INNOVATION BEYOND THE SPIN

Briefing Paper on Spin-out Social Enterprises and Public Services

Centre for Enterprise & Economic Development Research

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Key findings:

- Innovation has been shown to be faster and easier in spin-out social enterprises compared to experiences in the public sector;
- The public sector was found to be playing an important ongoing role in terms of influencing innovation agendas and as a source of support;
- Social enterprises had developed cultures for encouraging innovation and spaces for experimentation;
- Successful innovation in services is often linked to the involvement of multiple stakeholders including staff, service users, commissioners and close working with partners in the public, third and (to a lesser extent) private sectors;
- While many pursued mutual forms, the culture of the organisation was more significant to innovatory practice than legal structure;
- Innovation can be funded through retained surplus and profit, and through relationships with commissioners.

Background

In recent years mutuals and other forms of spin-out social enterprises have been increasingly portrayed and promoted as vehicles for innovation and the improvement of public services. Yet there is a danger that policy is being advanced on the basis of very limited evidence. A research team at Middlesex University has undertaken an 18 month research programme (funded by the ESRC, BIS and Nesta) to investigate the nature and extent of innovation in public service mutual spin-outs.

The research draws on interview and other evidence from 30 spin-out organisations in the health, social care and fitness/leisure sectors in England. Innovations were examined in terms of the processes and outcomes of designing, developing and introducing novel responses to health and well-being service needs.

The 30 cases were selected to represent different sizes (10 to 2000 staff), types of organisation and a variety of sub-sectors and activities serving communities in diverse locations. Interviews were conducted with 279 people at all levels - leaders, managers, staff, trustees and service users; and with external stakeholders - policy makers, commissioners of public services, partner organisations and providers of support. Forums involving service users, volunteers and staff were also attended and online staff surveys conducted.

The nature and types of innovation

An innovation common to all 30 social enterprises has been the adoption of new organisational forms, with the transition from the public sector often involving high levels of staff engagement. The research identified a further 134 specific innovations for detailed analysis.

Based within their different experiences of the public sector, the research examined the perceptions of respondents towards innovation. Interviewees were asked whether the
innovations they had contributed to could have been developed when they were within the public sector:

- It was felt that 43% of the innovations could not have happened in the public sector, often due to a combination of reasons such as bureaucratic obstacles, risk averseness and lack of support;
- 19% would have happened and, in some cases, had originated in the public sector;
- 15% of innovations could possibly have happened, but probably at a much slower pace;
- In 23% of cases, interviewees were unsure and unable to say.

In terms of the degree of novelty of the innovations:

- 16% appeared to be 'completely novel';
- 38% were 'new to the market or service area';
- 46% were 'new to the organisation.'

Hence most of the basic ideas and concepts were adopted from elsewhere, often involving creative adaptation and customisation to particular organisational and community needs.

The innovations can be grouped into four main types:

- **Organisational** (13% of the innovations) – new forms to empower staff and communities/service users and to increase organisational flexibility and business growth. Examples include new approaches to recruitment and staff development, charity arms to support fundraising and volunteering activities, franchises, joint ventures and other partnership forms.

- **Improvements to existing systems and services** (37%) – often driven by immediate financial (cost cutting) and operational efficiency considerations in the new, more competitive context. This included new approaches to procurement (such as internet shopping); lean processes (e.g. staff scheduling, service quality monitoring) and other improvements to the delivery of existing services, such as through breaking down ‘silos working’ and driving integration and greater collaborative working.

- **New treatments and well-being services** (38%) – often driven by the need for preventative approaches in order to reduce reliance on expensive acute treatments. Some service innovations were inspired by holistic understandings of the relationship between individuals’ physical and mental health needs and wider socio-economic role/participation needs. Examples include mechanisms for diverting patients from acute hospital-based services to community services; preventive interventions to encourage behavioural changes around lifestyles, fitness and diet; rehabilitation and transition services – from special needs to independent living; and vocational, employment and accommodation services for ex-patients who continue to experience disadvantage in these areas.

- **Outreach and social marketing** (12%) - new ways of communicating health and well-being messages and services within diverse community settings and for certain demographic groups, including the ‘hard to reach’, such as mobile diagnostic units and roadshows; frontline health workers targeting young people in the local night economy; and access to specialised services for ethnic minority communities.
Facilitating factors

The general picture is one of spaces for innovation that were less subject to the bureaucratic disincentives often experienced in the public sector, nevertheless still involving critical scrutiny, debate and testing before their full development and implementation. Our research found a number of key facilitating factors for innovation in support of more effective organisational functioning and service delivery. These include:

- **The development of a culture for encouraging innovation and involvement of staff and users.** Most cases demonstrated strengths in change management led by entrepreneurial and inspirational leaders, staff engagement, responsiveness to user needs and an ‘open learning’ approach to new knowledge from various sources. Rather than radical cultural change and a sudden unleashing of innovation, change was often more evolutionary in character, involving dialogue, learning and adaption to the new context. For many interviewees, it was important to retain and build upon public service values and practices that they continued to identify with, while rejecting aspects of public sector practices that they viewed less positively.

- **Capabilities and competences.** This includes the ability to create ‘open learning’ environments, while balancing the commercial objectives of running an enterprise, and keeping a focus on social value. Entrepreneurship and innovation was often reported to have been present when organisations’ were within the public sector and so not specific to social enterprise. However, a number identified the importance of bringing in ‘new blood’ in order to fill competency gaps and to drive innovation.

- **Creating space for experimentation and risk.** This requires tolerance and readiness to learn, including from failure. This can be supported through mechanisms such as awards for innovation, an ideas box, or the provision of time, space and support to those with innovative ideas to develop a business case. Innovation may also have occurred in the public sector but independence has been accompanied by greater freedom. The new commercial pressures of a social enterprise also brought new risks.

- **Partnership working.** This was found particularly with other public sector health/social care providers, charities and the voluntary sector. Some service innovations are heavily reliant on collaborative working with community leaders and charity/voluntary sector organisations and, in a few cases, universities and other sources of R&D expertise. Such partnership working was also a feature in the public sector, although for some organisations such activities had further developed with the new independence. There were fewer examples of partnership working with private sector organisations, although such partnerships were an increasing feature in the new context, with some organisations in particular seeking to further develop such relationships.

- **Financing innovation.** Four main sources were identified: social enterprises’ own reserves, profits or surpluses; external fundraising; public service commissioners; and grants and awards. Independence brought a greater degree of financial freedom. In cases where there had been a significant involvement of commissioners, interviewees in the case study organisations noted the importance of continuity in commissioning teams and their willingness to support experimentation and the piloting of new services. At the same time, some concerns were expressed about short-termism and lack of continuity in commissioning. This could lead to an emphasis on narrowly conceived cost/efficiency savings at the expense of innovative projects where outcomes are less immediately tangible and harder to demonstrate.
Conclusions

Social enterprises and mutual organisations that have spun out from the public sector are an important new space for innovation. Our research shows how processes of innovation have been strongly linked to the involvement of multiple stakeholders including staff, users, commissioners and networks/infrastructures related to public service innovation. While innovation has been shown to be faster and easier in social enterprises compared to the public sector, some of the most innovative elements identified were developed by maverick leaders and staff with innovative ideas while within the public sector. The concept of mutuality remains 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 many of these new organisations. Only two of the organisations identified with the term mutual.

There are also tensions around co-operation and the sharing of innovations 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 some social enterprises.

Policy Implications

Our research has thrown up a number of implications for public policy. The most significant are outlined below.

1. This new evidence provides, arguably for the first time, some support for the recent policy ambition and rhetoric around public service mutual spin-outs. Our research points to innovation being faster and easier after the spin-out transition, although the public sector was also found to be playing an important ongoing role in terms of influencing innovation agendas and as a source of support.

2. Individuals who led the transition to the new social enterprise form were often perceived as mavericks, some of whom had driven innovation when in the public sector. While these enterprises became more innovative as mutuals, this may not be the case for other teams in the public sector if they were not already trying to innovate. This has implications for policymakers seeking to drive spin-outs from the top-down rather than enabling them to emerge through a more ‘bottom-up’ process.

3. Commissioners of public services play a key role in the innovation processes but under conditions of public sector austerity, there is a danger that short-term cost savings are prioritised over longer term learning, experimentation and innovation.

4. In line with previous studies of employee ownership, our research indicates that a change in legal form, governance and ownership is insufficient alone to drive the sort of positive changes and innovations identified. A change of structure may not result in a change of culture. Furthermore, policymakers should consider how cultures of employee engagement, innovation and enterprise may be fostered in public service more generally.

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For further details see: http://www.mdx.ac.uk/research/business/ceedr/social/mutuals.aspx