

> *"They can make a loss of millions on a particular contract if it's strategically advantageous. They can push out competition and then they've got control over an area which is not great for public service, it's not great for the public purse."* Business Development Director, Case 5

As one commissioner interviewee also acknowledged,

> *"We need […] recognise the challenge of scale. I think sometimes we award the contract to the best bid writer rather than the best bid."*

The procurement system also tends to be based on short term contracts, e.g. of one or two years, which can make it difficult for mutuals to plan for continuity and to retain good staff. This can be exacerbated when short term contracts get extended for a year. *"The plus one bit of those [contracts], it can be a bit of a challenge, 'cos you've got a lot of uncertainty amongst staff. It's very difficult to recruit and then retain people on fixed term, when you know something is like that."* MD Case 10

Finally, mutuals need to understand the requirements of commissioners – a strength of many of the case study mutuals, although some commissioner interviewees raised the issue of other social enterprises *"showing a lack of professionalism"* and seeking public money for things they felt unable to fund. Mutuals' relationships with commissioners were reported to be crucial, with a need to develop understanding over time of the organisation and its social mission:

> *"We needed time to build relationships and I think people underestimate how much time it takes […] it really helps if they know you and they've got a relationship with you and they understand who you are as an organisation before you put your tender in. I spent a lot of time going out and doing that very informal marketing, so that people know who we are and what we do and […] our values as an organisation."* MD Case 10

This can create challenges for mutuals seeking to introduce less conventional approaches, with a need to be able to provide evidence of the outcomes of novel/innovative services in a way that is acceptable to the commissioner.

Growing scale of contracts – diseconomies of scale?

The tendency for commissioning groups to favour large contracts and requirements for geographic scale can favour corporate providers and disadvantage many smaller mutuals. The cost of preparing such large bids can be considerable and can involve complex legal issues. One organisation had to develop a bid that had a series of contracts for services and also have plans for leases for existing service buildings which were on different time frames.

Larger contracts may require larger prime contractors and consortia. There is therefore a risk that smaller organisations are pushed to the margins and only survive by becoming sub-contractors to large organisations. This can result in a 'missing middle', with service delivery being provided by organisations that are very large or very small.

Pressure to reduce costs

The previous decade of public sector austerity and evidence of the impacts on public services and social infrastructures (e.g. Gray and Barford 2018; Marmot et al. 2020) is reflected in the evidence from the case studies. Pressure to create financial efficiencies in the delivery of public contracts was found throughout the period of the study. This is particularly evident in those cases with contracts from local authorities where there have been considerable spending cuts over the last decade. There are also pressures within the health service, where growing demand and a lack of resources has compelled commissioners to look at new ways of delivering more services. Some cases reported requests from commissioners to create efficiencies of between 1% and 3% within a year.

Efficiencies were reported in terms of *"redesign the services that makes it a bit leaner and a bit more productive"*, but can also lead to having to make cuts to services. *"If we've been asked to find a 1% efficiency by our commissioners, we would go back to them and say, okay, one way we could do it would be to stop this element of the service"* (Dep Director Case 4). Another interviewee referred to the *"service restriction policies and things that change specifications to make them affordable…Then people that have been used to having something don't get it any more… that conversation, it's really difficult"* (Manager Case 4)

Many interviewees (including mutual leaders, commissioners and others) were in agreement that the emphasis on financial savings /cost cutting was unfit for purpose, with a need for greater priority given to longer term health and wellbeing outcomes and a more joined-up holistic approach that combines economic and social value.

Lack of integration and 'silo thinking'

Within the changing policy environment, there are limitations on the capacity and capability of commissioners to design and implement sophisticated contracts that meet multiple needs. While social and wellbeing related problems may be caused by multiple factors, the funding tends to 'come in silos' which also limits the scope of commissioners. Innovative social enterprises are able to identify solutions to complex problems by looking beyond conventional boundaries. For example, Case 10 is looking to combine support for employment with other services:

> *"Look at the issue of unemployment that we are dealing with. That is a problem that impacts across adult social care, children social care, education, the police, the NHS, it impacts the business community when they can't recruit."* MD Case 10

> "*There is a total lack of joined-up commissioning and employment literally has an impact on so many areas of the public purse, but yet joined up commissioning is very limited*" MD Case 10 2nd round

The issue is particularly evident in the divisions in funding between health and social care:

> *"So at the moment the money comes from silos which means the thinking is in silos and services are in silos. So health money is health money, social care and there's a little bit of a link-up between health and social care […] What you've got in the system is the money is tied up in certain pots, there's a structure to it and it's difficult to get that money in to other areas that will be more efficient."* Director Case 5

Other 'silo thinking' identified include the lack of links between education and probation and between transport and other services. As discussed earlier, interviewees in the Manchester area, were optimistic that future plans for devolved budgets may help address this issue: *"There are lots of very positive links to be made and there's lots of low hanging fruit within that [….] Now hopefully devolution will enable that."* Director Case 5

Commissioners' capacity and capabilities

The evidence shows the importance of the relationship between delivery organisations and commissioners, and how good practice requires a cohort of experienced commissioners who have a good understanding of local needs and have built up relationships with delivery organisations. Over the course of this longitudinal study, there have been changes made to commissioning, including cuts in the number of commissioning staff managing the process. The policy of consolidation of multiple contracts into a single contract appears to have been driven, in part, by the reduction of commissioner numbers.

> *"Part of that is the pressure on commissioners because where there was a team of sixty there is now six. So they are not able to spend the time on commissions that they'd like to"* Director Case 5

The reduced number of commissioners within some commissioning bodies has also led to contracts being renewed or extended for a single year due to lack of capacity to go out to tender (MD Case 10).

Capacity is also reduced by the loss of knowledge and experience. Commissioners leave and new commissioners are employed who may lack the knowledge of the context. One CEO (Case 3 2nd round) had worked with five different commissioners over the two year period covered by this study, with each of them emphasising different elements. Another reported having to constantly make adjustments over the same period as *"their commissioning intentions have changed and what they want from the contract has changed over that time"* (Case 5 CEO). Another CEO (Case 1 2nd round) felt that commissioning department staff turnover and changes to the leadership of funding local authorities were their biggest risks as this churning of commissioners reduces relationships and knowledge:

> *"There's an attrition of public sector staff at the moment […] and you're getting this constant churn. One contract we've got in mental health, we've had four commissioners in the last three years, so that's three ground zero conversations with people, explaining what we're doing, kind of going over how we do it."* CEO Case 5

In reflecting on changes over time, one CEO observed that previously commissioners had *"a stronger grip on what it is they wanted… to achieve"* (Case 4 CEO). More recently appointed commissioners were perceived as being less qualified and lacking the necessary experience, particularly where there was a need to cope with a turbulent policy context and health agenda, described by one interviewee as 'chaotic'. Another interviewee complained of the lack of training for commissioners and the poor quality of some tenders, and even one case where a bidding process was halted after all the bidders had submitted their proposals, each of which would have cost *"tens of thousands of pounds"* (Director Case 5).

Finally, although the cases studies provide examples of where commissioners have supported innovation, some mutual leaders observed that many commissioners were risk averse and narrowly focused on compliance. One commissioner also suggested that the cuts affecting LAs over the last decade have undermined their capacity to be innovative:

> *"There's an interesting double-edged sword around austerity and budget as a driver of innovation and creativity and different solutions and I guess where we are now. Three to four years on from the [mutual spin-out], there's probably less capacity within the local authority to innovate. That doesn't mean we're not up for more, or don't want to innovate or anything like that, it's simply a reflection that the reduction of colleagues at my level has been big, so the time and capacity to do things, to innovate, becomes less, so […] if Government is wanting to promote [creativity and innovation] , it might need to recognise that in any support and resourcing programme, if it wants to continue the progress."*
> Commissioner Case 8

Successful innovation in public service design and delivery is highly dependent on shared intelligence and strong relationships between commissioners and those delivering services. There also needs to be an acceptance of risk - that innovation can result in both improvements and lessons about what does not work and why. Supporting innovation requires commissioners to invest in understanding what works and building a strong evidence base. The case study evidence therefore identifies a number of challenges for policy and practice. Although mutuals have been able to creatively respond to financial efficiency demands, questions remain around the further pursuit of this and impact on core service delivery as well as future innovation potential.

2.6 Conclusion

The findings presented in this section show how mutuals have been able to collaborate with the public sector, including the changes and innovations introduced since becoming independent mutuals, and the influence of the SV Act on commissioning and procurement practices. The SV Act represents an important shift in the policy framework for public services that has yet to be fully realised. Although gaining traction in terms of enabling mutuals' contributions to social value that can be neglected by traditional metrics, progress appears to have been slow, with the Act often variably applied. Scoring criteria continue to be heavily weighted towards price and SV weighted at a small percentage, if at all, and sometimes using limited measures.

A number of key capabilities and good practices related to how mutuals are able to work with public service commissioners and other actors can be identified:

- *Combining social and commercial objectives* when developing strategy, including by diversifying income (see next section)
- *Partnership working* - with public sector bodies and other providers, which can be encouraged by commissioners through their invitation documents
- *Ability to work closely* with user communities and funders to respond in creative ways to complex needs, including by:
    - being open to new ideas and concepts, sometimes identified by front line workers and including approaches that have worked well elsewhere
    - presenting innovative ideas in ways that meet the expectations of commissioners and give confidence that public funds will be well spent
    - anticipating public service needs and future invitations to tender, including by learning about commissioners' expectations and having collaborative relationships in place
    - 'risky' service innovations can sometimes be funded by mutuals themselves (i.e. from their retained surplus), and support subsequently gained to help scale up successful ideas (with evidence of outcomes) in commissioned services.
- *Added value* - demonstrating social benefit as well as a competitive price, in line with the Social Value Act:
    - Emphasising social value in bidding and working with commissioners to make more use of the SV Act in procurement process.
    - Developing ways of measuring SV for specific services delivered and for the organisation as a whole.
    - Negotiating with commissioners to ensure meaningful measures of success are incorporated in KPIs, including resource provision for their measurement.

3. Growth and diversification – strategies and challenges

3.1 Introduction

The limited and declining funding available to mutuals through their core public service contracts has driven many to seek alternative sources of income in order to reduce their dependency on these original contracts and to grow. The State of the Sector survey shows that many mutuals have continued to grow, innovate and diversify their services and sources of income since their inception (SEUK 2018, 2019). In early 2020 (just prior to the Covid-19 pandemic) over half the survey respondents had diversified into new markets, expanded into other geographic areas, developed new products and services and attracted new customers or clients, and were continuing to plan for growth. Around 1 in 7 had acquired another organisation and won business as part of a consortium (SEUK 2021).

This section probes further into the experiences of growth and diversification to examine the strategies utilised, challenges faced and use of sources of support and finance. In conclusion, we reflect on the lessons provided by the 12 cases and draw out the good practices and organisational capabilities that underpin successful growth and diversification.

3.2 Experiences of growth and diversification

All 12 case study mutuals have grown since their inception, although to varying degrees and in diverse ways, reflecting their different starting points, resource bases, opportunity structures and challenges faced in different sectoral contexts. Table 3.1 (in Annex B) summarises the varied experiences, influencing factors, and recent or planned initiatives for further growth. To help simplify the complexity and variety, the 12 cases can be broadly divided into two groups: those exhibiting significant or consistent growth and those showing low growth or stability (or at least during the period of the field research).

Of the six mutuals that most clearly exhibit *significant or consistent levels of growth* (Cases 1, 2, 3, 4, 5, 6) most also had a clear vision for growth, sometimes with ambitious strategic targets set in their corporate strategies. Many had the necessary internal resources for pursuing growth or, if not, had been able to access them via collaborations and partnerships. One had expanded by acquiring other small but often profitable health and care businesses (Case 4). The resulting corporate structure represents an unusual hybrid form whereby the social enterprise (CIC) is at the centre of a group of subsidiary businesses which it owns and controls.

Of the cases showing *low growth or stability* in the recent period (Cases 7, 8, 9, 10, 11, 12), some were consolidating after a previous growth or development phase and preparing for further expansion (e.g. Case 11). Two of the smallest mutuals however, had experienced particular difficulties, with both being dependent on vulnerable (non-statutory) LA funding and one having its core contract which they delivered for five years effectively taken back in-house by its parent LA (Case 10) and another at risk of its core contract not being renewed in the near future (Case 8). These organisations had yet to be impacted in terms of their turnover and employment (i.e. at the time of the final interview), and were both exploring ways of mitigating these (and other) threats through diversification activity. One was also looking to reduce its operating costs by adopting a 'leaner' organisational model.

3.3 Strategies and mechanisms

All 12 cases were 'growth-oriented' – to varying degrees and in different ways - and this was often integral to their corporate strategies and approaches to innovation and diversification. In one case, for instance, this included the establishment of a board development committee to lead the process and explore the available options. Another had developed its new corporate strategy with an emphasis on growth through engagement and consultation with employees, services users and other stakeholders. The structures and cultures that underpin mutual approaches to strategy and decision-making will be further examined in Sections 4 and 5.

Several mechanisms or modes of growth were found to have been variously deployed across the cases, sometimes in combination:

- *Geographical expansion* - beyond the 'home' territory
- *Diversification into new services and sources of income* – both within and beyond the home region
- *Service integration and development* – addressing related health and wellbeing needs, reducing fragmented provision and 'policy silos'
- *Acquisition of other profitable businesses*, with the extra income also allowing cross subsidy of social mission related activities.
- *Partnerships and collaboration* – joining with other organisations to overcome capacity and skills gaps, and often enabling geographical expansion, service innovation and diversification.

The majority (two thirds) of the cases had expanded beyond their home territories, often an LA or NHS Trust area, by winning contracts to deliver public services in other regions (Cases 1, 2, 3, 6, 8, 4, 10, 12). Success here appears to have been dependent on the strength of mutuals' prior track records and their established (and sometimes new) partnerships with other providers. A driving factor in some cases has been the loss of core contracts within the home locality, as well as the perceived threat of further austerity-driven cuts affecting budgets for public services. Geographic expansion was less evident amongst the four Community Benefit Society cases (Cases 5, 9, 11, 12) where growth and diversification has been largely rooted within the home territory, where CBSs also tend to be anchored by strong community ownership structures.

Diversification into new services

As previously shown, most of the cases had diversified into new areas of provision and sources of funding. This has generally involved service areas where there were clear synergies with the organisation's existing core competencies and resource base, e.g.:

- *Library services* – diversifying into adult education (Education & Skills Funding Agency) and arts projects (Arts Council National Portfolio Organisation funding), the latter including music events and children's theatre.[7]
- *Employment services* – linking to education and youth unemployment.
- *Children's services* – consultancy and 'improvement services' for LAs needing advice and expertise in a very specialised and high risk area of provision, building on the organisation's established reputation as a 'trusted advisor' (Case 6). Also under investigation was the potential of linking with health and social care provision for children with disabilities and extending into education by sponsoring free schools.

Developing integrated services

Diversification was often closely related to the development of integrated portfolios of services. This can have the added attraction for funding bodies of 'joining up' related services in order to address complex health, welfare and wellbeing issues, as shown in Section 2 and Table 2.2.

New business acquisitions

The growth of one of the largest mutuals (Case 4) has been based on a strategy of acquiring other profitable businesses and motivated by the limited opportunities for growth through public sector contracts alone, as well as the loss of some of its core contracts. This strategy has been funded through the organisation's accumulated reserves, enabling it to grow and develop its distinctive group structure, with the CIC at the centre wholly owning a number of profitable subsidiaries. These were often private companies focused on mainly non-NHS work where profit margins are significant (e.g. minor/cosmetic surgery, osteopathy, podiatry, supported living, primary care GP practices). The surplus generated has been used to strengthen the overall business and also to invest in the parent CIC's social mission related activities.

Collaboration and partnerships

Several studies have already shown how multi-agency working, collaboration and partnerships are often crucial to mutuals' ability to grow and to innovate (Hazenberg and Hall 2016; Vickers et al. 2017; Miskowiec et al. 2019). The evidence from the current study confirms how growth and diversification are often dependent on the formation of collaborative partnerships, including with public sector agencies, other mutuals and social enterprises, and with large corporate providers.

Alliances can be crucial when bidding for new contracts or to help access grant funding, with several types of partnership found within this group. Some organisations had joined in a consortium with other mutuals or with other (often small) social/voluntary sector or public sector deliverers with complementary experience and skills in order to compete with larger organisations and increasing the likelihood of a successful bid (e.g. Cases 1, 2 and 4). Two cases had also worked with Local Enterprise Partnerships (LEPs) to deliver elements of their

[7] Although Arts Council NPO funding could have been achieved within the public sector, it is notable that out of six libraries that have this status three are mutuals (including Case 9).

Growth Hub activity[8] (Cases 8 and 9). Mutuals may also partner with large corporate providers in order to be included in bids for sizeable contracts or funding opportunities which they lack capacity to bid for on their own, e.g. as with Case 2.

Some mutuals were also pursuing relationships with the private/corporate sector as a way of accessing CSR budgets to gain sponsorship for their activities and to secure apprenticeships (e.g. Cases 6, 8, 12). Some had entered into alliances to support research and development around innovative practices and services, including one with a university to develop an innovative application of artificial intelligence to better analyse health data from across the range of their services (Case 4).

Finally, less formalised relationships and networks were also important as a way for mutuals to identify and link with potential delivery partners and funders/clients, thus laying the strategic ground for future bids. One had also joined the local Chamber of Commerce in order to raise awareness of the organisation and the potential of the mutual sector as a whole amongst the local business community (Case 8).

3.4 Challenges of growth and diversification

Mutuals face a range of challenges when pursuing growth and diversification, including size-related disadvantages, the risks associated with efforts to innovate and diversify, threats to the mutual identity and social mission, as well as regulatory challenges.

Company size, innovation and risk

Innovation and growth involve the risk that time and resources committed to developing new services and bids for funding result in disappointment and a perception of 'wasted effort'. Given their resource advantages, large businesses are better able to distribute such risks across a portfolio of activities. Smaller businesses, however, are behaviourally advantaged in terms of their flexibility and responsiveness to new needs, as is also observed in relation to mutual spin outs. In terms of disadvantages, even larger mutuals may be 'small' in relation to their main competitors, as was observed by health sector interviewees. As previously shown, joining in alliances with other organisations is an important way of mitigating risk, i.e. by pooling resources and sharing the effort involved. The interview evidence sheds further light on how mutuals assess and negotiate the risks and challenges faced within their different contexts.

Some interviewees also commented that further diversification for them could involve considerable effort but with little financial benefit to justify such effort (Cases 6 and 9). Relatedly, although some mutuals may benefit from being located in areas with relatively affluent populations where it is possible to attract a viable fee paying customer base, others are based in areas of high disadvantage where people lack disposable income for chargeable services.

[8] https://www.lepnetwork.net/local-growth-hub-contacts/

Social mission and limits to growth

A fundamental tension for many mutuals and other social enterprises is that between their community focus and pressures to grow and expand services, and to achieve economies of scale – a dilemma that can be simply expressed as a tension between 'small and beautiful' and 'bigger is better' (Vickers and Lyon 2014; Wells 2016). Some mutuals may be anchored in particular territories by community ownership structures, and many smaller enterprises are often embedded within highly localised contexts from which they also draw support, in terms of social capital and volunteering. Such organisations may choose not to grow beyond their home territory and prefer to maintain close relations with their local user community.

Risk of compromising service quality

Ill-considered or poorly planned growth, beyond the capacity of organisations, can undermine service quality and cause reputational damage. The following reflections illustrate some of the tensions seen as accompanying growth and diversification:

> *"If we were to take our eye off the ball and service quality slips in [our core services], then the reputational damage would be pretty strong and […] I'm wary about taking on too much external work […] and then neglect stuff at home."* Assoc Director Case 6

> *"….it's also about being really clear about what we don't deliver […], so we're not everything to everybody and we can't be. What is it that we do well that we can do more of?"* Manager Case 8

> *"I'd rather do what we do really well […] some other people have gone out and diversified so much that actually I don't think they're good at any of it anymore. […] my aspiration is not that we become one of the really big boys, because, again, I think the danger is that you can lose who you are, that you can end up [like] some of the very large charities […] we've always said we don't want to get to that position, where the focus doesn't remain in the people we support."* Case 10

3.5 Managing growth

As the previous comments suggest, even successful bids and diversification initiatives can bring challenges. New services may place extra demands on resources and facilities that are already under strain, as was reported in some cases (Cases 6 and 9), with a need to carefully monitor and manage the introduction of new services in a way that does not compromise existing core services. Significant growth is also likely to necessitate the parallel development of functional/management systems (HR, finance, IT, customer service etc.) and organisational governance structures. HR/people management systems become particularly crucial in terms of helping to integrate new employees into the mutual culture and different ways of working (see Sections 4 and 5).

Recruitment, HR and communications

Recruiting and retaining the skilled professionals needed to deliver services was reported as a major challenge by mutuals in the health and social care sectors, potentially jeopardising the delivery of contracts. Clearly this has been a national and sector wide problem for some years and not specific to mutuals. Mutuals experience particular difficulty in recruiting and retaining skilled and qualified staff when competing with NHS and LA bodies which are able to offer pensions and terms and conditions they are unable to match (Cases 1, 2, 6, 10). Also raised by employees in two cases was the lack of CPD and career progression opportunities for back-office and administrative staff, as compared to when they were employed in the public sector (Cases 6 and 9).

In responding to these issues, mutuals have focused on the attractiveness of their employment conditions and work environments and building their reputations as good employers (Cases 2, 6, 12). Strategies and practices related to this include CPD training, employee well-being programmes, flexible working arrangements (Case 6), new approaches to recruitment, support for social activities and *"just being a nice place to work"*. The distinctive organisational cultures of mutuals, emphasising employee involvement and empowerment, can also be an attractive feature, as will be further examined in Sections 4 and 5 on democratic ownership and governance.

Expansion to multiple sites has also posed a challenge for some growing mutuals. One, for instance, had expanded from its home location to deliver its services to 30 geographically dispersed sites. Maintaining good communications and shared understanding can be difficult in such contexts, and often heavily IT-reliant (e.g. emails, newsletters, etc.) and inevitably less personal than in the case of smaller organisations.

Nevertheless, mutuals are seeking to address this challenge in various ways. For instance, one interviewee reported that *"the communication team works really hard [trying to inform/communicate with staff] but it's always coming up about people just not knowing or not getting information".* In order to help address this problem, *they "have a conference every year just to do the: 'here we are, this is who we are, this is what we have done, this is where we are going', for everybody"* (Staff member Case 9).

Regulatory challenges - TUPE

Although public service mutuals have greater freedom as independent enterprises, they continue to operate in complex quasi-market contexts where regulatory requirements are often similar to their pre-spinout contexts. A number of challenges arising from regulation were identified, with TUPE related issues emerging as a particular area of concern.

The Transfer of Undertakings (Protection of Employment) Regulations of 2006[9] provide rights to employees when their employment changes following the transfer of a business to a new owner. The expression 'TUPE'd in' (or over or across) refers to staff who have been transferred into the new social enterprise with NHS pensions and terms and conditions, which are often of a higher standard in comparison to what mutuals can generally offer to newly recruited (non-TUPE'd) staff. Responding to the TUPE regulations has posed a particular challenge which many mutuals have had to deal with since their transition from the public sector; or thereafter, when bidding for new contracts - as some contracts require that staff working in the relevant services be TUPE'd across as part of the contract. This can have significant implications for the new organisation in relation to staff pensions and terms

[9] https://www.gov.uk/government/publications/tupe-a-guide-to-the-2006-regulations

and conditions of service - sick leave, annual leave, payments etc). An important problem reported is that *"there are examples of contracts being worth less than [its] TUPE implications and in my opinion some contracts, not all, are … it's done for the wrong reasons. It's passing on liabilities to other providers."* Assoc Dir Case 5.

Once staff are TUPE'd over, the recipient mutual becomes responsible for all the employment contracts' terms and conditions and employment rights of the new staff. Alternatively, staff can ask for redundancy, in which case the spin-out would have to consider whether redundancy was a possibility. Some organisations reported that some TUPE'd in staff had retired soon after spinning-out or had found employment elsewhere. However, one interviewee explained that once people are TUPE'd across, keeping some of the previous terms and conditions, it is difficult for them to pursue employment elsewhere since they may not be able to carry over the same pension and terms and conditions to the new employment position.

3.6 Experiences of support

Mutuals have been assisted in their transitions from the public sector under the Mutuals Support Programme (1 and 2) managed by the Office for Civil Society, originally from within the Cabinet Office and subsequently the DCMS Government Inclusive Economy Unit. Specialist sources of support and areas of expertise were also accessed, primarily through these Programmes, in order to address particular competency gaps and to enable development, including: accountancy and finance, HRM/people management, project management, IT, development/skills sharing/action learning, legal specialists, communications, tender writing and data protection (GDPR).

On the whole, interviewees reported very positive experiences of the support - that it had been of good quality, practical and focused on the specific needs and delivered by trusted and knowledgeable sources.[10] A number of interviewees commented on how the support had improved over time in terms of the provision of advice and toolkits related to specific and emerging needs. The few less positive experiences and potential gaps mentioned include:

- Training courses had been insufficient preparation for some of the practical challenges experienced, particularly around TUPE which needed an in-depth workshop.
- Longer, more sustained support needed – e.g. one felt that 3 months of transformation/project management support while leaving the LA parent body was insufficient.

Some organisations made a clear distinction between spin-out/start-up support, which is readily available and easy to secure, and support for growth and scaling-up which is less readily available and more difficult to secure. For some growing organisations, the type of support sought is increasingly an issue as they seek to compete for larger contracts, often against large private competitors.

[10] Cabinet Office, DCMS and approved suppliers mentioned include: Baxendale, Big Potential, Mutual Ventures, Stepping Out, SEUK and others.

Peer support and networking between mutuals and other social enterprises was particularly valued by most CEO/leaders as a supportive mechanism. It is clear that some of the more established mutuals in particular are playing an important role as sources of mentoring and sector specific knowledge and advice for newer spinouts. Such relationships enable mutuals and other social enterprises to learn from each other's experiences, benchmark performance, and gain access to new knowledge and wider networks. In one case, the director of finance explained how she worked closely with her counterparts in two other mutuals, with the three of them meeting regularly to review how their organisations were performing and what could be done differently, *"so that's quite good as like a support mechanism"* (Case 2). Specialist business mentoring provided by experienced people in the mutual or social enterprise sector appears to have been a particularly useful learning source for younger and growing organisations.

Access to Finance

If organisations lack the reserves needed to self-fund investment for growth, debt finance can be sought from banks and social investors, or grant funding from a variety of government, LA and EU sources (i.e. prior to Brexit, co-funded programme such as ERDF, Erasmus), or from various philanthropic sources. The State of the Sector survey (SEUK 2021) found the most common reason for seeking external finance was for investment in new or significantly improved processes, plans, goods or services. One in five mutuals had accessed a government or local authority loan while 17% had received grants from a non-government source, and around a third used credit cards. Most of those enterprises that had sought finance reported that they had been successful in securing the full amount they had requested. The average investment sought was just over £500,000 but with two distinct groups, with some organisations seeking millions of pounds and others seeking just a few or tens of thousands (SEUK 2021).

The case study research similarly found that existing provision has been adequate for the needs of many mutuals, and that access to finance has not been a pressing concern. Most organisations have been very proactive in seeking and securing other forms of grant funding from various sources but mainly from parent LAs. Overall, grant funding was the preferred source of finance followed by commercial sources. In relation to bank loans, some reported having secured cheaper bank loans via their parent LAs acting as an indirect source of finance. Most reported good experiences when applying for support and that the funding had met their needs.

With regard to social investment funding, although this is readily available it was often viewed as unattractive and expensive compared to other sources of finance. As one CEO commented:

> *"The barriers to things like access to finance, I mean, we're pretty bankable now as an organisation, we've got clear lines of sight on capital from the commercial banks. Social investment still remains very uncompetitive in terms of a way of kind of fuelling growth, the interest rates are very, very restrictive, in terms of the fact that they're kind of plus 7% interest rates".* Case 5

Similarly, another CEO questioned the value of social impact bonds when there are cheaper funding options and that "*Big Society Capital at 6% interest rate: why so expensive!"* Social investment providers were also perceived to be too 'risk-adverse' and some leaders expressed wariness of having the influence of social investors on their boards.

3.7 Conclusion

The evidence shows how all 12 case study organisations have grown and diversified since their inception, although to varying degrees and in diverse ways, reflecting the different strategies pursued, the different starting points, resource bases, opportunity structures and challenges faced in different contexts. Growth, diversification and innovation are not without challenges and risks, although the experiences of mutuals show also that not taking risks – albeit carefully considered risks – may not be an option in the current climate. Successful growth beyond start-up is often dependent on a combination of entrepreneurial acumen and organisational capabilities, having the right people and partnerships in place at the right time, as well as an element of 'chance' within changing market and institutional/policy contexts.

The lessons from the case studies suggest a number of good practice capabilities needed by mutuals in order to grow and diversify:

- Good awareness of the commissioning/funding landscape and alertness to possibilities for diversification into new (but often related) service areas and sources of income;
- Building alliances and pooling resources with other organisations to bid for new contracts, maximise social innovation potential and mitigate risk;
- Understanding of the strengths and innovation potential of the organisation, as well as recognition of key gaps in capabilities and commitment to addressing such gaps, including by:
    - recruitment of fresh blood to bring in new skills and expertise
    - use of specialist external support
    - networking/mentoring relationships with other mutuals and social enterprises
- An ability on the part of entrepreneurial leaders and staff to persuade other organisation members that risks are worth taking while building consensus and support across the organisation for innovative initiatives.
- Managing the challenges and risks of growth:
    - carefully monitoring and managing the resource demands of new services in a way that does not compromise the delivery of existing core services or the social mission and mutual identity
    - requisite development of functional/management systems (HR, finance, IT, customer service etc) as well as governance structures as the organisation grows.

With conventional notions of business and economic growth and the organisational forms that underpin them increasingly under challenge, mutuals and other social economy organisations appear to offer viable alternative models which prioritise the wellbeing of communities by strengthening local economies and social capital.

How mutuals in different contexts seek to address such issues in practice will be further examined in the following sections on democratic decision making and collaborative governance.

Looking to the future, interviewees (CEOs, leaders, employees and other stakeholders) were asked the question: *"How do you see your organisation in five years' time – how would you like it to be and how do you think it will be?"* Pre-Covid, most were cautiously optimistic that their organisation (and the mutual sector as a whole) would continue to thrive, with some seeing potential for further significant growth. However, this optimism tended to be qualified by observations relating to the uncertainty of mutuals' operational contexts and concerns about the commitment of government to supporting and promoting the mutuals agenda going forward. It is also likely that less optimistic views are to be found in relation to the new business environment triggered by the Covid-19 pandemic.

4. Choice of mutual form and governance structure

4.1 Legal form and constitutional choices

As a condition of being supported to spin-out to become independent enterprises, public service mutuals are expected to incorporate a significant degree of employee ownership, control and influence in how they are governed (Mutuals Taskforce 2011 and 2012). Some have also extended opportunities for ownership and influence to their user communities. Democratic inclusivity is therefore a core feature of mutuals, and their success depends on being able to implement the new structures, practices and cultures needed to fulfil these requirements while also sustaining themselves as competitive businesses.

As previously shown, most interviewees viewed the mutual model in a highly positive light, reporting on its strengths and benefits for employees, the organisation as whole, and for clients and service users. In this section we examine the different forms and structures of democratic ownership and governance and the choices faced by the 12 case study organisations.

Rationales for choice of form

The nature of mutualism and what democratic forms of ownership and governance entail in the wider social economy has been a topic of ongoing study and debate (Cornforth 2003; Low 2006; Spear et al. 2009; Ridley-Duff and Bull 2019). Public service mutuals need to demonstrate both co-ownership and effective multi-stakeholder representation, although defining these terms is not straightforward. Ownership is commonly understood as a formal-legal property and can be *direct* i.e. through shareholding or membership, or *indirect* with ownership being exercised through a trust or charitable form that is accountable to employees and user communities.

The legal forms taken by the 12 case study organisations are broadly representative of the distribution found across the mutuals sector as whole,[11] with seven Community Interest Companies (CICs), four Community Benefit Societies (CBSs) and one charity CLG. The choice of legal form in all 12 cases was based on a careful appraisal of the options, assisted by the allocated provider under the Mutuals Support Programme[12] and consultations with various other sources. In some cases this crucial choice was informed by contacts and visits with other established mutuals, social enterprises and sector bodies – sources which were highly regarded by interviewees and which seem to have been particularly influential (e.g. Cases 8, 9, 11, 12).

In the seven CICs, CEO and leadership team interviewees emphasised the flexibility offered by the form in terms of access to funding opportunities, and that it was relatively 'light touch'

[11] The state of the sector survey (SEUK 2019) found that mutuals adopt a range of legal forms and ownership models. Over half the responding organisations were CICs, 9 were CBSs, 6 were Bonafide Co-operative Societies, 5 were Companies Limited by Share and 10 registered as charities.
[12] https://www.gov.uk/guidance/start-a-public-service-mutual-the-process

with respect to reporting and regulatory requirements. Also mentioned was the importance of the asset lock providing control and accountability to stakeholders. As stated by one interviewee, *"it wasn't too convoluted […] and there were still ways to have a proper staff voice".*

In the four CBS[13] cases, interviewees emphasised the strong membership framework offered by this form, enabling democratic ownership, accountability and, as expressed by one CEO, of *"harnessing that huge power"* of both user communities and employees. As will be seen, some of the organisations adopting the CBS form were particularly motivated to challenge the 'balance of power' and enable multi-stakeholder (and more 'bottom-up') engagement in collaborative governance. Also important was the locking of the organisation's assets on behalf of the community, as with the CIC form. The fact that CBSs are conferred exempt charity status by HMRC, thus offering savings in terms of business rates, was particularly important given that all four owned or leased (i.e. from their parent organisation) multiple properties. In one of the largest CBSs, for instance, the saving in business rates was reported as amounting to nearly £500,000 per annum.

In the case of the sole Charity CLG, this form was also seen as offering freedom, flexibility and access to funding, as with the CIC cases, but a decisive factor was this organisation's ownership of multiple properties and the taxation reliefs offered by charitable status, i.e. in terms of business rates and corporation tax. Interestingly, interviewees with one of the CICs related how they had specifically avoided the charity CLG form (suggested as an option by their support provider), based on their awareness of some of its limitations and drawbacks gained from prior experiences of partnership working with charity CLGs.

It is important to note, however, that the legal form alone does not fully determine the nature of mutualism. Choices also need to be made in defining the scope of ownership within the organisation's constitution – exactly who are the owners or members and what are the rules and mechanisms relating to their enfranchisement? For instance, the flexibility of the CIC form allows legal ownership to be held solely by the directors, but also by employees, service users, members of the public, or other stakeholder organisations such as local authorities. The CIC form also allows ownership to be shared by a combination of these groups.[14]

For most public service mutuals, the crucial decision as to the type of ownership structure to adopt has generally resulted from negotiations between those leading the transition from the public sector – usually the current CEO and members of the senior leadership team as well as key players in the parent organisation. The latter include senior officials and councillors in local authorities or senior managers where the parent is an NHS body. Table 4.1 (Annex B) summarises the ownership and governance structures of the 12 cases and shows that:

- Eight had provision to be *directly owned by employees* (Cases 1, 3, 4, 5, 9, 10, 11, 12), including one (10) which was majority-owned by an employee trust which held

[13] The Community Benefit Society replaced the previous long standing Industrial and Provident Society (IPS) form under the Co-operative and Community Benefit Societies Act 2014.
[14] See: https://www.gov.uk/government/publications/community-interest-companies-how-to-form-a-cic; https://www.gov.uk/government/publications/a-handbook-for-good-governance-in-a-new-mutual

90% of the shares. Half of these eight also included service users as shareholders/members (5, 9, 11, 12).

- Two were *'indirectly' employee-owned* by their boards of directors/trustees (Cases 7 and 8).
- In one case, *sole legal ownership was held by the CEO*, following the dismantling of its successful employee shareholding arrangement due to a clash with the NHS pension regulations (Case 2).
- One was a *publicly owned social enterprise*, with three parent LAs retaining strategic control, enabling economies of scale and allowing staff and managers greater freedom to innovate as a semi-independent CIC (Case 6).

The range of ownership models and rationales behind their adoption raises some interesting questions about the nature of mutualism and how public service mutuals may variously define themselves. Some interviewees in three of the CIC cases did not see their organisations as 'true' mutuals in that they lacked formal-legal provision for employee ownership (Cases 2, 6, 8). Some interviewees in the CBS cases emphasised that the form taken by their organisations was more conducive to mutualism in its purest sense:

> *"We're a proper mutual, we're a real mutual, not a CIC, we're a proper industrial and provident society, so everyone gets one vote, one share […] everybody, all staff and anyone from the community."* CEO Case 5

> *"We talked from the very beginning about wanting to come up with something really collaborative, sort of distributed power type of way, we wanted to move away from the bureaucratic sort of top down command and control environment to one that was much more mutual and we use the word mutual meaning an exchange of power, as much as we mean the sort of structure of the organisation, you know, legally really."* CEO Case 12

However, the CIC cases also exhibited strong elements of mutualism and, as previously noted, the CIC form is compatible with legally enfranchised democratic ownership. Indeed, Case 2 had initially implemented an employee-shareholding model, although this was subsequently found to conflict with the NHS pension regulations. Rather than losing their NHS pension rights, staff voted to relinquish their (non-dividend paying) shares, and to make the CEO the sole legal owner. Interviewees described this as a frustrating experience, particularly given that efforts to engage in discussion with senior NHS pension managers with a view to adjusting the pension policy to allow for non-dividend paying shareholding had been to no avail.

Case 6 was owned by three local authorities, reflecting the preference of these parent bodies to retain strategic control of a statutory, big budget and high risk service area for a vulnerable client group. This retention of ultimate legal ownership by the public sector was also reported as having the advantage of avoiding the significant costs of the public procurement competitive tendering process. The resulting hybrid form, a compromise between public ownership and independent social enterprise/mutual status, appears to represent an efficient and cost-effective alternative way of delivering crucial public services. Also relevant here are experiences of the changing policy environment affecting all mutuals and the apparent trend away from competitive tendering towards in-house provision, in some service areas at least, and greater integration and partnership working with local government and NHS bodies.

Despite the lack of direct employee ownership, and questions raised by some interviewees about whether they were 'true' mutuals, the evidence supports that in all three of these outlier cases employees felt more empowered and able to be more innovative than when they were part of the public sector. Case 2 in particular, despite the loss of its shareholding model, appears to have largely retained its mutual ethos, as supported by its staff council which has continued to grow and flourish.

Finally, even organisations that were directly owned by their employees (and user communities in some cases) nevertheless encountered difficulties around how to engage their members/shareholders. The complex challenge of how to practically implement collaborative governance and encourage high levels of participation was a recurrent theme across the case study mutuals.

The choice of opt-in or opt-out mechanism

How the opportunity of becoming a legally enfranchised co-owner is set out in the organisation's constitution and presented to employees was another issue on which there were important differences in practice. The CIC and CBS forms allow the choice to be presented in two ways: via an *opt-in* or *opt-out* mechanism. In the first instance, new employees must confirm their decision by way of the opt-in clause (usually after a period of full-time working for the organisation), i.e. by ticking a box to assent to being made a member or shareholder, or otherwise being automatically excluded. Conversely, in the second option, new employees are automatically made shareholders/members (sometimes for a nominal sum, e.g. of £1) but are provided with an opt-out clause in their contract. After a period of full-time working for the organisation (e.g. six months) they can choose to relinquish their ownership/membership status should they not wish to be legally enfranchised co-owners.

Of the seven organisations with employee shareholders or members[15], four were using the opt-in clause (Cases 3, 9, 11, 12) and three the opt-out (1, 4, 5). Preferences for the *opt-in* mechanism were motivated by the view that ownership should follow from a positive decision rather than being the automatic default position. Its adoption was seen as congruent with the traditional identity and ethos of mutuals and the wider cooperative movement - that employees were expected to buy into this and, furthermore, that it was an attractive feature for the type of employees that mutuals were seeking to recruit. This view was expressed by interviewees at one of the large CBSs:

> *"Membership is not automatic, you have to choose to become a member and that was a kind of important principle that we arrived at by talking to other mutuals and co-operative organisations […] it was important that people were choosing to become a member for the right reasons and about it being a positive decision."* CEO Case 11

[15] Case 10 was owned by an Employee Trust, with the opt-in/opt-out mechanism not being relevant in this case.

"We decided that we wanted an opt-in because then people would understand what we're about. If you're an opt-out, well you don't really know what the organisation is about." Chair of staff/service user representative body Case 11

Interestingly, interviewees in those organisations utilising the *opt-out* clause also explained their preference in terms of an ethos or ideal of mutualism, although arriving at the opposite decision:

"Now, everybody who joins becomes a member automatically and the thinking behind that from the Governors was, 'You're joining a social enterprise […] so then if you choose to opt-out, that's up to you.' And it's not difficult to opt-out, we make it very easy, it's just a form to fill in to say, 'I don't want to be a member', but we've never had anybody opt-out, ever, so that's quite good." Chair of staff representative body Case 4

"…so all staff are automatically members, unless they choose not to, which would be slightly worrying, given the ethos of what we're trying to do." Deputy CEO Case 9

Two of the longer established mutuals (Cases 4 and 5) had initially adopted the opt-in clause but subsequently changed to the opt-out. As one CEO explained, this change and other measures to increase the attractiveness of becoming a co-owner, had been followed by a significant increase in membership take-up:

"[W]hen we asked people why they hadn't opted in, they said, 'Oh, we just didn't get round to filling the form in', or 'I didn't do this' or we 'didn't make it easy' […] we were shooting ourselves in the foot really by just making it a little bit more complicated, so now it's really easy to opt-out, it's just a tick in a box on a screen […] So I think we're up to around about 75% now, maybe 80% of people who are members of the organisation [...] [So now] you're automatically enrolled in a lottery, which is drawn by a member every month […] the idea is to get people engaged in the idea that there are benefits, other than employment, to becoming a member and as such, feel some pride in being a member." CEO Case 4

It could be concluded from this and other evidence (Sepulveda et al. 2020) that the use of the opt-out mechanism should be more consistently adopted by mutuals as the more pragmatic choice and likely to result in higher membership levels. Such a recommendation would also be in line with arguments from behavioural science and 'nudge' theory which advocate positive reinforcement and ways of structuring choices that influence the behaviour and decision making of groups or individuals (Thaler and Sunstein 2008). However, as with other choices facing mutuals, the selection of the opt-in or the opt-out needs to be understood in terms of how different judgements may be based on equally valid interpretations of the ethos of mutualism in diverse organisational and community contexts. We will return to the important issue of how mutuals can grow their memberships (or numbers of shareholders) in Section 5.3.

4.2 Governance arrangements and mechanisms

The choice of governance model facing mutuals and other social economy start-ups can initially be represented in terms of two simple models:

- *Stewardship (top down) model* – a board of governors or trustees, with little or no employee representation, is selected to support the CEO and senior leadership team in managing the organisation's assets for greater return on behalf of stakeholders;
- *Democratic multi-stakeholder (bottom up) model* – employees, community and other stakeholders are more directly involved in collaborative governance.

In practice, mutuals and other social enterprises tend to adopt a combination of both the stewardship and democratic multi-stakeholder models, depending on the context of the organisation and the priorities of its board members and principal stakeholders (Sepulveda et al 2020).

The governance structures and mechanisms adopted by the 12 case study mutuals are varied and sometimes complex (Table 4.1 in Annex B). Nine had provision for employee (and sometimes user) representation on their boards of directors/trustees and/or on sub-committees (Cases 1, 4, 5, 7, 8, 9, 10, 11, 12). Half had separate representative bodies (or staff/community councils), the key roles of which included approving policy and strategy, and appointing the board (2, 4, 5, 6, 9, 11). Members of these bodies/councils may be elected by the membership or appointed/selected by governors/trustees and directors. Some organisations also had other groups and forums to address specific issues and report back to the board and/or representative body. All of the case study organisations also made use of other mechanisms – such as surveys, organisational intranets, and social media - in order to engage with and gain feedback from staff and clients/users.

The function of boards of trustees or governors is to provide oversight and guidance on strategic direction and organisational policy, while bringing valuable complementary expertise and external perspectives to the organisation. The recruitment of effective boards has been particularly crucial for the ongoing viability of mutuals. Poorly selected boards can give rise to conflict and stasis which, at worst, can compromise the ongoing viability of organisations (Spear et al. 2009). The interviews with mutual leaders show how boards have been an important source of professional skills and specialist knowledge, helping mutuals respond to opportunities and navigate the challenges posed by their often complex operational environments. The interests and views represented on boards have also been highly influential in terms of defining the nature of mutualism in practice and how collaborative governance is taken forward.

Interviewees in some cases referred to the tensions that can arise between the different perspectives of board members, including around how to integrate mutual principles within the organisation's strategy and practices. This can apply particularly when external board members, although attracted and sympathetic to the mutual ideal, struggle to understand and may be resistant towards certain aspects of mutualism in practice:

> *"When we're recruiting Board members, one of the things that attracts people is we're a unique socialising mutual [and they] instinctively like it, but don't really know exactly what*

it means, and they can find that actually they don't have the same degree of control as in a standard housing association. So it's a kind of learning curve [since] the majority of people's reference points are the standard model. So, our new Board members say, 'Well, why do we do things like that? Why aren't the Board making decisions on this?' and we say, 'Well, actually, that's the representative body power' […] They like the idea of mutuality but sometimes can see it as a kind of 'value added', rather than core to the way we work. So that's a bit of a challenge." CEO Case 11

Some mutuals had experienced particular difficulties in filling posts created for employees on their boards, including some cases seeking to improve the representation of BAME groups (e.g. Cases 1, 11, 12). One had previously included staff, volunteer and service user representatives who had subsequently left but not been replaced. It appears that concerns and differences of opinion had arisen around the perception of some board members that these representatives had contributed little at board meetings and that therefore there was little value in retaining their positions on the board.

In most cases, governance arrangements and their functioning appeared to have matured considerably over the period since organisations were first established and this was also evident over the two year period of longitudinal research. In the final interviews, CEOs further reported on developments since the time of the first interview. In many cases it was apparent that governance arrangements have been subject to ongoing debate, periodic review and adjustment to improve their functioning. For instance, one organisation's governance model was reported to have evolved considerably, with several reviews of governance undertaken since their establishment (Case 6). The CEO of another of the longer-established mutuals (Case 4) related how their approach had evolved over the years, with the most recent chair of its board of governors being particularly proactive in driving a new strategy to revitalise employee ownership and empowerment. The tensions and challenges encountered when implementing and embedding participative governance will be examined in greater detail in Section 5.4.

Examples of collaborative decision making and innovation

The following quotations illustrate how staff and services users have contributed to key decisions, including with respect to investments in community projects, diversification, service development, organisational policy and working practices:

"I think there's a much greater focus on creativity and innovation, around doing things differently, in the best interests of [our clients], from the bottom up, so I think that's different. I think that's about empowerment really of the frontline workforce, saying, you know [our clients] best because you work with them, so you need to tell us how best to organise and structure our services and our finances and all of those kinds of things." Deputy CEO Case 6

"[T]he grounds maintenance service […] that's been in consultation with the members and particularly with the Representative Body who had a huge say whether that would happen or not. I think with the homeless service we've got that in-house or we're managing that contract but the individuals in terms of members were involved in making that decision […]. We had real detailed discussions around that and asked for more

information until we were satisfied that this was in the best interests of us being a mutual and in line with our values - and that wouldn't have happened elsewhere in a non-mutual organisation." Staff member and coordinator on representative body Case 11

"….in a traditional Co-Op you'd have your dividend, and that would be shared out with your stakeholders. So, for us, our divi is our community funding pot and […] management have no input into that whatsoever, it's fully decided on by members - that would never, ever happen elsewhere. So we have a panel and they are not elected, they are just people who have an interest in what happens in communities or experience in community groups. […] So only projects that our members have said, yes, I'd like to see that project delivered, will actually receive funding. […] They focus on the things that we are trying to achieve in or corporate strategies. So they will be supporting people with work and skills, social isolation. […] They are projects that have clear outcomes that support delivery of our corporate strategy." Membership manager Case 11

"As part of our contract, we give £[…] away to community organisations each year to support them, 'cause although we have our own youth centres, part of our contract is to support other youth centres out in the community, very often with safeguarding or with behavioural issues, […] and it has to be young people within the youth groups, not the leaders, can apply to the small grant fund and this group of young people meet three times a year and decide what bids to support and what not to, but they also carry out all the monitoring and the measurement of the impact of the money that they do hand out." Director of Finance Case 7

"Our approach to flexible working has […] been a priority for the Staff Council, it is much more consistently applied [now]*, so the policy is better, it's more inclusive and more consistently applied across the organisation, so they've had a focus on that. The focus on wellbeing, particularly around workplace stress, they have done quite a lot of work on and I think we are seeing a reduction on sickness absence where workplace stress is a factor. So I think they have had an impact, […] where they haven't had an impact is in the feedback into the big strategic priorities of the organisation."* CEO Case 6

4.3 Conclusion

Democratic inclusivity is a core principal of mutualism and the success of public service spin-outs depends on how effectively they are able to implement and embed the new structures and cultures. The 12 cases show a variety of forms and mechanisms which generally include combinations of the following main elements:

- *Boards of directors/trustees* – with provision for employee (and sometimes user) representation in most of the cases.
- *Representative bodies (or staff/community councils)* - particularly in larger organisations, the key roles of which can include approving policy and strategy and appointing the board.
- *Sub-committees, groups and forums* that include employees and sometimes users to address specific issues and report back to the board and/or representative body.

- *Other feedback mechanisms* to engage with staff and clients/users including surveys, organisational intranets, and social media.

Despite the lack of direct employee ownership in some cases and questions raised by some interviewees about whether they were 'true mutuals', the evidence supports that in all these cases employees were more empowered and able to contribute to innovation than when they were within the public sector. The recruitment of effective boards has been particularly crucial for the ongoing viability of mutuals, providing oversight and guidance on strategic direction and organisational policy. External (non-executive) board members have been an important source of professional skills and specialist knowledge, helping mutuals respond to opportunities and navigate the challenges posed by their complex operational environments.

Previous research highlights the importance of factors relating to employee/stakeholder agency, 'voice', sense of belonging, and the enabling role of leadership, organisational cultures and practices in underpinning democratic inclusivity. Hence ownership, as well as being a *legal-formal* property, has a *cultural-psychological* dimension (Pierce and Rodgers 2004). This is particularly salient for public service spin-outs given their need to forge and consolidate new organisational identities and cultures that are distinct from those of their public sector parent bodies. Having shed some light on the varied forms taken by mutuals and their approaches to ownership, accountability and decision-making structures, the next section delves further into the processes of extending and embedding inclusive ownership and governance, including the challenges encountered and how they can be addressed.

5. The Mutual Journey - extending and embedding inclusive ownership and governance

> *"You head for a utopia and every step you take towards utopia it recedes another step, but actually you'll never get there, but it's the journey that's important. […] it's about people and creativity and that's an interesting avenue to be going down, I think."* Manager Case 8

5.1 Introduction

A recurrent theme in many of the case studies was of interviewees experiencing mutualism as a *journey* or *learning experience*, of exploring and testing the new mutual identity and overcoming barriers to co-ownership and democratic governance. For many mutuals, this process began prior to leaving the public sector, when service leaders and staff engaged in extended periods of discussion and debate about the implications and potential advantages of becoming an independent mutual/social enterprise (Sepulveda et al. 2018). This early consensus building phase appears to have been crucial in laying the basis for the new mutual/social enterprise identities and cultures, with their reduced management hierarchies, devolved decision making and greater openness to new ideas. For instance, Case 6 was created by merging services from two local authorities which was also seized upon by members of the new organisation as an opportunity to overcome perceived shortcomings in the practices and cultures of the LA parent bodies, including a highly centralised corporate structure and lack of employee engagement.

As previously mentioned, most of the cases had made progress in refining their ownership and governance structures since their establishment. However, it was also apparent that achieving target levels of stakeholder ownership and engagement in decision-making can be a slow process, sometimes with disappointments and set-backs along the way. This can be for a variety of reasons related to the capacities of staff and other stakeholders, varying levels of acceptance and willingness to be engaged with the new mutual model, as well as the sectoral context in some cases. In order to gain deeper insight, we next examine the challenges of realising mutualism and collaborative governance in relation to three key questions:

- How do mutuals combine democracy with strategic oversight and entrepreneurial agility?
- How are the diverse and sometimes conflicting views and interests of different stakeholders taken on board and reconciled (or not)?
- What are the barriers to engaging employees and service users, and what is needed to fully realise their energy and potential to contribute?

5.2 Combining democracy with stewardship and agility

As previously suggested, a key consideration affecting the choice of organisational form relates to the tension between democratic inclusivity and stewardship or strategic oversight. Mutuals need to be agile and able to respond to opportunities and challenges in innovative ways, often seen as a key 'dynamic capability' in the management literature (Ambrosini and Bowman 2009; Inan and Hahn 2020). Mutuals, as with other social economy organisations seeking to implement democratic governance, are faced with how to specify procedures in relation to three main levels of decision-making and accountability:

- *Strategy* – decisions relating to forward business planning, growth, diversification and innovation;
- *Policy and procedures* – with HR and people management functions having a particular role in terms of realising the new mutual culture and ways of working;
- *Operations and day to day service delivery* – where delegated decision-making, empowerment of frontline workers, and service user engagement can enable innovative co-design and delivery of better services.

To what extent is decision-making 'fully democratic' involving all stakeholders, delegated, or the sole responsibility of the board of directors and governors/trustees? If the latter, to what extent are key decisions informed by the views of staff and user communities?

The case study evidence shows how mutuals have sought to achieve a practical balance between 'too much' and 'too little' democracy, and to accommodate democratic ideals with the need for pragmatism in a way that meets the expectations of different stakeholders, as illustrated by the following quotations:

> "*There's been a real element of a period of testing how much you need to constantly communicate every decision, from the most minor to the most major, to the whole team at any one time and we've certainly gone through processes of working out certain sort of structures to deal with that. So you might have working groups around certain types of decision-making, whereas other things […] it becomes really laborious and slow and we're increasingly learning to be leaner, more efficient at making decisions, in order to be a competitive business."* Staff board member Case 8

> *"In any kind of public service mutual, decision making is a mix of the promise of participation and the reality […] we are learning about which decisions to consult on and which not to consult on, which people are interested and which are not interested in and you know, I suppose I don't want every decision to be a collective one, 'cause it's not efficient and it doesn't really work like that, so we have a hierarchy, and that's helpful, but I think we do feel a responsibility and an accountability to staff and we are actively courting their participation in what we're doing through a representation largely at the Board, but also through our whole service events, where we go and talk to people."* Co-CEO Case 1

> *"I think we're still learning about what things we can change and what things we can't and how we can influence the direction and how we can't. And the way, like, [the CEO] applies for funding is very random, like, it's not him, it's just, you know, he'll apply for something, none of us will know about it and then we'll suddenly be told we've got this*

money and the reason that happens apparently is 'cause he'll have, like, a week window, when he'll suddenly be told, you know, apply for this […] he'll do a massive funding bid and yeah, we don't always know what's happening up there." Staff Case 7

These perspectives, alongside the accounts of other interviewees, shed light on how the practical implementation of democratic governance often involves a slow and sometimes contentious process of experimentation and learning around the new practices and cultures, and often also unlearning of previous practices and habits. Of particular relevance here is the balance between *stewardship* (top down) and *democratic multi-stakeholder* (bottom up) models, as previously introduced. Most mutuals and social enterprises adopt some combination of these two approaches which may also change over time. Some of our 12 cases were clearly positioned at the 'stewardship' end of the spectrum. For instance, the local authority owners of Case 6 had prioritised their retention of strategic control and oversight as the principal stakeholders or 'commissioning members'. At the same time, the new organisational culture was reported by interviewees to be very different compared to when the services were directly owned and controlled from within the public sector, with a more engaged workforce and what appeared to be a higher level of 'cultural-psychological ownership'. The four CBS cases were positioned more towards the democratic multi-stakeholder end of the spectrum, although at the same time incorporating elements of the stewardship (top down) model.

The stewardship approach (with limited democratic consultation) can also be justified in circumstances where organisations need to be agile and by enabling entrepreneurial leaders and senior staff to respond quickly to opportunities. For smaller mutuals operating in dynamic markets (e.g. Cases 7 and 8) detailed policies and procedures for democratic decision-making may prove too slow and unwieldy. Related to this, and as previously mentioned, an important consideration in the choice of the CIC form was its relatively 'light touch' reporting requirements, as in the case of one of the smallest CICs, operating in a non-statutory area of provision where responsiveness to opportunities and speedy decision-making were particularly imperative: *"Because we have to move quick too or we'll go bust."* (Board Chair, Case 8). In fact, the relative smallness of this organisation (*"like a family business")* appeared conducive to a strong culture and feeling of involvement and engagement which larger mutuals might struggle to achieve.

At the other end of the spectrum, some of the larger mutuals exemplify the advantages of strong formal mechanisms for consultation and democratic decision-making. For instance, the housing sector mutual (Case 11) had adopted an ambitious multi-stakeholder approach involving both direct ownership by staff and service users (housing tenants) and other mechanisms for democratic governance. Interviewees in this case acknowledged that the process could be slow but argued that the deliberative approach often resulted in more robust decision-making and greater shared ownership of the decisions taken on the part of employees, service user representatives and other stakeholders. At the same time, interviewees in this (and another of the large mutuals), also reported that decision-making was still faster than had been possible in the public sector:

"Sometimes decision-making can be a slow process and we're perhaps not as nimble as other organisations […]. I would also caveat that with I think that the decisions that we ultimately take are quality decisions that have significant levels of ownership right across

the society. […] it is part of the nature of being a co-operative, democratic organisation is that inevitably some of those considerations may take a longer period of time. I don't see it as a negative entirely but I could see why it would be perceived to be." Staff Vice Chair of representative body Case 11

"…we want it to be collaborative. […] so we've got our own Board and we also maintain close links with the Council because […] we have a big contract with them, but we still are able to make our own decisions a lot quicker." Co-Director Case 9

Other mutuals were found to occupy the middle ground of the spectrum, between 'deliberation' (with high levels of formal consultation) and 'agility' (with relatively less formal consultation). Interestingly, the one small CBS (Case 5) had accommodated the need to be dynamic while also retaining accountability to its membership by modifying the standard CBS model to include elements of the more flexible CIC model.

Also, as previously mentioned, many mutuals, including some of the largest and perhaps 'less agile', have continued to evolve and adjust their governance arrangements in order to improve their functioning. This has included changes to boards, sub-committees and representative bodies, often with a view to improving their composition in terms of complementary skills, external knowledge and perspectives, and to better represent stakeholder groups. In some cases, changes have also been made (or were underway at the end of the field research) to better align and integrate the different elements of organisations' governance structures and how they relate to each other.

5.3 Navigating tensions and balancing different perspectives

The experiences of implementing mutuality and collaborative governance have entailed novel levels of openness and expression of plural and sometimes conflicting perspectives – more so than is common in comparable service delivery organisations in the public and private sectors. This brings us to the second main area of challenge: how do mutuals seek to manage the democratic tensions that can arise from the different perspectives and interests of stakeholders? The accounts of interviewees suggest that an important aspect of the learning process or 'mutual journey' involves stakeholders - newly enfranchised employees and users in particular - testing and exploring the new governance model, its potential and limits. Inevitability, this can involve some degree of "*grit and friction":*

"In every democracy, it's important to hear the dissenters, but that doesn't mean to say that the dissenters should override the wishes of the vast majority, but it's important to hear them." CEO Case 9

"So, it's all about trying to get things working more smoothly, avoiding any kind of tensions, spotting issues early and making sure that there's a forum for discussing any kind of tricky issues. […] from my perspective, there's always going to be tensions there, it's about how you, actually if there's tensions there, you want them being discussed, don't you?" CEO Case 11

"I think people expected magic when we moved out […] I had three sets of staff, one set of staff that were just sat there going, 'I don't want to change, don't want to change', another set of staff that were going off trying to apply for everything straight away and trying to be as free as a bird and then this group in the middle and quite deliberately, 'We just wanted to consolidate as a new organisation.'" CEO Case 7

An initial area of tension reported in some cases was the crucial decision of service leaders and staff to leave the public sector, such as was experienced by the library service mutual where many customers were concerned that this amounted to privatisation: "*So it was making sure we made it clear that, no, this is not privatisation. It's not privatisation by stealth either, it is something completely different."* (Manager Case 9).

Issues related to external funding/income as well as resource allocation issues within organisations were recurring areas of tension in many of the cases. Regarding the former, the relationships between mutuals and public service commissioners have already been examined in Section 2. In many cases, the parent bodies continue to be the main providers of core funding and may be represented on mutuals' boards, particularly in larger organisations.

With regard to tensions involving employees (and customers/users in a few cases), interviewees referred to debates and sometimes *"challenging conversations"* (as expressed by one CEO) around how to re-invest any surplus generated, such as whether to spend on development within the organisation, to improve the pay and conditions of employees or to invest in community services and projects (e.g. Cases 2, 4, 8).

One particular example relates to the housing mutual (Case 11), where differences emerged between staff seeking to improve their salary/conditions and tenants, the main source of the organisation's income, and who were concerned about the implications in terms of increases to rent payments and service charges.

"[W]e had [a] period where things between the Representative Body and [organisation] were quite fraught […] You have tenants, you have employee tenants, you have employees that aren't tenants, we had councillors on there. So you've got a big mix of people and we went through a period where it was quite acrimonious between all of us as well. It felt like the tenants were fighting the employees and the tenants and employees were fighting the organisation. So we went through quite a rocky period for quite a while. […] the minute you talk about finance, tenants are saying, 'Well why should we pay more when you're having to cut services?' and on the other side the employees are saying, 'We want more' […] So sometimes you just have to accept you are both justified in how you feel so you are never going to be completely parallel." Tenant representative Case 11

There had also been tensions around whether non-executive directors on the board should be paid or not. This proposal was initially rejected by the representative body but was approved after several rounds of negotiations in which the business case for such payments – i.e. the increasing expectations placed on non-executive directors and the benefits in terms of securing commitment - was explained.

Diversification into new areas of service delivery was also reported as an area of tension in some cases, as mentioned in Section 3. Differences can particularly emerge between leaders and staff of a more entrepreneurial disposition and others who are more cautious and risk averse. For instance, some directors and staff in one of the large health providers had initially been resistant to a proposal to diversify into new areas of private provision, although the proposal was eventually accepted and approved following extensive discussion of the balance between the potential risks and benefits involved.

An important aspect of the learning process around mutualism therefore relates to how tensions and conflicts are discussed, understood and moderated. This often necessitates trust building between different standpoints and managing expectations about what is realistic and feasible in order to develop a shared understanding of the issue at hand. Interviewees spoke of the importance of 'learning to listen', overcoming adversarialism and facilitating compromise through dialogue and deliberation, as illustrated by the quotations below:

> *"The Staff Council didn't use to be effective at all, it wasn't working and I'd done a little bit of research into this public service mutual model and thought, our Staff Council needs to be better than this, this isn't how it was supposed to be […] I don't think they'd got it, the Chair and the Vice Chair […] they used it as more a militant type, 'We want this' and 'we want that' and 'we can't have this.' […], when it's supposed to be quite democratic and you see both sides, you see why the Board are doing, you see why the staff are upset and you act as the scales to keep that equilibrium going and it works better like this, because they listen to us and now we've got where the Board are listening to us as well, so it's working in both ways."* Manager and chair of staff council Case 2

> *[S]o because we're sort of in different spaces and it's, you know, that can be tricky […] sometimes everybody thinks they can have an input into something and it's like, and there's lots of stuff around listening skills, patience, kindness, I mean, these are our things we aspire to and they're hard work, so sometimes we do it okay and other times we don't and I'm including myself in that.'* Staff member Case 8

> *"I think we are also learning what that means […] for some employees mutuality is a stick to beat us with, particularly around uncomfortable decisions and working in a very pressured environment in terms of financial constraints and all the other impacts of those. I think for some employees an ownership model has generated an expectation that there won't be difficult decisions to make and negative impact on some employees, 'I thought you were a mutual. Are you not listening to us?' Has definitely been a feature of some of that conversation"* Staff member of representative body Case 11

5.4 Engaging stakeholders and enabling their contributions

Previous research on democracy in workplaces reminds us that not everyone is attracted by participatory approaches and their associated demands and cautions against 'imposing democracy' (Frega 2019: 23). For public service mutuals, however, democratic inclusivity is a core principal and the evidence supports how it often plays an important role in their resilience and ability to contribute to social value. The accounts of interviewees across the

12 cases reveal the various challenges encountered around engaging employees and user communities, and how mutuals were seeking to address them.

First, even high levels of formal membership or shareholding may not readily translate into high levels of actual engagement and participation in collaborative governance. In many cases interviewees felt that disappointing levels of participation needed to be addressed by improved approaches to engagement (an issue to which we will return). A range of factors were identified as mitigating against people's willingness and capacity to participate. As already suggested, some employees may never fully accept the new mutual model and culture and remain unwilling to participate. Growth in some cases has involved new staff being transferred from the public sector under the TUPE arrangements (Section 3.5), some of whom were unhappy with the transfer to the new organisation and would have preferred to remain in the public sector.

> *"The challenge is, how do you keep that ethos and culture permeating the consciousnesses of everybody, when some of them have been TUPE'd in and they haven't necessarily wanted to come and it makes it really challenging. […] we have TUPE'd in staff, who didn't want to come and we've now recruited staff who do want to be there and it's finding the balance between the TUPE'd staff not influencing the new people that have come in who want to be there and vice versa, we do want the new staff to influence the TUPE'd people, to make them realise that actually […] is a fabulous organisation. So, it's caused a lot of tension."* CEO Case 3

Although some new staff may take readily to the new culture or accommodate to it over time, others may remain unhappy and ultimately leave. As the CEO of one of the longer-established mutuals commented in relation to the cohort of 'older generation' staff who had been dissatisfied as mutual employees: *"those staff […] have either moved on or have accepted, so it's never mentioned anymore."* (CEO) Case 4). Others may be 'neutral' or even sympathetic towards the mutual model but remain disengaged, perhaps due to limited understanding of the model and its potential, as reflected in the following comment:

> *"It hasn't really worked as well as it should because I think there has been a lack of understanding in the organisation about what employee ownership is and what people's roles can be as or what the employee role is as a shareholder. […] So, we are actually in the process of changing a lot of that."* MD Case 10

Employees may also lack confidence or feel they lack the requisite skills and capacity, or just do not want the extra responsibility, particularly those at lower levels or on part-time or fixed term insecure contracts. The operational context, involving both austerity and institutional turbulence in some sectors, was also highlighted as a challenge and contributing to varying levels of interest in democratic governance. The constraints affecting organisations were felt to have limited other desirable actions, such as being able to offer benefits and rewards for involvement, as well as contributing to dissatisfaction amongst some staff. There were examples of innovative initiatives which had slowed or experienced set-backs - as one senior manager commented: *"there were quite a few good projects that came out of that, it's sort of lost a little bit of momentum now, but I think that's because everyone's snowed under with work"*.

Rapid growth and expansion to multiple sites has also posed a particular challenge for some mutuals. One, for instance, had expanded from its home location to deliver its services from 30 geographically dispersed sites. In such cases, involvement in governance and ownership in the cultural-psychological sense is likely to be less strong than at core/headquarters sites.

Mutual leaders were very conscious of the need to address such challenges and overcome barriers to membership/shareholding and gaps and imbalances in their governance structures. Many had made, or were in the process of making, constitutional adjustments to extend representation on boards (including to new staff from different regions) and other changes aimed at developing understanding and to motivate and support participation. This often involved change in both formal and less formal practices, or *“a cultural development process”* as described by one CEO. In the final interviews, leaders described measures adopted (or about to be introduced) aimed at reinvigorating their strategies for inclusive ownership and engagement (as indicated in Table 4.1). The quotations below further illustrate some of the challenges experienced and approaches to improving engagement adopted by different mutuals.

> *“It goes up and down, you know. We did a lot of consultation with staff […] and we have a mixed bag. Some of [them are] not interested in being part of running an organisation or even having a voice, they just want to get paid on Friday and you’ve got to respect that […] and then where we've had other staff who are very vocal and want to get involved and want that experience and we've done a lot of development with them to get them into those roles.”* CEO Case 5

> *“We get complaints and we get comments that are just more general but in terms of engaging our members, public and staff, in the direction of the organisation, from my perspective, there isn’t a deal of that going on. […] when something is happening that affects staff then of course there is a peak in how they communicate and we have loads of mechanisms to communicate. So we have a ‘let’s talk’ function on our version of our own little intranet on learning pool but in the main looking at that there isn’t a high volume of people making suggestions. If they do it tends to be more, dare I say it, moaning about things that are particular to them rather than suggesting big plans for how things could be different.”* Manager and staff representative Case 9

> “*The whole ethos of it is that young people and staff, their voice is heard and acted upon and it’s not just top down. In fact, if anything, it’s more bottom up. It’s actually quite difficult to achieve though, so the staff progress group, it’s quite difficult to get staff to want to be on it […] 'Cause people are busy […] we’re so busy trying to do everything on quite limited staffing […] the aim really is to get members of staff who are maybe only part time or even volunteers, people who would never normally have much of a say and it’s hard to find times when those people can actually come, so we've got, like, one person who’s part time, everyone else is already full time, so I think there's a bit of an imbalance in the representation. Then, of course, the part time, really part time people don’t necessarily really understand the whole structure of it and what ideas are feasible and what aren't, so it’s a kind of learning curve, but they do represent all the different centres and everyone knows who they are and everyone can tell them their ideas and we can evaluate new ideas and put them forward to the Trustees and some things have happened as a result of that.”* Staff member Case 7

Engaging service users

The policy and support framework for spin-out mutuals has prioritised employee ownership and influence, although many have also sought to extend influence to their user communities (Sepulveda et al. 2020). Although only four of the 12 case study mutuals had provision to include service users as shareholders or members (all taking the CBS form) most organisations had adopted other measures to engage with the views and concerns of their user communities (Table 5.1, Annex B).

As with employees, formal measures to give users a voice and influence in decision-making include representation on boards of directors/trustees and separate representative bodies or sub-committees (sometimes alongside staff and other stakeholders) that provide feedback to boards and/or representative bodies on specific issues. The four CBS cases that had extended formal co-ownership to their user communities[16] also had the strongest provision for user representation in their governance structures. However, all 12 cases also engaged with their users in various other ways, including surveys, users' advisory groups, community forums and newsletters.

Despite these various mechanisms, engaging user communities in co-ownership and decision-making was found to pose much more of a challenge than in the case of employees. Even in some CBS cases where the numbers of user members far exceeded employee members, a recurrent theme was the difficulty of engaging service users. In one case, for instance, although user membership ran to tens of thousands, this vast membership and potential source of support was nevertheless reported as being largely 'passive.' Interviewees identified similar barriers to those limiting employee engagement: lack of awareness and understanding of the mutual model, as well as lack of capacity, skills and confidence. Further compounding the difficulty is the much more arms-length relationship with the organisation and its culture, and that clients/users may be vulnerable and disadvantaged, and sometimes geographically dispersed across different localities (i.e. especially for the larger mutuals).

As well as organisations being at different stages of development, the patterns of ownership and involvement can also reflect the nature of the services delivered. Some sectors can be less amenable to user participation in governance for reasons related to the vulnerability of their users/client groups, as in the case of some specialist services in health and social care (e.g. Cases 1 and 2). It can also be difficult to generate interest in complex organisational issues amongst some groups, as was particularly noted in cases targeting young people (e.g. Case 7). Interviewees in some cases observed that a significant proportion of their clients/users appeared unaware of the new mutual/social identity and continued to see the organisation as a public sector body. With regard to resourcing issues, a reliance on voluntary input and budgetary limitations on compensating users for their input was also mentioned as a constraining factor, particularly for smaller mutuals (e.g. Case 6).

As with their employees, even organisations with high levels of formal co-ownership (membership or shareholding) were accepting that many clients/users were unlikely to want

[16] All four CBSs required individual users to make a conscious decision to opt-in to become a member rather than membership being automatic.

to be active participants. While recognising this reality, interviewees stressed the importance of keeping users informed about the organisation and its activities, and of promoting awareness that opportunities for users to become more involved remained open. An important aspect of the more recent engagement strategies reported by some mutuals has therefore been to articulate more clearly the different levels of involvement, ranging from 'passive' membership, occasional inputs involving little time and effort, up to fuller, more active volunteering as well as formalised roles within the organisation's governance structure.

> *"One of our challenges has been, how do you engage with your membership, beyond people ticking a box that says 'I want to be a […] member', and we go out to them with newsletters and […] voting at AGMs and stuff, but in reality it's how do you engage with that? So we're going to be launching a kind of engagement of volunteer strategy, which we'll target at our members and that is going to be a more sophisticated approach to engagement, so to allow people to engage with us for different periods of time at different levels […] that says, 'Ok, you're a member, but you can do this for us and us', creating, rather than just saying 'Come and help us', 'cause that's kind of hard to manage really, you're saying, 'We need help here' or 'Would you like to do that, have you thought about doing that?' and trying to encourage that. So it's been a long time coming but I think that's a kind of tipping point for us, to make the mutual element, which we always felt was part of our motivation, that it works better."* CEO Case 9

> *"So, for me, the first level of democracy is that we don't do things to people, we're doing it with them, so whether or not you ever become a member of [….], you should feel that you've got some influence on how we work with you to deliver some of our suite of projects. If you don't want to be very close, then you don't have to work with us […] but there's an expectation of mutuality built in, in terms of how we deliver […] and then there are ways that you can be part of the membership, that then get to make decisions on what we do with surpluses, that kind of stuff."* CEO Case 12

Catalysing and building engagement have become increasingly linked to the provision of support and incentives, particularly for people who have never previously been involved in formal organisational procedures and may lack confidence in their ability to contribute. Hence in a number of cases strategies for engagement (whether targeted at employees, users or both) included measures to help 'talent spot', nurture and train prospective candidates for roles involving greater responsibility in governance, such as being a member of the board or representative body: "*We're calling it a Pipeline of Engagement that helps to grow our representatives of the future."* (Membership manager Case 11). In developing its most recent corporate strategy, Case 11 had also sought to enable the contribution of staff and service user members by bringing in a facilitator to help develop strategic thinking about possible future scenarios:

> *"Sometimes we […] really have to encourage people to see the bigger picture in terms of getting beyond the immediate, to think about what decisions we need to take now that are going to put us in the strongest possible position for things three years, five years, 10 years down the line, so sometimes people do get caught up in the immediate. […] So, we did an exercise […] where we had a facilitator who came in who worked with the representative body, worked with a group of tenants, worked with a group of employees,*

kind of going through different scenarios of what the political economic situation could be like in three years' time, five years' time, to get people thinking about, well, actually, this could happen, what are the things we need to think about in terms of what we do as a business to deal with that scenario or that scenario?" CEO Case 11

5.5 Discussion and conclusion

The case studies reveal how implementing mutualism in practice often involves an ongoing process - a *journey* or *learning experience*, of exploring and testing the new mutual identity and overcoming barriers to co-ownership and inclusive governance. The analysis shows how ownership is not just a *legal-formal* property but also has a *cultural-psychological* dimension. Crucial here are factors relating to employees' sense of belonging and their 'buy-in' to the organisational culture, and the extent to which they have agency and a 'voice' that, most importantly, is heard. Visionary leadership and changes to organisational practices and culture play a vital role here. There is also a need to understand how this cultural dimension interacts with and enables the formal-structural dimension of governance: our study reveals the diversity of approaches and outcomes in public service mutuals. This variety and complexity can be more simply represented in terms of four main 'ideal type' models of democratic enfranchisement (Figure 5.1), which may also be stages in a longer-term journey towards mutualism:

Stewardship - mode 1: *without legal or cultural-psychological ownership*
Directors and board members act as stewards for the beneficiaries and employees who are not involved in governance and strategic decision-making. This rather traditional 'top down' model is commonly found in the wider non-profit/charity sector and is less typical of public service mutuals and other social enterprises.

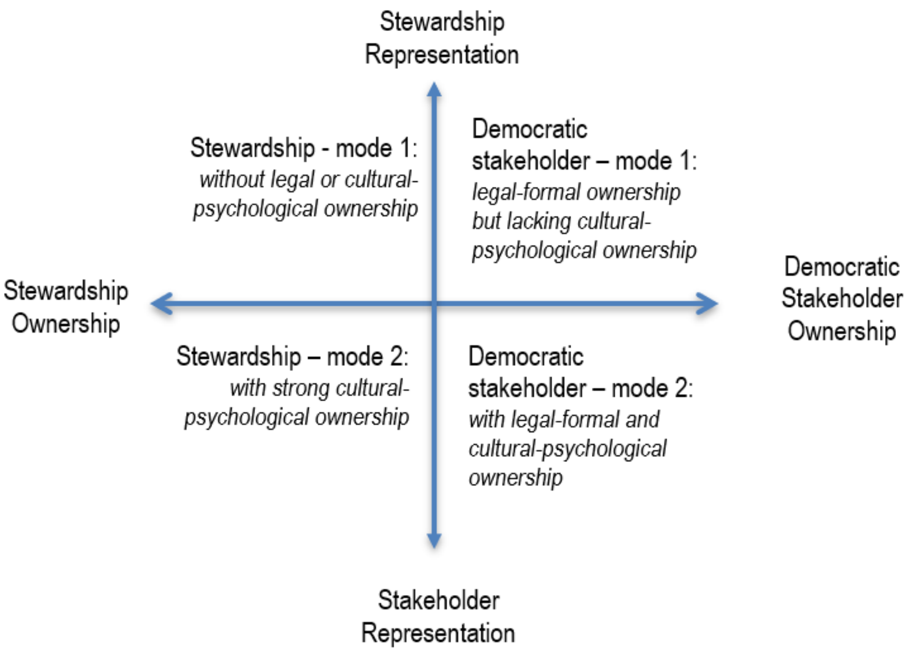
Stewardship – mode 2: *with strong cultural-psychological ownership*
Although still lacking formal-legal ownership, employees (and sometimes users/clients) in this category have a strong affinity with the organisation's aims and mission, and exhibit 'psychological ownership and belonging'. This includes an enhanced ability to respond to the needs and concerns of user communities through co-production and service innovation, as compared to when their core services were delivered from within the public sector.

Democratic stakeholder – mode 1: *legal-formal ownership but lacking cultural-psychological ownership*
Organisations with strong legal-formal structures for (multi-) stakeholder ownership can nevertheless exhibit weak cultures of participation and engagement. This may reflect a number of factors, including the relative newness of many public service mutuals, meaning that formal opportunities are under-realised. There may also be problems related to stakeholders' understanding of the mutual model and its benefits, as well as a lack of confidence in their ability to participate in governance and so fully exert their (legal) ownership rights.

Democratic stakeholder – mode 2: *with legal-formal and cultural-psychological ownership*
Organisations in this category exemplify the mutual/democratic 'ideal' by effectively combining the adoption of appropriate legal forms and related mechanisms with a strong

approach to promoting and embedding inclusive ownership and collaborative governance as core to the organisation's identity and culture. In those cases that had the most advanced or high level of adoption of formal mechanisms, the mutualisation process had also been strongly supported by the cultural-psychological dimension of empowerment and ownership. The fuller realisation of mutualism underpins a complex hybrid ability to thrive as a business while also fulfilling key public service functions and contributing more widely to social value.

Figure 5.1 Models of democratic ownership and representation



Democracy in the current period is commonly perceived as malfunctioning and failing to respond to societal needs. At worst, democratic processes are experienced as a dysfunctional clash between polarised standpoints, with little prospect for shared understanding and consensus. Such 'winner takes all' scenarios run the risk of entrenching division and misunderstanding between individuals and groups who feel that their voice is not being heard and acted upon (Foa et al. 2020). The notion of deliberative democracy is of particular relevance here, with its suggestion that robust democratic outcomes require a process of knowledge sharing, debate, trust building and learning between plural perspectives (Curato et al. 2017). The recent experiences of public service mutuals documented by this study lend further support to the idea that deliberative processes are more likely to culminate in considered viewpoints which are both 'smarter' and likely to be more acceptable to the majority than outcomes provided by other more limited (and prevalent) forms of democracy and governance.

6. Conclusion and recommendations

In concluding this report we recap on the main findings and draw out the strengths and good practice identified by the research - particularly for new and recent start-ups and for growing mutuals; and also make some recommendations for policy support for the sector as a whole. Overall, the research confirms that the mutual form provides a viable way of delivering public services. This is in line with evidence from previous policy and academic research.[17] The particular contribution of this longitudinal case study research has been to provide evidence on:

1. How mutuals are able to deliver services that are often more innovative and effective than when the equivalent services were delivered from within the public sector
2. How the mutual concept has been interpreted and applied in different contexts
3. How different organisational/legal forms, governance structures and cultures underpin the 'mutual advantage' in different contexts.

Public service mutuals have proven to be important test-beds for hybrid forms of ownership, empowerment, and public service innovation in challenging times. The lessons from their experiences have considerable potential to inform how public and community based services can be revitalised and become more responsive and innovative in a post-Covid-19 world.

Working with the public sector

The research identifies a number of strengths and good practice in relation to how mutuals are able to work with the public sector to deliver services:

- *Innovation with multiple outcomes* – surplus can be invested in innovation that can lead to new services being commissioned
- *Local knowledge* – responsive to the needs of diverse communities and engagement with users, including the co-design and co-production of services
- *Diversifying income* – able to supplement income from core contracts with other sources
- Partnership working - with public sector bodies and other providers, which can be encouraged by commissioners through their invitation documents
- *Added value* - demonstrating social benefit as well as a competitive price, in line with the Public Service (Social Value) Act

Although most mutuals report positive and collaborative relationships with their parent public sector bodies and public service commissioners that have continued to be a primary source of income, some significant areas of difficulty were also reported, often resulting in higher transaction costs for them:

- Competitive procurement processes are demanding and resource intensive, particularly for smaller mutuals that are often working to very tight margins and making little, if any, surplus

[17] CEEDR 2014; Hazenberg and Hall 2016; Miskowiec et al. 2019; Powell et al. 2018; Sepulveda et al. 2019; SEUK 2018, 2019 and 2021; Vickers et al. 2017.

- Commissioners often have high expectations but budgets for public service delivery are not increasing to cover mutuals' overheads or inflation, yet there are no alternative (non-public sector) sources of funding for many key services
- Large contracts and requirements for geographic scale favour corporate providers and disadvantage many mutuals, as well as short notices and deadlines for tenders making building consortia harder
- Financial pressure, particularly on local authority budgets, have seen staff cuts to commissioning groups and related loss of capacity. High staff turnover levels in commissioning groups can also undermine continuity, and newly appointed commissioners were perceived to be less qualified and experienced by some mutuals

The Public Service (Social Value Act) of 2012 provides an important legislative framework and context for commissioners, mutuals and other social enterprises by enabling contributions that are not captured by traditional metrics of impact and performance. The SV Act is gaining traction within commissioning processes, but slowly and variably applied, with scoring criteria heavily weighted towards price and SV weighted at a small percentage if at all. There appears to be more opportunity for SV recognition in large rather than small contracts, but this can discriminate against mutual and favour corporate providers and large charities.

Growth and diversification

Mutuals have been driven many to seek alternative sources of income in order to reduce dependency on their core public service contracts, to diversify, and to grow. All 12 case study organisations have grown since their inception, although to varying degrees and in diverse ways, reflecting their different starting points, resource bases, opportunity structures and challenges faced in different contexts.

Key capabilities and good practices for successful growth and diversification include:

- Awareness of the commissioning/funding landscape (reducing persistent asymmetries of information) and alertness to possibilities for diversification into new (but often related) service areas and sources of income;
- Building alliances and pooling resources with other organisations to bid for new contracts, maximise social innovation potential and mitigate risk;
- Good understanding of the strengths and innovation potential of the organisation, as well as recognition of gaps in capacity and skills and how they can be addressed by:
    - nurturing and training staff and other stakeholders
    - recruitment of fresh blood to bring in new skills and expertise
    - specialist external support – making timely use of this where needed
    - networking/mentoring relationships with other mutuals and social enterprises
- An ability on the part of entrepreneurial leaders and staff to persuade other organisation members that risks are worth taking while building consensus and support across the organisation for innovative initiatives.

Even successful growth and diversification bids and initiatives can bring challenges, with a need to carefully monitor and manage the resource needs of new services in a way that does not compromise the delivery of existing core services or organisational identity.

Significant growth often necessitates requisite development of key functional/management systems (HR, finance, IT, customer service etc) as well as governance structures.

Recruiting and retaining the skilled professionals needed to deliver services was reported as a challenge, particularly in the health and social care sectors. This is a national problem requiring a national-level solution, although one constructive way for mutuals to respond is by building the attractiveness of the work environments and employment conditions they are able to offer and promoting their reputations as good employers.

External sources of support

Mutuals have been assisted in their transitions from the public sector under the Mutuals Support Programmes run by the Office for Civil Society. The support has been vital in helping mutuals become established and was generally reported to be of good quality and delivered by trusted and knowledgeable sources. The support also appears to have developed and improved over time in dialogue with mutuals, including with the provision of advice and toolkits related to specific emerging needs.

Although the spin-out/start-up support was experienced as readily available and easy to secure, support for growth and scaling-up was sometimes felt to be more limited and difficult to access. Peer support and networking between mutuals themselves and other social enterprises was particularly valued. Such relationships enable mutuals and other social enterprises to learn from each other's experiences, benchmark performance against each other, share sector-specific knowledge/resources and access to wider networks.

Access to repayable (debt) finance appears not to have been a pressing concern, with existing provision being adequate for the needs of most mutuals and a diverse range of debt finance available from banks and social investors. Limits on profit distribution may restrict some equity investors, although these are very small in number and the benefits of having a transparent, accountable and easily understandable label, may outweigh the disadvantages. Grants are still vital for growth and purchasing infrastructure, but social investment funding was often seen as an unattractive and expensive form of finance, despite being relatively easy to access. Some mutual leaders also felt that social investment providers were too 'risk-adverse' and did not want their influence on their boards.

Implementing and embedding mutualism

Democratic inclusivity is a core principal of mutuals and their success depends on being able to implement and embed the new organisational structures and cultures. Mutuals need to demonstrate both ownership and effective multi-stakeholder participation and representation, although defining these terms is not straightforward. Ownership can be direct i.e. through shares held by stakeholders/members, or indirect with ownership being exercised through a trust or charitable form that is accountable to employees and user communities.

The recruitment of effective boards has been particularly crucial for the ongoing viability of mutuals and their growth, providing oversight and guidance on strategic direction and organisational policy. External (non-executive) board members have been an important source of professional skills and specialist knowledge, helping mutuals respond to opportunities and navigate the challenges posed by their complex operational environments.

The interests and views represented on boards have also been highly influential in terms of defining the nature of mutualism in practice and how collaborative governance is taken forward.

A key consideration affecting the choice of organisational form and governance structure relates to the tension between democratic inclusivity and stewardship/strategic oversight. This can be understood in terms of three main levels of decision-making and accountability:

- *Strategy* – decisions relating to forward business planning, growth and diversification
- *Policy and procedures* – with HR and people management functions having a particular role in realising the new mutual culture and ways of working
- *Operations and day to day service delivery* – where delegated decision-making, empowerment of frontline workers, and engagement with service users can be crucial in terms of the co-design/production of services

Mutuals need to achieve a practical balance between 'too much' and 'too little' democracy in ways that meet the expectations of their stakeholders. Most mutuals and social enterprises adopt some combination of the stewardship and democratic multi-stakeholder models, the balance between which may change over time. Some mutuals are positioned at the 'stewardship' end of the spectrum. For instance, the local authority owners of one CIC had prioritised their retention of strategic control and oversight as the principal stakeholders or 'commissioning members'. The stewardship approach can also be justified in circumstances where organisations need to be agile and entrepreneurial leaders and senior staff able to respond quickly to opportunities. For smaller mutuals operating in dynamic markets detailed policies and procedures for democratic decision-making may prove too slow and unwieldy. Despite the lack of direct employee ownership in some cases and questions raised by some interviewees about whether they were 'true' mutuals, the evidence supports that in all these cases employees were more empowered and able to contribute to innovation than when they were part of the public sector.

The four CBSs in the sample were positioned towards the democratic multi-stakeholder end of the spectrum and exemplify the advantages of developed and formalised mechanisms for consultation and decision-making. Although sometimes slow, this was reported as resulting in more robust outcomes and shared ownership of the decisions taken. It was also reported that decision-making processes were often still faster than had been possible in the public sector. Other cases were found to occupy the middle ground of the spectrum, seeking to balance democratic deliberation with organisational agility.

An important aspect of mutuals' learning processes around collaborative governance relates to how tensions and conflicts are discussed, understood, and moderated. This requires trust building between different standpoints, developing shared understanding and resolving conflicts through dialogue and deliberation.

Engaging stakeholders

Ownership, as well as being a *legal-formal* property, has an important *cultural-psychological* dimension, which is particularly salient for public service spin-outs given their need to forge and consolidate new organisational identities and cultures. Even high levels of formal membership or shareholding may not readily translate into high levels of engagement and participation in organisational governance. In some cases, formal ownership may be accompanied by only minimal engagement in decision making. Increased levels of ownership and participation may take time to realise and may not be realistic for some organisations for a variety of reasons related to their sectoral context, parental ownership structure, and nature of their activities. An organisation may have staff/community ownership, but this may be taken up by only a small proportion of staff/community members. Putting mutualism and democracy into practice often entails a gradual and sometimes challenging process. Some mutuals are fully-owned by their staff (and user communities in some cases), while others allow people to 'opt-in' and it may take several years for the membership to build up to a significant proportion of the workforce and/or user community.

Mutuals were seeking to address such barriers by a combination of measures to motivate and support participation, including within their governance structures to extend representation as well as other mechanisms and less formal practices, or *"a cultural development process"*. Good practices for catalysing and building engagement include:

- *Raising awareness of the different levels of involvement possible*, ranging from 'passive' membership, occasional inputs involving little time and effort, up to fuller, more active, and formalised roles within the organisation's governance structure.
- *Provision of support and incentives*, particularly for people who have never previously been involved in formal organisational procedures and may lack confidence in their ability to contribute.

Hence in a number of cases strategies for engagement included measures to help 'talent spot', nurture and train prospective candidates for roles involving greater responsibility, such as being a member of the board or representative body and beyond. This is particularly relevant in the context of some mutual leaders coming close to a retirement age and succession plans therefore becoming an issue.

Recommendations for policy and support

Most mutual interviewees were cautiously optimistic that their organisations (and the mutual sector as a whole) would continue to thrive, with some anticipating further significant growth. However, this optimism tended to be qualified by observations relating to the uncertainty of mutuals' regulatory and institutional frameworks, complexities of the competitive quasi-markets where they operate and concerns about the commitment of government to supporting and promoting the mutuals agenda going forward. It is also likely that less optimistic views are to be found in relation to the new economic policy context triggered by the Covid-19 pandemic since March 2020. For mutuals to continue to thrive and for the sector as a whole to continue to grow, various challenges need to be addressed.

Commissioning, procurement and social value

The Public Services (Social Value) Act has potential to substantially transform commissioning and procurement practice by driving greater consistency in the reporting of social and environmental impacts, alongside the assessment of price and specific quality criteria. Given the evidence of considerable variation and inconsistency in how the Act is being applied, there is a need for further research on how commissioners are scoring social value and applying social value clauses across different service areas and local contexts.

There may also be a need to provide clearer guidance for commissioners on how they should interpret the Act; and this should be widely communicated across the sector. This would ideally include recognition of the benefit of mutuals being able to make a surplus/profit that can be reinvested in the organisation and its social mission.

Actions could also be taken to provide bespoke training for commissioners (including on mutuality and public service delivery) and, where possible, address the capacity constraints affecting commissioners while also ensuring continuity in the management of contracts.

Other potential areas of support

Further actions are needed to support smaller mutuals to operate in the quasi-markets which are often dominated by large competitors. Possible areas of intervention include:

- Bid writing skills, consortia building and earlier provision of relevant information on forthcoming tenders.
- Support to develop spaces or platforms for mutuals to learn from each other, particularly focused on issues around growth and the challenges involved. Newer mutuals in particular can benefit from the accumulated experiences of successful growth in different contexts.
- A number of further regulation-related challenges were identified and suggest the need to review areas where there may be scope for easing regulatory constraints and liabilities affecting mutuals, notably with respect to the Transfer of Undertakings (Protection of Employment) Regulations (TUPE).

Choice of legal form and governance structures

Most public service mutuals adopt legal forms with asset locks providing control and accountability to stakeholders (e.g. CIC, Community Benefit Company, Charity). There is merit in retaining diversity and allowing mutuals to choose the legal forms and constitutions which best suit their needs and circumstances.

Related to this, majority employee ownership need not be an essential requirement although it should be required that all mutuals have a strong framework for democratic governance, including:

- Elected staff on the Board of Directors/Governors
- Staff and/or member voting rights
- A formalised representative body with direct links to the Board and staff able to elect their representatives.

Clarity is needed on the minimum influence to be extended to employees to ensure democratic representation for all staff at all levels, not just senior/managerial staff.

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Glossary of terms and acronyms

Asset lock - a constitutional device that prevents the distribution of residual assets to members and other stakeholders. The purpose of an asset lock is to ensure that the public benefit or community benefit of any retained surplus or residual value cannot be appropriated for private benefit of members.[18]

CBS - Community Benefit Society - before 1 August 2014, all societies registered under the Industrial and Provident Societies Act 1965 (or its predecessors) were legally referred to as 'industrial and provident societies', whatever they called themselves. From 1 August 2014 they are referred to as 'registered societies' and either as a co-operative society, or a community benefit society.[19]

CCG - Clinical Commissioning Groups were created following the Health and Social Care Act in 2012 and replaced Primary Care Trusts on 1 April 2013. They are clinically-led statutory NHS bodies responsible for the planning and commissioning of health care services for their local area.[20]

CIC – a Community Interest Company is a limited company, with special additional features, created for the use of people who want to conduct a business or other activity for community benefit, and not purely for private advantage.[21]

CLG - A Company Limited by Guarantee is the legal form taken primarily (but not exclusively) by non-profit and charitable organisations. A CLG does not usually have a share capital or shareholders, but instead has members who act as guarantors of the company's liabilities.

DCMS - The Department for Digital, Culture, Media & Sport is currently responsible for advancing the government's civil society agenda including public service mutuals.

Service Level Agreement (SLA) - an informal form of 'contract' between a customer and a service provider.

SEUK – the national body for social enterprise - business with a social or environmental mission.[22]

Social enterprise - Businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners.

Social Value (SV) – The Public Services (Social Value) Act 2012 requires public authorities to have regard to economic, social and environmental well-being in connection with public services contracts.

[18] https://communityshares.org.uk/resources/handbook/asset-lock-provisions
[19] Ibid
[20] https://www.nhscc.org/ccgs/
[21] https://www.gov.uk/government/publications/community-interest-companies-business-activities
[22] https://www.socialenterprise.org.uk/

Social Return On Investment (SROI) - a methodology that aims to provide a clear framework for anyone interested in measuring, managing and accounting for social value or social impact.[23]

TUPE - The Transfer of Undertakings (Protection of Employment) Regulations of 2006[24] provide rights to employees when their employment changes when a business is transferred to a new owner.

[23] http://www.socialvalueuk.org/resource/a-guide-to-social-return-on-investment-2012/
[24] https://www.gov.uk/government/publications/tupe-a-guide-to-the-2006-regulations

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Annex A: Methodology

Research design

Following an analysis of the data held by DCMS on 129 active organisations which it classified as public service mutuals, a short-list of 20 mutuals was selected to represent the diversity of the sector and profile characteristics that include: different stages of development (how long since mutualising / leaving public sector); size bands (turnover / employees); geography (coverage across different regions, localities); and type of organisation/legal form. The resulting shortlist of 20 organisations were contacted by email between February-March 2018. This resulted in 12 organisations agreeing to participate in the research (Table 1.1). The case study mutuals were purposively selected to represent a mix of service areas: Health & Social care (5); Education, Youth & Children's Services (2); Culture, Media & Libraries (2); Employment & Skills (1); Housing (1); Sports & Leisure (1).

The interview topic guides were designed and adapted for the different categories of interviewee (with input from DCMS and SEUK) to collect data on: mutuals' experiences of working with the public sector; growth, diversification and innovation; partnerships and collaboration; business support and access to finance; leadership and governance; productivity and impact measurement. We also draw on documentary evidence (e.g. mutuals' websites and published reports) and the existing academic and policy literature on mutuals and social enterprise.

Approval for the research design was obtained from Middlesex University's Business School Ethics Committee to ensure the research was ethically conducted.

Field research

The longitudinal case study research involved 105 semi-structured interviews, conducted face to face or by telephone with a minimum of 6 interviews per case study, supported by the collection of documentary evidence. The interviews were held with the CEOs of the 12 participant mutuals, others in leadership and governance roles (i.e. directors and board members), staff at different levels, partner organisations, public service commissioners, support providers, and service user representatives in a few cases. Visits to the participating mutuals were sometimes scheduled alongside existing events and meetings when interviewees were present at the main/headquarters site, such as board meetings and staff forums.

The longitudinal research included follow-up interviews with mutual CEOs/leaders conducted approximately 18 months after the initial interviews. The fieldwork timetable was broadly as follows:

> *May - June 2018:* initial interview with CEOs/leaders
> *September 2018 – March 2019*: interviews with employees, board members, partners/support providers and service users
> *April - June 2019:* Commissioners

February-March 2020: final interviews with CEOs

The interviews – 105 five in total including the repeat interviews with 12 CEOs - were recorded (with interviewees' permission) and fully transcribed. Each organisation was allocated a lead researcher who conducted the interviews and dealt with the initial data analysis: Geraldine Brennan (4 cases); Fergus Lyon (3); Ian Vickers (5).

Analysis

The analysis (and overall research design) aimed to maximise the conditions for validity and reliability (Yin 2013: 34-39). The interpretative analysis drew out the emerging themes in relation to the key variables (or parent and child nodes) (Boyatzis 1998) with the help of the NVivo software package. The coding drew on existing understanding of the issues (deductive analysis) but also allowed emerging issues to be identified (inductive analysis). Each transcript was coded by at least two team members to ensure consistency and reliability in the identification of key themes (parent nodes) and sub-themes (or child nodes). Case studies were analysed using both within-case and cross-case methods (Miles and Huberman, 1994) with matrices and tables used to support and present the analysis of key processes relating to organisational growth, diversification, and development of mutual governance structures, identities and cultures.

As a final check on the validity of the findings, the first draft of the final report was sent to the participating mutuals and key informants who were invited to review the document and provide feedback, particularly with respect to any inaccuracies or misinterpretations of the evidence.

Annex B: Supplementary Tables

Table 3.1 Patterns of growth and diversification

Case number	Founded	Size	Growth level	Main factors and critical incidents underpinning growth trajectories	Further growth/diversification initiatives - recent or planned
				Health & Social Care	
1	2016	Small Employees: 18/19 > 30	Significant	Currently 3 contracts (70% of income) + 1 grant Geographical – contracts in 3 new regions in consortium with Bridges Fund Management Lost main 3 year contract which enabled spin-out: withdrawn by LA after 9 months (see section 2); lost most of original staff due to this	New pilot service – Youth Endowment Fund: variant of functional family therapy, focus on young people at risk of criminal gang exploitation, expected to move to randomised control trial soon: £700k over 2 years.
2	2011	Large	Significant	Significant growth in contracts and geographic areas served, often as a sub-contractor Recently won biggest contract ever	Growth mainly within existing service areas but looking to diversify in future
3*	2011	Medium /small	Significant	Significant growth: expanded to 10 services across 3 counties	
4	2011	Very large	Significant/ high £67m	Strategy to grow and develop group structure of CIC with wholly owned subsidiaries led by commercial arm: • driven by limited opportunities for new public sector contracts + loss of some core contracts • acquisition of other (often profitable) health and social care businesses funded by accumulated reserves	Recently entered into partnership with another large mutual to bid for renewal of core/large LA contract

5*	2011	Small	Significant	Significant growth (and asset rich): • Two new business start-ups during period of research • Diversification into new service areas - mainly childcare	Looking to grow further with target of doubling turnover by 2025
				Education, Youth & Children's Services	
6	2014	Large	Significant	Geographic expansion to include 3 LA areas, bringing in another LA as a co-owner: • Focus on controlling and reducing costs within core/high risk services, including through economies of scale and operational/service level innovation • Some consultancy as a trusted advisor on 'improvement services' for LAs experiencing difficulty - small scale but 10 contracts across the country	Not considering further geographic expansion of core services, but looking to expand service offer into closely-related service areas and existing consultancy service may grow Sponsorships funded from CSR budgets - exploring this by recruiting a specialist on accessing such funding Further diversification into new income streams not seen as promising, given considerable effort involved for limited payback
7	2017	Medium	Low	Low growth - experience expansion and contraction in line with funding cycles • Core contract recently renewed • Some diversification into closely related services – e.g. children on the edge of education, asylum seekers	Aiming to further diversify, including by appointing new independent directors, one (at least) with fundraising expertise (2/20)
				Culture, media & libraries	
8	2015	Small (18/19 turnove	Stable	Diversification successes include: • Growth Hub – partnership with LEP during 3 year Culture+ ERDF funded programme • Arts Council work (25% of income)	Exploring social prescribing possibilities with commissioners, particularly in social care + part of new health, wellbeing and arts network initiated by CCG

		r: £736k)		• British Council project to support social enterprises in Bali, Indonesia working with disabled artists But future looks uncertain and could face contraction: • Several large projects recently ended • Service level agreement with parent LA/county council (25% of income) recently renewed for 1 year but arts funding under review and could be further cut • Small size a disadvantage re accessing public service contracts • Brexit has undermined European partnerships and access to significant EU funding for arts (25% of income) • Building for which they manage tenancies on behalf of parent LA is expensive (loss making?)	Applying for Arts Council National Portfolio status Plan to be leaner and more flexible, with fewer employees and shift to a freelance associate model
9	2016	Medium 18/19 turnover: £18.2m	Stable	Focus on main contract with parent LA – entering 5th year and coming up for renewal • Adult education and learning service - Education & Skills Funding Agency and Lottery funded • Arts Council National Portfolio award (£1m over 4 years) • Youth Arts award Recently: • Delivery partner on EU funded Way to Work project led by City Council with LEP • Heritage Lottery funded conservation project with skills and employment element – Minor to Major • Some income from digitisation of parish records (ICLL hold licence rights) + Ministry of Justice archives	
10	2015	Small	Stable	Stable over past two years: • Extended services beyond parent to 5 more LAs across two counties	Market research on diversification opportunities with help from consultant – 2 main areas:

				• Lost core 5 year contract - cut by two thirds and awarded to an LA trading company (joint venture between two LAs) • National funding accessed includes National Lottery Community Fund and European Social Fund	• disability awareness training, amalgamating with smaller company for this – currently piloting this service • hotel industry recruitment 'trusted friend' service – but may not be commercially viable Also looking at: • membership model – subscription service offered to pool of clients (delayed due to effects of Covid-19 pandemic) • crowdfunding from community
				Housing	
11	2012	Large	Stable	• Emphasis on improving core service offer to client group (housing tenants - 95% of income) and driving operational efficiencies • Some diversification – e.g. sheltered and extra care accommodation around hospital discharge working with adult care and local NHS (<5% of total income)	Planning to grow: • refinancing new corporate strategy and business plan • additional borrowing to be used to underpin new home development and regeneration activity
				Sports & Leisure	
12	2018	Small	Significant	Significant rapid growth for this recent start-up. Diversification: • Community facilitation work for statutory bodies/primary care networks, in home territory and further afield • Work with hard-to-reach/homeless people – 7 community cafes	Exploring selling expertise in back office functions - HR, finance etc - to co-operative and mutuals sector

Table 4.1 Summary of mutuals' ownership and governance structures

Case	Legal form	Ownership	Governance structures and mechanisms for staff input
1	CIC CLG	Owned by employees – all are members	Board of directors: • 3 nominated employees • 3 non-executive directors including chair – external perspective • 3 from senior leadership team • minutes published on intranet Staff engagement/feedback mechanisms: intranet with feedback provision, staff survey
2	CIC CLG	CEO is sole shareholder - previously employee owned	Despite loss of shareholding model mutual ethos remains an important part of culture and governance: Staff Council provides a 'voice' for employees across the whole organisation**:** • 13 staff members representing each service area • chaired by staff member and attended by CEO – meets bi-monthly • not represented on board of directors, but represented at board sub-committees • recently led exercise to refresh the values of the organisation, establishing a 'behavioural framework' related to this and five point plan for staff engagement integrated with HR structure Other mechanisms: • Team briefs – where staff can speak to executive team on a range of topics • Annual meeting - platform for employees to influence strategic business decisions • Annual roadshow – CEO briefing and Q&A visits to multiple delivery sites • Staff survey invites feedback
3	CIC CLG	Employees can become members (opt-in) but take-up is very low (<5% of staff)	Board of directors started with staff, volunteer and service user representatives but these individuals subsequently left and were not replaced Quarterly business meetings with all staff, focused on service delivery and development; also suggestion box; team meetings; staff buddy system; wellbeing strategy for staff New strategy to revive and better embed employee ownership model (as of 2/20), including: • new staff council about to be launched – a staff member of this will attend board meetings • joined Employee Ownership Association and support/advice from another social enterprise

Case	Legal form	Ownership	Governance structures and mechanisms for staff input
4	CIC CLG	Employee-owned CIC: 80% are members (opt-out) Note: group structure with CIC and wholly owned subsidiaries	Board of directors: includes chair of staff-led council of governors Council of governors: • entirely made up of staff who volunteer and are nominated (previously 21 places, 16 filled; increased to 20 places all filled as of 2/20) • chaired by a staff member Staff partnership forum: where trade unions are represented Recently renewed statement of vision, mission and values includes making employee ownership and its benefits more prominent (as of 2/20)
5	CBS	Shareholding divided 50/50 between employees (80 approx.) & community stakeholders (1,000 approx.)	Board of directors includes community stakeholders: • 9 positions (7 filled): 4 executives and 4 non-executive from local community and one employee representative (the staff director) elected by staff • Local community directors nominate themselves - approval process via the board then stakeholders vote at AGM Stakeholder Reference Groups: • three comprising staff, user, and family stakeholders • minutes go to the board and someone from the non-exec group chairs those different committees
6	CIC CLG	Owned by 3 local authorities - 'commissioning members'	Board of Directors - no formal staff representation: • Executive Directors - from within the company, appointed by the three LAs • Non-Executive Directors - external to the company and providing an external perspective, appointed by the three LAs • Non-Executive Independent Directors - external to and independent from the company • LA oversight by a joint committee including council leaders and service leads – to adjudicate on major decisions and statutory requirements in a high risk service area Staff Council - grown from 8 to 16 staff members (since first interview): • focus on operational issues, including flexible working and employee wellbeing: • set up staff and team recognition and awards scheme, where staff vote on innovative ideas • organises social events Staff survey (annual) includes measure of engagement Recent 'big conversation' exercise with staff around business planning priorities
7	Charity CLG	Board of Trustees	Board of Trustees - 6 independent and 3 staff trustees who are directors of the company:

Case	Legal form	Ownership	Governance structures and mechanisms for staff input
			• Operational decisions taken by leadership team, strategic and policy decisions by Board • planning to bring in 2 more independent directors to help distribute workload between sub-groups + to bring in fundraising expertise (2/20) Staff Progress Group: • has a direct link with the Board and feeds into decision making: meets quarterly, • focus on improving services and innovation • helped develop environmental sustainability policy Annual staff survey
8	CIC CLG	Board of Directors/Trustees	Staff representative (1) on Board and Board sub-committee, also with staff representation Staff as stakeholders: processes and mechanisms for staff to feed into decision making - team meetings, forward planning meeting Strong informal culture of participation in this very small organisation
9	CBS	Staff and user community members Staff automatic unless opt-out (£1 nominal cost) Public/library users: (opt-in): 67,000 – 4 reps on board	Board of directors consists of 12: CEO, 2 LA (CC) appointed representatives, 4 co-opted, 4 community (elected) and 1 staff. Standing committees (4): on finance and staffing + 2 sector focused Staff forum: meets on a regular basis New strategy to stimulate membership and engagement (2/20)
10	CIC CLG	Employee Trust holds 90% of the shares (membership is automatic after 6 months of employment – no opt-out)	Employee Ownership Trust: • 3 Trust Directors: MD + 2 other staff members • ensures that decisions of board of directors are in best interest of staff • significant financial decisions require signed off by at least one trustee Staff workshops to develop new business plan (2/20)

Case	Legal form	Ownership	Governance structures and mechanisms for staff input
11	CBS	Employees and customers/tenants – c.10,000 members: • 500 employees (80% of workforce) • over 9,000 tenants (increase from 25% - 40% between 2018 - early 2020) • Opt-in - i.e. not automatic (£1 stake)	Board: 6 non-executive directors and 2 executive directors; meetings of board are open to members to attend as observers Representative body: • approves and monitors strategy and direction • responsible for appointing (and removing) the board of directors • elected from and by tenant and employee members: 15 elected tenant representatives; 8 elected employee representatives; 1 appointed from the tenant management organisation; 4 appointed by LA • twice yearly joint meeting between board and representative body 'Task and Finish' groups to address specific issues and present back to the representative body Surveys of employees (6 monthly) and customers/tenants (quarterly) Joint governance committee – recently introduced: • monitors governance structure and its development: • includes chairs and vice chairs of board and representative body and CEO
12	CBS	Staff and citizens eligible for membership but not automatic/compulsory: just under 100 members in early 2020	Established in 2018 and participatory membership model implemented from March 2020 Started with interim board - intention to include staff reps later All staff meeting held weekly New business plan – 6 month process with input from staff and citizen members

Table 5.1 User community inclusion in decision-making and other modes of engagement

Case	Legal Form	Formal co-ownership	How included in governance and other forms of user engagement
1	CIC CLG	No	Not directly involved/represented in governance Not easy to include users due to their vulnerability and difficult circumstances, but looking at possibility of including service user rep on board – want input but not sure whether to involve in governance
2	CIC CLG	No	Not directly involved/represented in governance Delivery boards/forums at each site to encourage user participation/voice Have separate independent charity which provides meaningful activities and support for vulnerable adults, including opportunities for volunteering, training and education Charitable arm members have been commissioned to support user voice and work closely to represent vulnerable with local healthwatch (reach is confined to one locality)
3	CIC CLG	No	Previously had volunteer and user representatives on board but both left and were not replaced Award-winning service user participation group – influences service design and delivery
4	CIC CLG	No	
5	CBS	Yes: 1,000 approx. shares held by community stakeholders	Board of directors includes community stakeholders: 9 positions inc 4 non-executive from local community (e.g. one a GP, one from private sector) Stakeholder reference groups (3) act as conduit to the board: service user, staff, parents and families Stakeholder AGM every year includes: presentation of impact report elections to board; social event, bringing community and employee stakeholders together (70 attendees at last AGM)
6	CIC CLG	No	A range of user engagement mechanisms to understand needs of client groups and feed into service design and delivery, including: engagement/ participation workers; questionnaires, telephone interviews targeted consultations e.g. public meetings, meet with representative groups, community events
7	Charity CLG	No	Representative body (Young People's Group): direct link to board via individual trustee(s) - influence is mainly at local delivery level Hub that links youth centres across the county (8) – one of their tasks is to administer small grant fund, i.e. £100,000 pa which they disburse to other youth/community centres across the county as part of contract

8	CIC CLG	No	No formal means for consulting on governance in this small organisation, but: • strong emphasis on working with local communities, with bespoke consultation and co-production within specific projects • recently recruited a representative from local community – currently being trained as a 'board observer' with prospect of becoming a director at some point in future • have always used 'reflective learning practice', but also recent greater emphasis on collaboration/co-production approach with user communities (2/20)
9	CBS	Yes: 67,000 members (but largely 'passive')	Board of directors includes 4 community (elected) representatives Strategy to encourage membership engagement and volunteering launched in April 2020
10	CIC CLG	No	Considering creating an Advisory Board which would include client membership (2/20)
11	CBS	Yes: over 9,000 tenant members Increase from 25% in 2018 to 40% by early 2020)	Meetings of board are open to members to attend as observers Representative Body – for tenants and employees: • approves and monitors strategy and direction • responsible for appointing (and removing) the Board of Directors • elected from and by tenant and employee members: 15 elected tenant Representatives; 8 elected employee Representatives; 1 appointed Representative from the Tenant Management Organisation; 4 Representatives appointed by LA Joint meeting of Board and Representative Body twice yearly Members decide on allocation of funding for community projects (about 30 per annum) 'Task and Finish' groups to address specific issues and present back to the Rep Body 'Pipeline of Engagement' to help grow representatives of the future – training, development and nurturing package Survey of customer/tenant satisfaction to identify trends (quarterly)
12	CBS	Staff and citizens eligible for membership but not automatic/compulsory	Participatory membership model in development in consultation with both staff and citizen members – due to become operational in 2020 Just under 100 members in early 2020 – aiming for 200 by 9/20 New business plan – 6 month process with input from citizen members