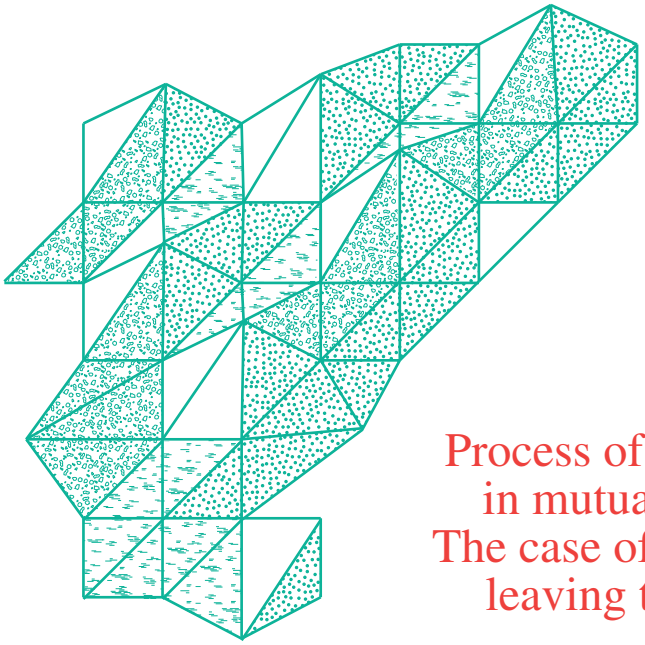
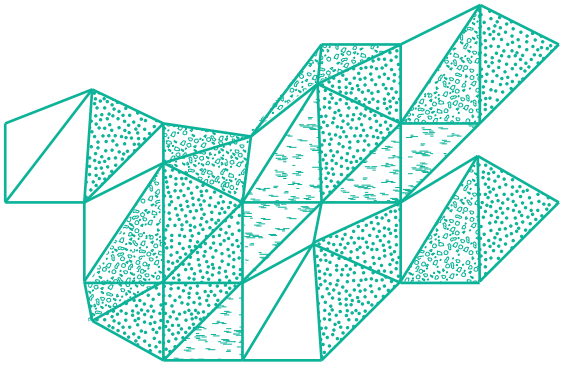

Process of social innovation in mutual organisations: The case of social enterprises leaving the public sector

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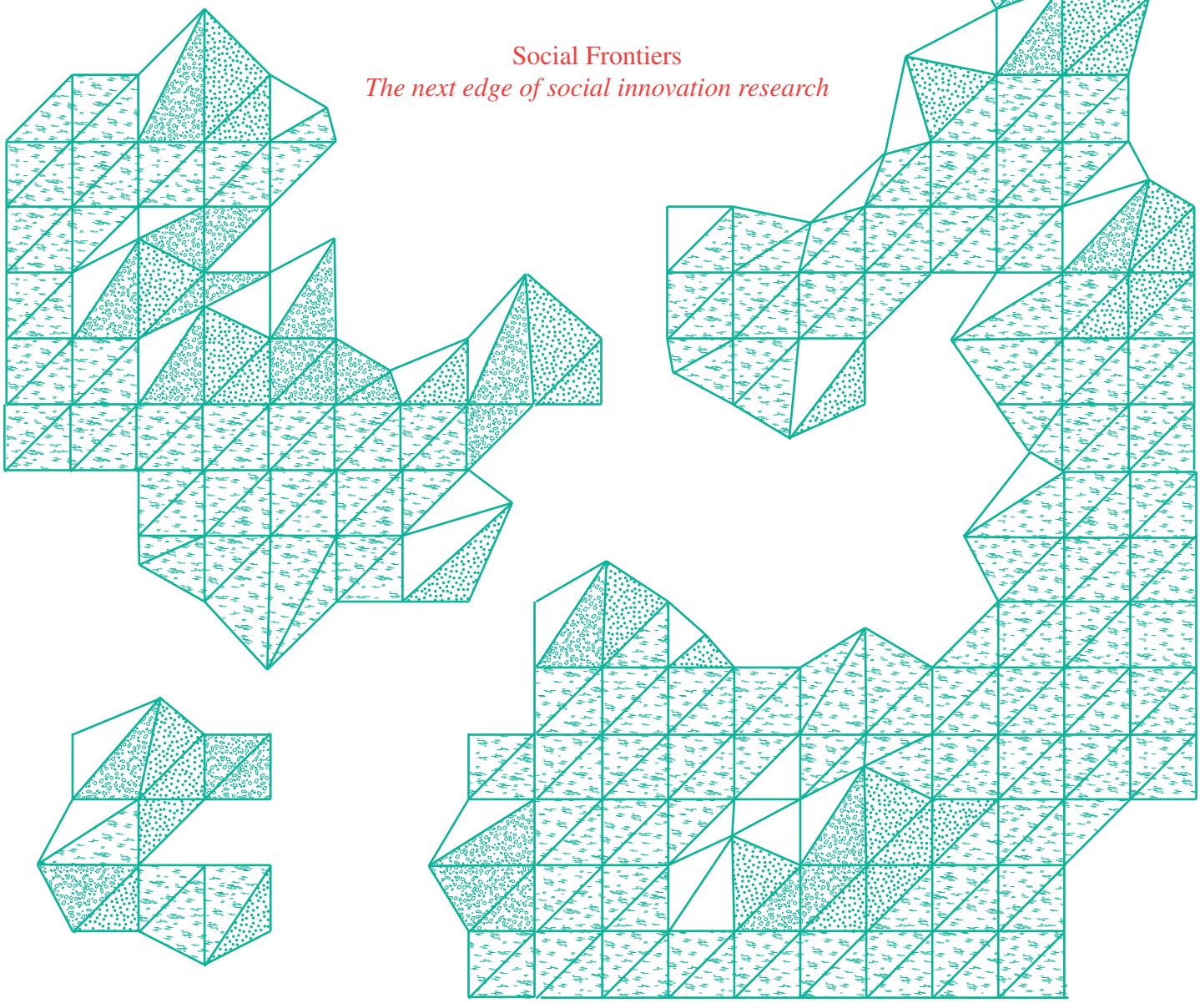

Social Frontiers
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Processes of social innovation in mutual organisations: the case of social enterprise spin-outs from the public sector

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Abstract
Social enterprises and mutual organisations that have spun out from the public sector are seen as an important new space for social innovation. Drawing on case study evidence from organisations in health and social care, innovations in four main areas are examined: (1) Organisational – new forms to facilitate democratic governance and decision making; (2) New treatments and therapeutic work integration; (3) New forms of outreach for particular demographic groups; (4) Incremental improvements to organisational systems and processes. Key facilitating factors include the development of a culture for encouraging innovation and involvement of staff and users, creating a space for experimentation and risk, and finding resources for innovation. Implications are drawn related to building competences for innovation in organisations, the balancing of collaboration with competition, and finally the key role for commissioners in the public sector in supporting innovation.

1. Introduction

There is a growing interest in the roles of social enterprises and mutuals (organisations with democratic ownership held by employees or other stakeholders) in social innovation. This paper examines the nature of social innovation in a sample of such organisations that have recently spun out from the public sector. This is an alternative space for innovation and entrepreneurship that has received little previous attention from researchers. The paper focuses on the types and processes of innovation, with particular reference to the role of staff, users and other key facilitating factors such as organisational climate, commissioners of services and networks involving actors in the public, private and third sectors. Taking spin-out organisations as the unit of analysis, this paper contributes to theories of social innovation drawing on qualitative case study evidence.

The paper addresses the following research questions:

a. What types of innovations are being developed and introduced by mutual spin-outs from the public sector?
b. What are the processes of innovation involved within the new organisations?
c. What are the key external influences and sources of support?

The paper explores some of the existing relevant literature before presenting some early empirical findings from an ongoing study. The paper concludes by examining the implications for future research, policy and practice.

The focuses on health and social care provision which has seen increasing numbers of public sector spin outs and mutual forms in recent years through the facilitating action of the Department of Health's Right to Request Policy (DoH, 2008) and the more recent policy actions to encourage mutuals. While there were mutual spin-outs in the years prior to this policy starting in 2008, recent policy seeks to increase the number and scale of spin outs (Miller and Millar, 2010). There are now approximately 100 such spin outs in the UK[1] that range in size from 5 to 1500 employees.

2. Innovation and mutual organisations

For this study we define social innovation as the process and outcomes of designing, developing and introducing novel responses to social needs with the objective of collective or public benefits, rather than private profit. We consider innovations as novel elements that might be completely original, new to an area or new to an organisation. A substantial body of empirical and theoretical work has examined the diverse contexts in which innovation occurs (organisational, sectoral and spatial factors) and typologies of innovation (e.g. products, processes, shifting market positions, organisational innovations; incremental, radical and systems innovation) (Bessant and Tidd, 2007; Fagerberg et al., 2005).

This study takes a broad view of the process of social innovation, recognising the need for systems perspectives that emphasise multiple actors, feedback mechanisms and the importance of relationships with a range of stakeholders ((Bessant and Tidd, 2007; Fagerberg et al., 2005). In the case of social enterprise spin-outs, this includes staff, purchasers/commissioners, users, partner organisations and regulators. We divide these influences on innovation between those within the organisation and those external.

Within an organisation there are specific organisational cultures that shape innovation. Innovation needs to be understood in relation to the strategic aims of organisations and of key actors. Decisions relating to innovations often take place within the context of existing routines, preferences and values (Greenhalgh, 2008), with many organisations tending to be restricted to incremental changes within existing product/service configurations and supply chain relationships (e.g. Hansen et al., 2002).

Individuals within organisations have been shown to play distinct roles - championing innovation, bringing information into the firm from outside, and being able to communicate across functions within organisations (Dodgson, 1993; Windrum and Koch, 2008). The role of financial resources committed to R&D, skills and managerial competencies has been an important area of study (Hamel and Prahalad, 1994). Competences may be both tangible (e.g. as reflected in the presence of qualified/skilled staff) and intangible resources such as relations with customers and partners, and organisational culture (Grant, 2002). Work on dynamic capabilities (Eisenhardt and Martin, 2000; Foss, 1997; Teece et al, 1997; Zhara et al., 2006) has articulated how competences are created and updated through organisational learning to address rapidly changing environments.

Risk taking is particularly associated with more novel innovation - whether novel to the organisation or to global markets. Perceptions of risk and propensities to avoid, accept or seek risks are influenced by the characteristics of individuals and organisational climates. More important than specific tools or methods for dealing with risk are the broader signals from the organisational climate, with innovating organisations seeking spaces to innovate where they can achieve a balance between risk and stability (Bessant and Tidd, 2007; Buchanan and Hucynski, 2004). Although innovation in parts of the public sector can be inhibited by a risk-aversive, 'zero-error' culture and related motivational and structural factors (Borins, 2001; Potts and Casell, 2010), a body of international evidence shows significant levels of innovation across a range of policy areas, including health and social care. The assumptions that the public sector is inherently innovation-stifling therefore needs to be challenged (Sorenson and Torfing, 2012; Vigoda-Gadot et al., 2005; Windrum and Koch, 2008).

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1 http://mutuals.cabinetoffice.gov.uk/interactive-map-public-service-mutuals

This study has focused on those organisations with mutual forms that give staff a role in government. There remain questions over the extent to which mutualisation necessarily entails the establishment of more entrepreneurial cultures and employee/user engagement in the co-creation and co-production of public services. A review of the international literature by Allen et al. (2011) found little evidence about the comparative performance of different organisational forms in health and social care.

The ecosystem approach to innovation pays particular attention to those players outside of organisations. Recent work on 'open source' methods, techniques and on co-production (von Hippel, 2005) highlights the advantages of innovation efforts that are characterised by close interaction between developers, users and other actors. Work on services (including in the public sector) and on social innovation has also focused on the relationship with customers (or clients/citizens) as an essential part of the innovation process (Chew and Lyon, 2012; Gallouj and Weinstein, 1997; Leadbeater, 2007; Mulgan, 2006; Parker and Parker, 2007; Osborne et. al, 2008; Simmons et al., 2006, 2007; Westall, 2007).

There are networks of other players and infrastructures around organisations that shape innovation. Research on communities of practice, which can be linked to studies on the sociology of innovation, has deepened understanding of how specialist communities function, focusing on how experts in a field spontaneously form interest groups to exchange views and learning on how to conduct and improve upon the practices of their profession (Brown and Duguid, 1991; Wenger, 1998).

3. Methodology

The paper draws on evidence from an ongoing study of spin-outs in the health and social care sector and presents a comparative analysis of eight recently established mutuals. These were selected from a larger sample of 30 cases to represent different sizes and types of organisation and a variety of sub-sectors and activities, as well as a diversity of locational/community settings (Table 1).

Table 1. Background to the case studies

	Activity	Date established (spun out)	Number of employees	Examples of innovations
1	Mental health	2011	25	Group therapy for dementia sufferers and services for specific ethnic groups. Organisation change related to spinning out.
2	Counselling and support for young people	2011	40	Use of recreation and adventure training for young people with mental health needs, group work for young people, relocation of offices
3	Community health	2011	1250	Portable IT provided to users for rehabilitation. Staff engagement on directing organisation and on boards.
4	Community health	2011	1100	Outreach workers promoting sexual health testing, safe drinking and personal safety messages for young people in bars and nightclubs
5	Disability services	2007	73	Board composed of people with disabilities ('experts by experience') democratically empowering users Lifestyle in Transition house and Personal Assistant support
6	Mental health (various)	2011	500	Accommodation/refurbishment scheme: refurbishment of derelict homes for people with mental health problems, also creating employment for service users.
7	Community health	2011	180	Community involvement/ volunteering arm to develop 'meaningful activities' Mobile health unit / events management bus - eg used for several events inc alcohol awareness
8	Community health	2011	850	Quality auditing and redesign of service lines around cohorts of patients and integrated teams Leg ulcer club – Tissue Viability service

Interviews were conducted with people at all levels, including directors/leaders, managers, staff, trustees and users with an emphasis on those who had been particularly involved in change and innovation processes. External stakeholders also interviewed included policy makers and commissioners of public services, partner organisations and other providers of support. The qualitative interviews were recorded and fully transcribed.

4. Findings

4.1 Types of innovations

The innovations identified can be grouped into four main areas relating to: (1) Organisational – new forms to facilitate democratic governance, decision making and involvement of staff/users; (2) New treatments and therapeutic work integration – often informed by a broader conception of health and well-being; (3) Outreach - new ways of communicating health and well-being messages and services within communities and for particular demographic groups; (4) Redesign of pre-existing services and other incremental improvements to organisational systems/processes.

4.1.1 Organisational forms

The most significant 'innovation' reported in most cases has been the new social enterprise or mutual organisation form itself, with the transition from the public sector to social enterprise often involving high levels of staff engagement and debate around the desirability of becoming a social enterprise and the choice of legal form and governance structure. These early debates often involved contestation and opposition from some stakeholders, including concerns around job security/pensions, perceptions of spinning out as a step towards the privatisation of public services, and expressions of concern about the risks of greater independence and challenges posed by the more competitive operating environment.

In many cases the new social enterprise/mutual forms have involved specific mechanisms that give greater power and voice to staff and user communities, such as staff councils, user forums, and community asset locks. Such mechanisms have also been important in enabling specific innovations in services and processes (as will be discussed further below), as well as related organisational innovation. For example, a large provider of community services had developed its own charitable arm that was used to disperse a surplus that had been generated through delivering service contracts. These organisational innovations contribute to the process of cultural change which in turn can lead to further innovations in services.

4.1.2 New treatments and therapeutic work integration

Innovations in this category involved more effective treatments and therapies, often inspired by a more holistic understanding of the relationship between individuals' physical and mental health and well-being, including with respect to social interaction and work integration/employment needs. In one case a new eating disorder service and residential facility had been specifically designed to help address the needs of a particularly vulnerable target group.

Other services focused on rehabilitation have involved activities and support to help young people with disabilities in transitioning from special needs schools and support for independent living and employment. One of the most innovative services identified by this study was introduced by Case 6, a provider of health care services in 2003 while still within the public sector, involving the provision of training and employment opportunities for people with mental health problems. This organisation had been operating its own cafés, catering services, cleaning services, accommodation/refurbishment of homes, conference facilities, laundry, property maintenance, horticultural services and a second hand shop.

Other innovations to engage and empower service users in healthy and 'meaningful' activities included cookery programs, allotment and fruit/vegetable distribution projects, fitness schemes and creative arts projects. These are all aimed at providing vulnerable people with opportunities for social interaction, stability, improved self esteem and a greater sense of belonging to a wider community (i.e. "to take forward the idea of a social movement in health", as expressed by one CEO).

4.1.3 Forms of outreach

Innovations in services have been focused on meeting under-addressed health and well-being needs and related preventive activity. This has involved new forms of outreach and engagement within a variety of local community settings including homes and community-based buildings and for particular demographic groups (i.e. in terms of age, race, gender etc). In one particularly striking example, frontline health workers had developed a novel approach to promoting sexual health, safe drinking and personal safety messages to young people in the bars and nightclubs of the local area. Another community health provider had introduced a mobile health unit used for alcohol awareness raising, diabetes awareness in the town centre and an event at a local mosque.

4.1.4 Incremental improvements

Finally, most cases reported more incremental improvements to pre-existing services, organisational systems and processes, often driven by efficiency and cost-effectiveness considerations and the more competitive context and ability of organisations/employees to respond more flexibly. Examples include systems of procurement, staff working conditions, and recruitment approaches.

4.2 Processes and facilitating factors

4.2.1 Strategy, culture and engagement

Most cases demonstrated strengths in change management led by entrepreneurial and inspirational leaders, staff engagement and building a more 'open climate' for new ideas and innovation. In many cases, successful innovation was found to be part of a wider learning culture, with staff and users involved in key meetings, and with senior management being open and receptive to new ideas and alternative approaches. Greater engagement is also supported by staff having a share in the organisation.

Staff engagement is also evident as a cultural practice or routine. Innovation can therefore be seen as part of the organisational climate and strategy. This was expressed by leaders as having an 'open door policy' or a round table approach to developing ideas: "It's really important to me that I have a round table approach […] so that I can hear the views of everyone" (CEO of case 2).

While some social enterprises have been involved in more formal research and development, much innovation emerges from ongoing learning within day-to-day practices. This includes existing services that had been re-configured in response to efficiency and user needs and that are now more integrated with other related services, as well as improvements to organisational systems and processes.

Some had adopted more formalised strategic approaches to supporting research and development (R&D) processes, as in two cases that were working with local universities to run Random Control Trials on new therapeutic services:

> "One of our therapists said they wanted to improve therapies for people suffering from … xxxx who were needing rehabilitation….. Se we said greats lets… get that going. And oh actually, why don't we involve xxxx University in this and get a bit of research done at the same time" (CEO case 3)

> "We piloted the[initiative], got really good feedback and we are putting in grants ourselves with the University of [...] to fund a PhD student to run a randomised control trial to look at the effectiveness" (CEO of case 1).

One provider of community healthcare services had prioritised a strategic approach to the improvement of existing services, re-configured in response to user needs and to be more integrated with other related services. This process of 'quality through information and evidence' involved auditing and redesigning service lines around cohorts of patients and integrated teams, with the aim of breaking down the 'functional silos' that had been seen as a barrier to improved quality in

the public sector. This service line review process had resulted in 70 new ideas / innovations, often involving small scale/incremental improvements.

The mutual form has also created opportunities for greater staff involvement in decision making. An administrative staff member in one large organisation stated:

> "…as shareholders, we've actually got a say in what happens." (Exec PA case 4)
> However, the process of engaging staff as shareholders often took some time to evolve, with some organisations having limited staff involvement on boards. While most organisations had a majority of staff shareholders, others had more limited staff shareholdings and were still trying to encourage staff to opt in. In one large organisation they had found that only half of staff had decided to be shareholders:
>
> "there are particular staff groupings who are very conservative and don't particularly like change. They tend to be the ones who haven't opted in. …. it tends to be more community nursing staff who tend to be a different generation. Whereas physical therapists and people like that are very open minded and they join quite quickly. There's an awful lot of them on the governing body, for example. They're much more adaptable to change" (CEO of case 3).

Rather than providing evidence of a radical cultural change in staff orientations and motivations, the evidence points to a more complex picture of continuity, contestation and adaption to the new organisational form and competitive context. One of the advantages of becoming a social enterprise was given as:

> "being able to use your initiative, to actually develop things that people want and need without the red tape" (Nurse in Case 4).
>
> "…as an NHS trust it was very, very set in stone that these are our boundaries and this is how we'll behave and this is where we're going. But, as a social enterprise, staff are […] really empowered to have a massive part in the decision making" (Projects manager, Case 5)

It is important to note, however, that for some organisations at least, significant experimentation and change had occurred within the NHS public sector context. In four cases innovative developments had been introduced through the actions of entrepreneurial leaders, responding to user needs and informed/supported by the efforts of frontline professionals, many years before they had spun out.

4.2.2 Capabilities and competences

A key competence of senior managers was reported to be the ability to create the open learning environments previously described, while balancing the commercial objectives of running an enterprise, and keeping a focus on the social values that are core to all social enterprises.

As well as competences in the form of knowledge and skills, effective delivery of new services is highly dependent on the human actions/interactions involved and the capabilities of individuals – their flexibility and sensitivity to context and responsiveness to the input of others ('mindfulness') .

A number of organisations identified the importance of bringing in 'new blood' in order to fill competency gaps and to drive innovation:

> "So we rely very much on people, clinicians in particular, coming up with ideas. We brought in new blood to the organisation. I brought in a director of nursing who's come from a different background. I brought in a commercial director who never worked for the NHS before in his life. Worked for the pharmaceutical industries…..So we created a commercial team which was about being much more outward looking" (CEO of case 3)

Innovation was also found to be facilitated by building on the competences of existing staff with entrepreneurial approaches and determination. This was found to be particularly important when pursuing ideas even when others are opposed. For example one CEO of an organisation offering counselling services stated:

> "I told them I wanted a consultant psychologist, they said no. So I set the charity up to raise the money to pay for him, and then persuaded them to employ him, so he kept his benefits. And everybody told me it would not be possible, and it took nearly five years to pull it all together, but we did" (CEO of case 2).

Such entrepreneurship and driving of social innovation was reported by organisations to be present while still in the public sector and is not specific to social enterprise. While in the public sector, the CEOs of the eight case study social enterprises, were reported to be acting entrepreneurially, with reference to these leaders as disruptors, mavericks and 'pushing the boundaries'.

> "[Our pre-spin-out innovative service] existed because we didn't ask permission. All the best things I've ever done in the health service, we've done under the radar […]. We haven't explicitly looked for permission." (CEO case 6)

4.2.3 Creating a space for experimentation, learning and risk

Innovation involves experimentation and risk, with a need for a climate of tolerance and readiness to learn from failure. Analysis of case studies show that spaces for learning and experimentation can involve mechanisms such as innovation awards, an ideas box, or the provision of time/space and support to those with innovative ideas to develop a business case. The organisational culture can also allow spaces for experimentation and risk taking. This may have occurred in the public sector, with 5 of the case studies referring to actively creating spaces to take risk while in the public sector. However, when having more independence, they are able to explore areas of experimentation with more freedom.

> "We'd always being trying to exploit our opportunities… playing the system a bit. I can be more open and free about it now… so sometimes it feels that there is lot less personal risk … I used monies in my budget in ways that was stretching the boundaries. If someone wanted to arsey about it , I could have probably had my wrist slapped". (CEO of case 1).

The concept of risk was shown to be different for those leaving the public sector. An innovation that involved novel therapies by providing service users with portable computers shows how this has changed, and opened up new spaces for social innovation:

> "The NHS tends to be overly secure for all sorts of right reasons….. The initial response from our IT provider which is the NHS said, 'You can't do that.'… And we were like, 'Let's just do it and see what happens'. There is something in-built in these people, and you'd have to say, if you're green, hide in the grass... People worked in the NHS not because they were risk takers. So it was a cultural change that you need to do to change them to say, 'I can take a risk and do something differently.' " (CEO of case 3)

Spaces for experimentation and risk were therefore found to be both opening up with the move to social enterprise, but at the same time the new commercial pressures of a social enterprise brought other risks for senior managers.

4.2.4 Engaging users and other stakeholders

The interview evidence confirms the importance of responsiveness to user needs and an 'open' approach to learning from new knowledge from various sources, as well as the need for partnership working (with public, third/social and private sector organisations) to support change and innovation in areas of mutual interest. The most striking example of user involvement, as previously indicated, was that of a provider of mental health care services (Case 5) where the board of directors was entirely composed of people with disabilities ("experts by experience …..putting the users in the driving seat") supported by an oversight committee involving sympathetic local people.

The new, more autonomous/independent situation was also found by some to be more enabling of relationships with other organisations such as private sector businesses (e.g. offering employment opportunities and relationships with pharmaceutical companies), as well as with NHS partners in the public sector and voluntary sector agencies.

4.2.5 Funding and resourcing innovation

Innovation is not without costs and risks and there is a need to fund the learning and piloting of new activities. Social innovations were found to be funded by three sources. Firstly, organisations' own reserves or surpluses, secondly from external fund raising, and thirdly through working with public service commissioners, responsible for purchasing services from the social enterprises.

The social enterprise cases were found to have a degree of freedom with their budgets that they did not have while in the public sector. Where they had been able to generate a surplus, this was found to be going back in to new services and experimentation. This allowed the organisations to take risks without putting the financial position of the organisation at risk, or damaging relationships with the public sector commissioners. In two of the case studies, staff were involved in voting on where the surplus was being spent. This was focused on those service areas that the public sector contracts were not covering.

Two cases had also set up a fundraising team, and another had set up a charity in order to channel its surplus but also be able to apply for charitable funds. One case study referred to the benefits of charitable funding as it "It just frees your head up" (CEO Case 2), and allows new ideas to be developed. Collaborations with other organisations can also allow smaller social enterprises to access resources, particularly those that have skills in accessing research and development funding and bidding for larger contracts.

Commissioners were found to play a key role in each of the case studies. The process of social innovation was therefore driven by their interest in new ideas or their willingness to fund developing innovations. While commissioners are often cautious and can be risk-averse, in some case commissioners were willing to fund pilots and also fund the research that was need to provide evidence of the impact. In one case, they were benefitting from a national programme of Commissioning for Quality and Innovation, that aims to reward innovation. In this case 2.5% was taken off a contract but then given back to the organisation if they are seen to be innovating (CEO of case 1).

Where there was greater involvement of commissioners, the case studies noted the continuity of the commissioning team, and the extent to which the commissioner is under financial pressure. The importance of personal relationships with commissioners was noted by one case:

> "Commissioners like the things like this that help keep their paymasters off their back, and look good. If you do that and provide the service, they see you as an ally. I suppose you call it a collaborative approach." (CEO of case 1).

5. Discussion and conclusions

This study has shown that there is a diversity of types of innovation ranging from organisational innovation related to how the social enterprises are managed and governed, to a range of new or improved services. The findings provided new insight into the process of innovation in alternative business forms, specifically in social enterprises and mutuals. By examining the processes of innovation, the paper makes a contribution to understanding the 'ecosystems' for innovation, with a focus on the development of novel services drawing on the involvement of multiple players including staff, users, commissioners as well as others in broader networks.

Secondly, the results show that innovation can be faster and easier in social enterprises compared to the public sector, although many of the most innovative elements identified were developed by social entrepreneurial leaders and key staff while in the public sector. Thirdly the process of innovation during a period of dramatic organisational change shows the importance of understanding the trajectories of innovation with organisations able to draw on both the existing routines that had developed while in the public sector, and drawing on new routines related to greater staff engagement and control over resources. Finally the paper shows how the concept of mutuality is contested. While the organisations may have had an element of staff and user involvement in governance,

the greater role of staff and users in many decisions was still an emerging ambition in these new organisations.

The future prospects for such spin-outs and outcomes for public services need to be understood in relation to the increasingly competitive markets faced, with the dynamics of the relationship between the private sector and social enterprise spin-outs being particularly important. Although most spin-outs have secured guaranteed contracts for their first 2-5 years of operation, they are increasingly required to enter into competitive bidding against private sector providers and potentially other social enterprises in order to continue their services. Key practical and policy implications include:

- Encouraging social entrepreneurship. In order to compete, these organisations require varied resources and a high level of entrepreneurial/leadership skills. The research shows how social entrepreneurship and social innovation were operating while these organisations were in the public sector. Questions remain over how these forms of entrepreneurship in spin outs and in the public sector can be nurtured and developed over the longer term.

- Cooperation and competition. There are tensions around the need for co-operation, sharing of innovative ideas in a public service context that is increasingly competitive. Examples are emerging of the development of integrated local infrastructures and support for innovation (including relationships with other health-related providers, social economy organisations and volunteers). There are tensions around the need for co-operation and the sharing of innovations proven to be effective in a public service context that is increasingly competitive. The balance between being open to sharing learning and innovation with other organisations and a perceived need to protect Intellectual Property in a competitive environment poses a growing challenge for many social enterprises.

- Commissioning social value and innovation. Commissioners of public services play a key role in the innovation processes but contributions to social value are difficult to quantify and represent within existing commissioning frameworks. Under conditions of public sector austerity, there is a danger that short-term financial savings are prioritised over longer term learning, experimentation and innovation with potential durable benefits.

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