

# The Engagement Ethic

The potential of co-operative and mutual  
governance for public services

# Acknowledgements

This is an independent think piece which represents the views of the authors alone. It was supported by the Cabinet Office Public Services Unit as a contribution to the discussion on the role of mutuals in delivering public services

The ideas in this paper draw from across the Innovation Unit, including work under our Next Practice programme in both system leadership and parent partnerships and more recent work on Radical Efficiency. This work has built our understanding of the potential of new governance relationships between service providers and service users in both theory and practice.

In developing this think piece, we are extremely grateful to Barbara Spender for excellent research support. We are also very grateful to Ed Mayo of Co-operatives UK and Peter Hunt of Mutuo who generously commented on a draft of this paper. Nevertheless, any errors in this work are the authors' own.

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# Executive Summary

Public services have learned a great deal from approaches imported from the big business, to the benefit of service users. In particular, the focus on citizens as consumers and on the performance of service units has improved some outcomes.

However, these approaches are subject to diminishing returns. And the credit crunch and fiscal crisis has freed our political imagination from the idea that this is the only game in town.

Today, the biggest challenge public services face **is the challenge of engaging citizens and service users** and harnessing their energy and creativity. This is at the heart of challenges of services' cost-effectiveness and legitimacy.

Consumerist approaches are ill-suited to this challenge because they do not systematically support the strong human relationships between professionals and those they serve that are critical to solving complex problems. Consumerist approaches can suggest that only providers have a right to change services and only providers have a responsibility for service outcomes. The challenge of engaging

citizens in services is to achieve the opposite, to build shared responsibility for services and their outcomes and to harness the efforts of both professionals and those they serve to improve them.

In the face of the fiscal crisis, it would be easy for public services to continue to draw inspiration from these consumerist approaches, but simply to deliver less. Having spent a decade drawing lessons from the premium, personalised services of organisations like BUPA, some public service leaders are looking to the likes of **Easyjet** for examples of how to save money. However, mutual and co-operative forms of governance employed by the likes of **John Lewis** may also have something to teach public services. They raise the question of whether, to respond to the downturn in the economy, it might be possible to more radically change the relationship between citizens, public servants and the state.

Learning from the likes of John Lewis and Nationwide is not about asserting the primacy of one sector over another. The public, private and third sectors all do fantastic work to deliver public services. However, there may

be lessons in the work of co-operatives and mutuals that can help services in all sectors to engage staff and citizens more effectively in the work of public services.

Changing the relationships between citizens, public servants and the state is not as simple as allowing the state to retreat from provision so that the public can step forward. Citizens want services that can provide them with expert advice and support and the public need services that place the quality of these relationships at the heart of what they do. In this endeavour, there are a range of approaches to the design of service delivery that are relatively uncontroversial. Coaching, self-management and peer support – which unlock people’s capacities to help themselves – can all help to put the public back into public services.

However, approaches that seek to re-engage the public through changes to service governance tend to be more controversial, and their benefits more uncertain. Nevertheless, we argue that they may be just as significant to the challenge of re-connecting the public with their public services. Can we really expect citizens to take on greater responsibility for their own health, learning and carbon footprint if public services do not give them greater rights to shape their work? We argue that approaches to both delivery and governance have to change if we are to build an **ethic of engagement** at the heart of our public services, rather than continue to see excellent examples of engagement at its margins. If we want the views of citizens and staff to be valued, we should embed their importance in how services are run. Otherwise, the risk is

that public services remain too often something done to the public rather than with the public.

There is certainly **real potential in co-operative and mutual governance** models for our public services. Work already in housing, in childcare and on environmental issues, for example, shows that we may for too long been in thrall to big business, corporate structures and transactional services.

While public services should explore the potential of co-operatives and mutuals further, there is evidence to suggest that they can improve services’ cost-effectiveness, the way they harness the creativity and energy of staff and citizens and their ability to contribute to local communities and economies.

Their potential for cost-effectiveness comes in the way that they enable and incentivise staff and citizens to problem-solve for themselves, rather than simply allowing services to fail. Their potential for harnessing energy and creativity comes from the way in which they build reciprocal relationships between staff, citizens and wider public services. And their potential for making community contributions comes from the way in which they help spill-over benefits, like career development or economic activity, to remain within the local area. Public services should do more to explore the potential of co-operative and mutual approaches to governance to deliver these benefits. However, there are also **some risks for public services** in expanding the use of co-operative and mutual governance:

Scale and speed – If co-operatives and mutuals become the next big thing in public services, the risk is that co-operative and mutual organisations will be grown to a size that is far too big for them to realise their benefits. Equally, if there is to be a fad for mutualism, it must be remembered that organisational forms are a means to an end – it's providers' missions that really matter.

Producer capture – In growing the use of mutual and co-operative approaches, it will be essential to guard against the capture of a service by professionals or by a partial group of citizens.

Choice – The relationship between choice and voice in public services is complex, but at times they conflict. Where people are more able to voice concerns about poor local services, they may also be more loyal to them, and strategies for public services need to face up to this tension.

However, these risks can be managed if public services establish a clear view of the circumstances in which **co-operatives and mutuals can add greatest value**. Co-operatives and mutuals can add greatest value where:

- They have a clear community constituency
- They do not out-grow their community
- They focus on services where the contributions of citizens are critical to their success
- They work in areas where they can build long-term relationships with members
- They focus on services with which citizens aspire to engage

These criteria show that co-operatives and mutuals are not appropriate in all circumstances. The claim is not that co-operative and mutual governance is a panacea for public services but that we have relied for too long on a single, corporate view of what good governance looks like. We need to add to the tools available to public services, not replace one with another.

If public services wish to seek to build and strengthen an ethic of engagement, they could address it from two sides simultaneously:

- They could think about how they might support groups of staff and community members who want a greater say in how local services are run
- They could think about the kinds of public services that might most benefit from greater input from staff and citizens through co-operative and mutual governance

And there a set of **practical steps** that public services could consider to explore and develop the potential of co-operative and mutual governance for public services. To support staff and community members who wanted a greater say in how local services were run, public services might look to:

- Extend the right-to-request to services beyond the health system
- Open up governance design to staff and citizens by creating greater openness about the governance structure of organisations that, like Foundation Trusts, emerge from the public sector. Government might create a framework to protect the public interest, but support local stakeholders to work together within this framework to define for themselves how a service should be governed.

- Encourage the growth of co-operatives and mutuals around the use of personal budgets. This is an area where the need for peer support on the part of service users is matched by a supportive environment for small- and medium-sized organisations that are responsive to staff and service users.
- Ensure that potential co-operatives and mutuals – whatever their genesis – can get access to high-quality advice and support.

To support public services that might benefit from greater input from staff and citizens through co-operative and mutual governance they could:

- Develop a community right-to-request, enabling groups of citizens to request changes in governance that give them a greater voice in services they use.
- Address the capitalisation of co-operatives and mutuals. There needs to be a clear strategy for capitalising co-operatives and mutuals and a social investment system that supports it.
- Support more research into co-operatives and mutuals and their potential for public services.
- Embed a strategy for co-operatives and mutuals across and beyond public services that provides the regulation and support that they need while ensuring that staff and citizen engagement is a priority for everyone.

# 1. Public services and the challenge of disengagement

The transition from George W. Bush to Barack Obama saw a former oil magnate handing over to a former community organiser. The ability to engage ordinary citizens in the work of the state is a skill whose time has come.

The public limited company has dominated our view of public services for three decades. Here too, it's time to give community-based approaches their chance. If there is any benefit for public services in the current fiscal crisis, it is freedom from the sense that they will never match up to enterprises owned by shareholders. This is timely - the challenges public services face demand that they learn as much from co-operatives and mutuals as from big business.

Approaches developed in the private sector have had a huge influence on our public services and in many cases have improved performance. However, in relation to simple transactions, there is work still to do. From placing the ordering of prescriptions online to ensuring large datasets help rather than hinder service delivery, there is an ongoing task to create 'smarter government'.<sup>1</sup>

However, gadgets and widgets will only take services so far. These approaches have been so successful that they are now subject to diminishing returns. Public services have become so good at delivering services *to* people; they can struggle to deliver them *with* people. This is a function of success rather than failure, but now the challenge is to grow their capacity to engage, empower and inspire. In a world in which government cannot do it all and the behaviour of the public makes more difference to outcomes than the quality of their services, this is public services' biggest challenge.

In recent years, public services have been heavily influenced by the private sector mantras that 'the customer is king' and that 'what matters is the bottom line'. Both have vastly improved services, but each now limits the capacity of public services to engage citizens effectively.

The first lesson public services have learned from the private sector is that the customer is king. The idea that users of public services are consumers has led to enormous progress in attending to the quality of their experience. However, these benefits have shaped

the relationships between the public and their services on a consumerist model. In retail, success is a satisfied customer, and that satisfaction is the responsibility of the provider. If the service is poor, a sensible customer will simply take their business elsewhere. If they responded to poor service by volunteering once a week at the local garage or joining the management board of a local hairdressers, it would be absurd.

This consumerist model is increasingly the norm in our public services. We increasingly judge services by levels of public satisfaction. If services don't meet our expectations, we are encouraged to influence services by choosing a different one. In the famous Freakanomics example, a kindergarten, frustrated with parents arriving late to collect their children, levies late fees.<sup>2</sup> To their surprise, lateness rises rather than falls because once parents begin paying for the privilege of lateness, they no longer feel a moral responsibility to be on time. In turning their parents into consumers, the service has sent the message that responsibility has been outsourced. Crucially, this service is not failing – the challenge it faces is a function of success. However, today, this outsourcing of responsibility to our public services weighs heavily on public services' capacity to deliver.

This is because public services often address issues that are:

- Contested – people have strong and differing views about how they ought to be run
- Chronic – people's own contributions are critical to services' success
- Complex – they are issues with multiple causes that it is difficult for any one agency to solve<sup>3</sup>

Public services are **contested** because they are our services, standing as symbolic of our commitments to one another and of the things we hold most dear. Excluding people from influencing a school's behaviour policy or a hospital's parking arrangements risks undermining their legitimacy. For example, research by IPSOS-MORI shows that only 20% of people feel that they have influence over how public services are delivered<sup>4</sup>. That cannot but weaken the operational legitimacy of services and their ability to sustain funding through taxation. Part of the reason public services are public is that they are critical to our collective well-being as well as our individual well-being.

Many of the issues public services deal with are **chronic** in that the contribution of citizens is at least as significant as that of services. For example, The 2002 Wanless Report into the future of the NHS concludes that infectious diseases have given way to the prevalence of chronic disease,<sup>5</sup> with conditions like obesity, for example, up 300% in the last 20 years.<sup>6</sup> While this is a challenge to the traditional emphasis on acute services, self care programmes for long term health conditions can reduce visits to GPs by up to 69%.<sup>7</sup> In schools, 'in their effects on achievement by children at primary school, variations in parenting are much more important than variations in schooling'<sup>8</sup> and high levels of parental involvement can produce a 24% improvement in exam results.<sup>9</sup> Equally, research shows that crime and anti-social behaviour is at least as strongly affected by the values and behaviour of individuals and communities as by the activities of the police and criminal justice system.<sup>10</sup>

However, research for the Cabinet Office concluded that satisfaction is driven by delivery, timeliness, information, professionalism and staff attitude.<sup>11</sup> Satisfaction with public services, therefore, is not driven by challenging people to help themselves, but increasingly public service outcomes are. There is a danger that in satisfying recipients of public services we are pacifying them – reducing both their sense of responsibility for their own outcomes and their sense that they have a role in improving services for others just at the time when public services focus should be on animating and motivating people.

Because many of the issues public services address are **complex**, service users often play a pivotal role in helping to problem-solve and bring services together to help them. For example, students managing their own learning can improve exam results by one third.<sup>12</sup> Equally, personal budgets offer recipients of social care the chance to tailor the best services to meet their needs, but early evaluation shows that good quality advice and brokerage are critical to their success.<sup>13</sup> As public services grow more complex, there is a danger that the costs of assessing need and planning delivery grow ever greater, while services themselves still miss their mark. Engaging people in working out exactly what support might most help them and where it might come from is increasingly essential to ensuring that public services deliver for those they serve.

Taken together, this shows how the notion of ‘customer is king’ takes the focus away from what the public can bring to public services. It places a

dividing line between professionals and those they serve rather than creating shared responsibility for outcomes. Often this represents a good experience for citizens and a good service from the provider, but the changing nature of the problems public services must solve mean that their next challenge is one of engagement.

Alongside the mantra that ‘the customer is king’, public services have learnt from the private sector that what really matters is the bottom line. Again, this lesson has had extensive positive effects, with public services now much more focused on improvement. From cancer patients with greater life expectancy to young people with greater skills, this has made a huge difference to people’s lives. However, there is a risk that this relentless focus on performance can have unintended consequences for services’ capacity to respond to the contributions that people make. While in both sectors this has seen medium-term benefits, it is a process with risks for the long-term.

In the private sector, building societies have gone through de-mutualisation, with members selling their stakes to a relatively small number of investors. Their boards are no longer responsible to account holders but have a fiduciary duty to shareholders to maximise profits. This process was recently referred to by Adam Sampson, Chief Executive of Crisis: “In 1853, a group of men met in a room above a pub called the Old Cock Inn in Halifax to set up a vehicle to allow working people like themselves to invest their small sums of cash in a fund from which they could derive mutual benefit. It was a model of self-help social enterprise that embodies all

that the sector believes in. About 140 years later, the Halifax Building Society announced its decision to demutualise, and within 20 years it was at the heart of one of the biggest financial crises in our country's history."<sup>14</sup>

While its consequences have not been disastrous in the way that they were for big business, many of our public services have slowly undergone an equivalent process of de-mutualisation. Their activities are governed less by their immediate public – those they serve – and more by the disciplines of audit and the market. As work for the Joseph Rowntree Foundation has observed 'local government control over services has diminished in the last three decades in favour of more centralised systems'.<sup>15</sup> Equally, while large corporations became focused on maximising profit in the short-term, to the exclusion of long-term risks, so these organisations have become focused on maximising improvements in narrowly-conceived performance in the short-term, to the exclusion of long-term risk.

In maximising performance, the risk is that engaging service users and the community comes to be seen as too time-consuming. The most powerful example of this is Sure Start, which according to one of its architects, Norman Glass, was originally 'created on community development principles'. He recalls being asked how the programme could be sustained:

"I had a number of responses, but the one I was most insistent on was that this programme would be "owned" by local parents, local communities and those who worked in the programme. Because those who benefited would

be able to shape it to do what they wanted, rather than it being done to, or for, them, it would not be seen as just another initiative by Whitehall to do something about the feckless proles.... Community development takes time. Disadvantaged communities have to be persuaded to participate, and their natural suspicion leads them to hang back until there is something to show. Here as elsewhere, engaging people in public services takes time, and it is all too easy for it to be framed as a risk to delivery.

Lastly, local governance has become hugely more complex in recent years. For example, research in Burnley and Harrogate showed that 'over 30 different organisations, many of them 'quangos' with no elected community representatives, have some role' in governance. Overall, the elected local authorities control 53 per cent of public spending in Harrogate and, in Burnley, only 40 per cent.<sup>16</sup> As a result, the skills and knowledge required to influence public services are significant barrier to participation.<sup>17</sup> At the same time, 'opportunities for participation overlap and present a confusing picture'.<sup>18</sup>

As a result of this public service equivalent of de-mutualisation, public services' capacity for staff and public engagement is limited. For example, MORI report that 29% of people believe that they can influence decisions affecting their local area, down from 32% in 2006.<sup>19</sup> In many cases, the fact that services deliver for people trumps this limit on engagement, but it does not always. The changing nature of public services' work means that, however well they perform, they cannot afford not to respond to the contributions communities make.

In the private sector, companies have learnt that you do not always maximise profit by focusing solely on the bottom line. Having built a strong culture of performance, public services need to learn the same lesson. To improve performance further, they need to strengthen the ethic of engagement within public services. While the idea that the customer is king can obscure the responsibility the public has to public services, the increasing dominance of the bottom line within services can obscure how public services can respond to the public. Progress is starting to be made and 'citizen empowerment' is now at the heart of the Government's vision for public services.<sup>20</sup> However, there is work to do to find the practical strategies that can make this a reality for everyone. Public services need to find ways to emphasise more strongly both the responsibilities of citizens to services and services to citizens.

## 2. Building an ethic of engagement

When people are under pressure, it is human instinct to fall back on patterns of thought and action that are most familiar. In the face of the worst fiscal crisis for a generation, it would be easy for public service reform to simply do more of the same – to try even harder to ape big business. However, that approach alone cannot solve the challenge of disengagement from public services, which is central to improving their effectiveness and cost-effectiveness. Public services could also learn from an emerging set of approaches to service design and governance. If they do, they have the chance to build an ethic of engagement that places the views of professionals and the public at the heart of public services.

Many public service reform documents of the last decade have cited the need for public services to keep pace with the quality of service experience on offer in the private sector.<sup>21</sup> As a result, much of the inspiration for service re-design has been drawn from premium services, like that offered by BUPA. Facing a need to cut costs, the risk is that public service leaders will simply look to a different set of services, which, like Easyjet, save money by doing less. But do public

services really have to move down market in a recession? We believe that there is also much to be learned from quite up-market services like that of John Lewis, which declares itself to be the UK's largest employee co-operative with 69,000 staff famously uses that employee ownership and profit-sharing to drive high-quality service.<sup>22</sup> These approaches have stronger potential to address the challenge of disengagement faced by public services.

Empowering staff and citizens in public services is potentially controversial because at times it is used as a cover for state retreat from provision. Whatever the politics of this, it is clear that the challenge of disengagement cannot be addressed simply by services stepping back and the public stepping forward.

The problem faced by citizens is not simply interference by public provision. At present, public spending is split between public services, whose spending is little-influenced by citizens, and benefit payments to citizens, whose spending decisions are barely influenced by public services. The mystery is not how we can roll back the state but how public provision can simultaneously employ such paternal

and liberal approaches and yet have vacated a middle ground in which citizens and professionals negotiate together.

Indeed, this type of negotiation would seem to be closer to what people want from public services. While citizens look to supermarkets, for example, for timely, friendly service, what they most want from public services is knowledgeable staff that provide high-quality advice.<sup>23</sup> Public services need to be better at helping people to help themselves.

For example, outcomes for those who self-fund social care are not markedly better than for those for whom this is provided by the state. Precisely for this reason, the introduction of Personal Budgets in social care cannot simply be about building a market by transferring funds to individuals but about building a market place in which new providers and new types of services can be developed and in which they can be accessed by citizens. The quality of support, advice and service brokerage for personal budget holders is now a critical issue in social care. The real challenge is to build public services where professionals and those they serve can work together. To do that, we need to address both sides of the challenge outlined in the previous chapter – emphasise more strongly both the responsibilities of citizens to services and services to citizens

Already, a great deal of work has been done to show how changes to the ways in which services are delivered can emphasise the responsibilities of the public to their public services. While the following approaches may be challenging to mainstream across

public services, their effectiveness is relatively well-established:

- Coaching and counselling
- Peer support
- Teaching self-management and self-care

However, the way to unlock the potential of these more collaborative delivery models in public services may be to develop them in tandem with more collaborative models of governance. If the way public services are governed does not reflect the efforts to introduce much greater reciprocity into the ways in which they are delivered, public services risk sending conflicting signals to staff and the public. Can we really expect citizens to take on greater responsibility for their own health, learning and carbon footprint if public services do not give them greater rights to shape their work? Approaches to both delivery and governance have to change if we are to build an ethic of engagement at the heart of our public services, rather than continue to see excellent examples of engagement at its margins.

First, this is a question of a strong cultural intervention. If we want service cultures that place importance on staff and service users, we need to embed rights for them to be heard in how services are governed. When parents and community volunteers are part of public service staffrooms, they unavoidably change the character of professional conversation. When public service leaders are in part accountable to their own staff, the significance of professional development is unavoidably changed.

Second, this is a question of power, and how decisions in public services

get made when push comes to shove. If we want staff and citizen engagement to be prioritised in a world of target and performance indicators, we need people in positions of power who can stand up for them. It is too easy for engagement to remain a nice-to-have – the reality never to quite match up to the rhetoric.

The suggestion here for public services is that the challenge of generating a powerful engagement ethic is sufficiently profound that we need to use changes to service delivery and service governance to achieve it. The opportunity is to start to set in stone our most important commitments to professionals and those they serve.

## 3. Co-operatives, mutuals and service delivery

There is certainly real potential in co-operative and mutual governance models to help re-engage the public and professionals in public services. Already in some sectors there is work that suggests co-operatives and mutuals have real potential for public services and areas where they have made a real difference to citizens' lives.

There are 4,820 co-operative enterprises with 11.3 million members, employing 205,800 people,<sup>24</sup> generating a combined £28.9 billion in turnover. One in three people in the UK is a member of at least one mutual organisation<sup>25</sup> and they employ

around 800,000 people. However, Co-operatives UK, which compiles this data, acknowledges the passivity of many members and the paucity of more in-depth, comparative data.

The overall figures include business and trading organisations as well as clubs and societies and disguise the very limited extent to which co-operatives and mutuals permeate the provision of public services. Charles Leadbeater observes that co-owned businesses 'play a smaller role in the public sector than the conventional private sector'.<sup>26</sup>

### What is a co-operative?

"A Co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise" (International Co-operative Alliance, 1995). According to Ellins and Ham (2009), its defining characteristics of cooperatives are said to be:

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Provision of training and information
6. Cooperation between cooperatives
7. Concern for the community

**What is a mutual?**

A mutual exists for the purpose of raising funds from a membership or customers, which can then be used to provide common services to the members. A mutual is therefore owned by, and run for the benefit of, its members. Profits are usually re-invested in the mutual for the benefit of the members, although some profit may also be necessary to sustain or grow the mutual, and to make sure it remains secure.

Examples of mutuals include building societies, friendly societies and mutual healthcare and insurance societies. NHS Foundation Trusts are also regarded as 'mutual' organisations according to the definitions supplied by Lewis et al (2006).

The defining characteristics of mutuals are that they:

- Are established to serve a specific community or interest group
- Are owned by members
- Have democratic voting systems based on one member one vote
- Have governance structures that formally incorporate stakeholder interests with different stakeholders having an appropriate role in running the organisation proportional to their relevant stake.

There are three sectors where it is helpful to note work already done by co-operatives and mutuals in the delivery of public services.

**Childcare and schooling**

Co-operative childcare arrangements are relatively common in the UK, perhaps in part because this is often an activity performed at home, so that co-operation in the looser sense is a natural next step. For example, Statham and Mooney suggest that childminding networks offer ways to help parents to access high-quality care in a 'home' environment.<sup>27</sup>

According to Co-operatives UK, of the 30 co-operative-based child care arrangements it has case studied, the vast majority are oversubscribed and popular with both parents and staff. These co-operatives range across multi-stakeholder co-operatives, worker co-operatives and user co-operatives.<sup>28</sup>

Over the last two years, there has been an uptake of schools converting to co-operative status. While it is early days in terms of evaluation, co-operative schools themselves, and their parents, appear to be enthusiastic supporters. In principle, co-operative schools have the potential to harness the degree of independence claimed for trust schools while avoiding the accountability gap that characterises a number of non-profit or social enterprise providers, which ultimately answer to themselves rather than an enfranchised set of stakeholders.

**Environment**

Nationally and internationally, there has long been interest in the potential of co-operatives and mutuals to contribute to the development of energy generation and recycling. Here too evidence of their impact is starting to emerge.

For example, Denmark has a strong co-operative energy sector and Sweden leads the world in co-

operative production of bio-energy.<sup>29</sup> In Denmark cooperatives have been key players in the development of wind power and have made it more acceptable to local communities – responding to their concerns where they can and making sure that they benefit directly from it. They were helped by a number of investment opportunities and tax incentives not available in the UK. District heating schemes allow fuel flexibility and enable communities to become resilient to fuel price fluctuations. Surpluses are re-invested or used to lower prices.

In the UK, co-operative energy production is less well-developed, but its potential for engaging people in generating sustainable energy is starting to be realised. For example, Torrs Hydro New Mills was established as a community co-operative venture in 2006 with the support of the local town council and the Co-operative Bank to generate electricity from the natural gorge which runs through New Mills in Derbyshire. Profits will either be ploughed back into the business, or will be used to help regenerate New Mills and to promote environmental sustainability.<sup>30</sup>

### **Social Housing**

Social housing is a sector in which co-operative and mutual approaches are relatively mature and extensive. Most significantly, Housing Associations providing about 2 million homes for 5 million people in England with an annual investment in this work at £435M, including £272M from their own funds.<sup>31</sup>

In contrast, the cooperative housing sector in the UK is small in relation to other forms of housing and includes

four forms of co-operative; tenant ownership, tenant management organisations (TMOs), short-life housing cooperatives and self-build cooperatives. There are fewer than 10,000 cooperatively owned and managed homes. In the council housing sector cooperative management by tenants has grown recently but this still represents less than 5% of the total council housing stock.<sup>32</sup>

In 1995, an influential study compared cooperative housing with provision from the best and most efficient of mainstream providers, including local authority or housing association landlords. Price Waterhouse found that co-operatives produced higher satisfaction levels among tenants and that small scale community based operations delivered superior value for money.<sup>33</sup> According to Rowlands, the areas where co-operatives and mutuals out-perform other providers include the holdings of stock that doesn't meet decent homes standards and overall tenant satisfaction.

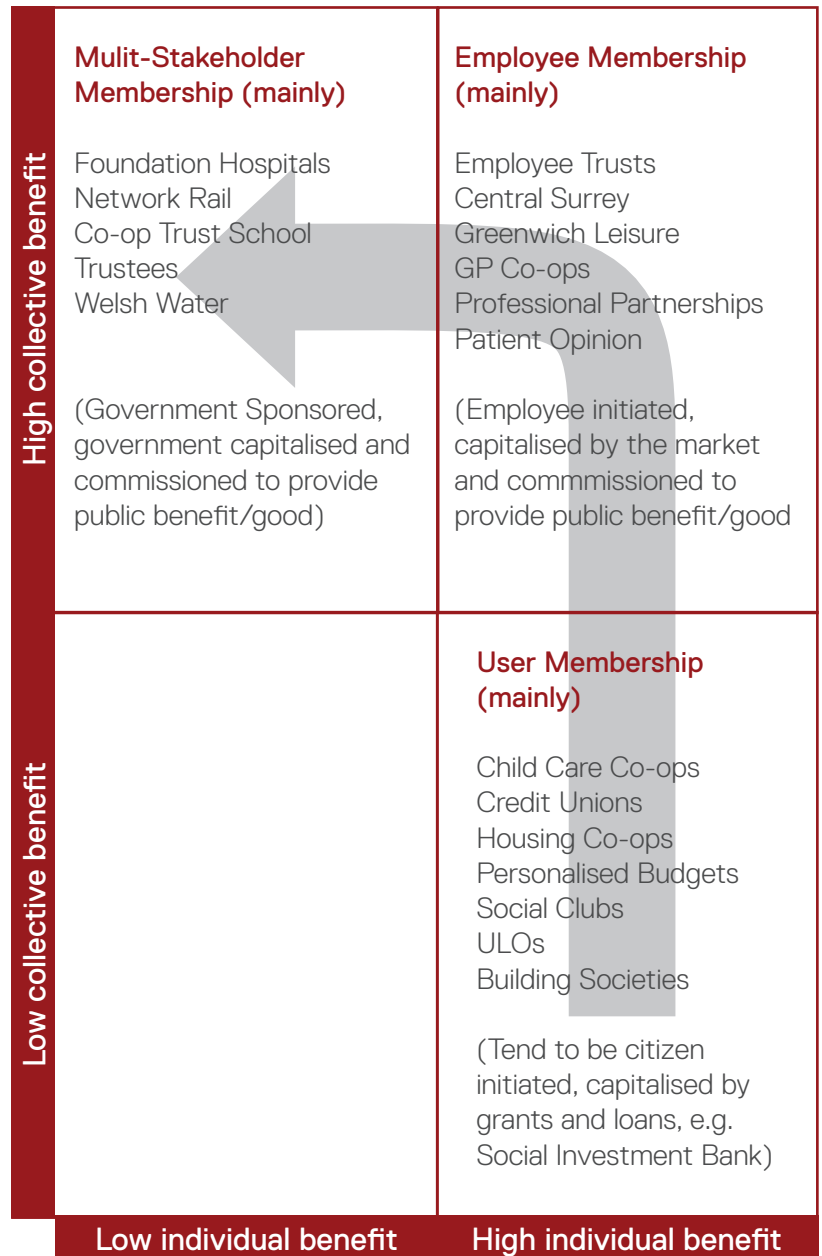
Similar findings were reported by the Tenant Service Authority in 2009<sup>34</sup> and by the Office of Public Management in 1999.<sup>35</sup> They concluded, 'resident control brings clear benefits in terms of better housing management, capacity building and community sustainability'.

The programme of voluntary housing stock transfer is an important development in the application of new mutuals. Examples of community-led council housing stock transfers are the 'Community Housing Mutuals' and 'Community Gateway,' which have been implemented in three local authorities in Wales and Preston, Watford, Lewisham & Braintree in England.

The evidence about co-operatives and mutuals suggest that, as they develop, they face a range of challenges. Many such organisations begin from informal self-help networks, with citizens helping one another out with shared needs like childcare. As they grow to serve more people, they require a paid staff at their centre and can often shift from a user membership to employee membership. If these organisations grow still further, they may need to bring a broader range of stakeholders into their governance, from community representatives to other services and partners. This trajectory of growth raises a set of challenges:

- Professionalisation - As paid staff are brought in, organisations have to manage any tensions between staff and citizens
- Capitalisation - Without assets, track record and with non-standard governance, raising capital can be difficult
- Scale – As these organisations grow, there is a challenge to achieve economies of scale without losing strong connections with members

### The growth of co-operatives and mutuals



## 4. The potential of co-operatives and mutuals for public services

Beyond the evidence from the work co-operatives and mutuals are already doing to deliver services, we can use broader evidence about their performance to think in principle about the potential they might have for public services as a whole. While further research is needed, mutual and co-operative governance models may be able to improve the way public services harness the energy of staff and citizens, their cost-effectiveness and their ability to contribute to local communities. This potential is too significant for public services to ignore.

In looking more broadly at the potential of co-operatives and mutuals, it is important to be intelligent about the kind of evidence we might find about governance models *in general*. There will always be good and bad examples of every kind of organisation. Equally, while models of organisation are important, they will be always be trumped by their mission – never judge an organisation by how it is governed *rather than* what it does. Third sector organisations like Turning Point do fantastic work that succeeds precisely because of their ability to engage staff and citizens effectively, but Turning Point is not a mutual. Nevertheless,

governance structures each have biases and characteres, and it is important to understand what those of co-operatives and mutuals might be.

### **Engaging staff and citizens to improve services**

First, there is some evidence that co-operative and mutual governance might bear directly on the challenge of better engaging staff and citizens in public services. This potential comes from the way in which they build reciprocal relationships between staff, citizens and wider public services.

Staff in co-owned public service organisations frequently say they are willing and able to “go the extra mile” to deliver a better service for people. The public sector will need more of that spirit.<sup>36</sup>

There is some evidence that co-operative and mutual governance has the potential to improve the relationship between public service staff and their work. If so, this may be important to outcomes, but it also has its own value. Malcolm Gladwell proposes that ‘meaningful work’, has three charac-

teristics: autonomy, complexity, and a connection between effort and reward' and that it is significant to people's well-being and personal growth.<sup>37</sup> If we can expand the numbers in public services who see their work as meaningful, that would in itself be some achievement.

In his recent publication trumpeting the potential of shared ownership for public services, Philip Blond quotes research that links this kind of meaningful work to performance. The research showed that 'the most successful councils share a common set of characteristics...

excellent and good authorities 'value and recognise their employees, by allowing them greater input into the decision making processes of the authority, and perhaps, as a consequence, providing more room for individual creativity to flourish'.<sup>38</sup>

Given the significance of these experiences of work to performance, what is the evidence that they are prevalent within co-operative and mutual structures? There are clear indications albeit mainly from studies in the United States that employee ownership, combined with forms of workplace participation, produces positive effects on job satisfaction. Thirty empirical studies of the impact of employee ownership on company performance in the US showed either neutral or positive results.<sup>39</sup>

In the UK, employee-owned companies and worker co-operatives providing public services report far lower levels of staff turnover compared to sectoral averages and employee ownership is also associated with higher levels of collective responsibility and peer

pressure.<sup>40</sup> Where there are good workplace relationships, employees in these organisations are significantly more likely to confront non-performing colleagues and to report their behaviour to management.<sup>41</sup>

Proponents of full employee ownership argue that their model creates a truly democratic model of governance and that this gives employees a shared sense of vision and involvement which enhances the work experience and the performance of the organisation. There are several high profile employee co-operatives particularly in new media which argue that since the main capital for such organisations is intellectual capital then the returns from the activities should go to those who provide the greatest input, in this case the employees.

Employee ownership has been increasing around the world.<sup>42</sup> In 1973 there were only a few hundred employee owned firms in the US with a few thousand employees. Now there are over 11,000 employee stock ownership plan companies employing 9.5 million employee owners. 10-15% of publicly traded companies in the US provide stock options to most of their employees. An extensive literature from the mid-1970s leads to the tentative conclusion that collectively owned enterprises are as productive and profitable as enterprises owned by private individuals, even though they present a distinctive profile in their labour and management practices.<sup>43</sup>

There is also some evidence that mutual and co-operative governance structures help, at least indirectly, to encourage citizens to participate in service provision. Such governance is

far from a magic bullet, but it may help to create the conditions in which this engagement is easier to achieve.

According to Johnston Birchall, one of the experts in such participation, while people do weigh up what they have to gain from contributing their time and their views to public services, they largely do it for collectivist reasons.<sup>44</sup> This builds growing on a growing body of work describing people as *strong reciprocators* – actors who cooperate with others on condition that their cooperation is returned, and punish those who behave unfairly according to the prevalent norms of cooperation.<sup>45</sup>

It seems that, in some cases at least, modelling this reciprocity in how they make decisions could help to encourage this. Certainly this case is made strongly by Mutuo. They argue that the difference between users who as ‘disappointed customers’ retreat and punish the provider by withdrawing custom and the users who can redress their concerns by helping their organisation to improve is fundamental to understanding the commitment which Co-operatives and mutuals appear to create. ‘The citizenship model works by encouraging people too participate, by opening up opportunities for them to be engaged, and by giving them ownership of the organisation providing them with the service’.<sup>46</sup> Equally, in his review of housing co-operatives, Rowlands argues that successful housing co-operatives appear to be able to draw positively on the local commitment that flows from tenants being both managers and residents of their properties.<sup>47</sup> Similarly, evidence on tenant-owned or managed housing in the UK for the then Department

of the Environment found that these models compared favourably with the best of mainstream social housing providers in terms of quality and cost-effectiveness but that over and above this, there was added-value for the tenants themselves arising partly from new skills gained as part of this active involvement.<sup>48</sup>

One of the distinctive characteristics of co-operative and mutual models is a closer alignment of the interests of owners and users. If so, consumers could be less at risk of being exploited and their interests could be incorporated more directly into the design and delivery of the service. The alignment of interests can, on this argument, promote trust in and engagement with the service. Johnston Birchall indicates the positive health benefits arising from co-operative models of health care in Japan which actively involve the consumer in health prevention strategies. There are 124 medical co-operatives in Japan. He gives an example of the Saitami medical co-operative with 46,000 members, a hospital, 3 health clinics and a dental clinic with a turnover of \$3,000,000. They place great emphasis on healthy living and preventive health measures within a very participative user oriented environment, for example, self-assessment equipment in hospital waiting area where members can check weight and blood pressure as well as Han groups (study circles) for health promotion.<sup>49</sup>

In Sweden, Pestoff reviewed examples of childcare provision which involve different models such as parent co-operatives, worker co-operatives and voluntary sector organisations. He found that all three types promoted

good work conditions for employees and opportunities for real client involvement and that parents actually preferred the co-operative form.<sup>50</sup>

There is considerable research, however, to suggest that opening up the governance of public services is far from sufficient to ensure that the community as a whole has a say. Opportunities to influence will be taken up by those who are already well-connected and well known.<sup>51</sup>

However, given that this is the case, the right response is not to give up trying to engage citizens in the governance of public services but to seek to build connections between those involved in governance and the other service users who are their friends and neighbours. Too many school governors, for example, describe the experience as isolating, because committee duties take them away from the kind of volunteering that had interested them in the first place.<sup>52</sup> Too much work to engage citizens in the governance of public services turns them inwards towards institutions and away from their fellow citizens.

According to research by Skidmore, Bound and Lownsborough, 'the alternative is to try to find the points where stronger and more effective connections can be made between formal participation by a small group of insiders and the more informal, everyday social networks in which a much bigger group of citizens spend a significant part of their lives'.

They argue that 'rather than expect everyone to participate equally in formal governance, we should try to make more people's everyday civic

engagement count by designing the formal structures of governance in a way that taps into the informal spaces of community life that they routinely inhabit. The places with which people are already familiar – the school gate, their place of worship, or their local newsagent or post office – hold the key to engaging them in governance activity. These places and the organisations that occupy them act as the everyday bridge between ordinary people and more formal governance activities.'<sup>53</sup>

While avoiding the 'usual suspects' problem is a challenge for co-operatives and mutuals, as it is for other types of organisation, there seems at least to be a good chance that the fact that the community already has a stake makes this 'bridging' between informal conversations and formal governance easier.

### **Productivity and cost-effectiveness**

There is some interesting evidence that co-operatives and mutuals might actually encourage productivity. In the current economic context, this potential would, of course, be hugely significant, although extremely different to verify beyond doubt. According to the Office for National Statistics, public sector productivity fell by 3.4% between 1997 and 2007, compared with a rise of 27.9% in the private sector.<sup>54</sup> Naturally this is a politically explosive statistic with contested significance, but all policy-makers would be interested in organisational changes that might reverse the trend.

The potential for a boost to productivity from co-operative and mutual governance comes in the way that

they can encourage staff and citizens to problem-solve for themselves, rather than simply allowing services to fail. In a co-operative or a mutual, the argument runs, staff and service users owe it to themselves and each other to act responsibly, because everybody benefits. And as stakeholders in the organisation, they may well have greater freedom to exercise their judgement and make changes.

Returning to Philip Blond's paper, he cites a study suggesting that such organisations have outperformed FTSE All-Share companies by an average of 10% per year.<sup>55</sup> There is also some evidence that co-operatives may benefit from a 'cost of capital' advantage compared to shareholder businesses, where money is diverted to shareholders. Building societies, for example, maintain that their ownership structure has led to better outcomes for consumers, namely, lower mortgage rates and higher interest payments on loans than comparable banks.<sup>56</sup> Consumer-owned co-operatives, such as financial mutuals, tend to rely on reinvestment from profits, access to debt or bond finance, which is generally cheaper than equity.

This claim about productivity rests on a direct link between ethos and performance. This raises the question of the value of the public service ethos. We are familiar with the idea that the value of informal care in the UK rivals the budget of the NHS, but how much is the public service ethos among staff worth? If it was not for nurses' and social workers' sense of vocation, how much more would we have to pay to keep our services afloat? There are organisations in all sectors with a strong public service ethos, but

there is some evidence that it may sit particularly well with co-operative and mutual governance and that this in turn improves performance.

### **Using co-operative and mutual models to generate broader community benefits**

The third area in which mutuals and co-operatives seem to have significant potential for public services is in relation to the generation of spill-over benefits, like career development or economic activity, that remain within the local area. Here there is less hard evidence to help to compare co-operatives and mutuals to other forms of governance, although a number of studies provide circumspect reports of benefits.<sup>57</sup> However, certain features of their work are striking in terms of their consequences for local communities.

In the examples of energy-producing co-operatives in the previous chapter, the fact that the profits from production remained in the local community made a significant difference to how they were perceived by citizens. The hope for public services must be that – while the profits of supermarkets do not remain within a local neighbourhood – the positive effects of schools and health centres do. However, in deprived communities, we should not assume that this is always the case, or at least, always visible. Where health outcomes will be much poorer and where those who do succeed at school my quickly leave for work elsewhere, people can be forgiven for having a much weaker sense that public services belong to them too.

The schools that solve this problem are very often those in which community members participate, as engaged parents, volunteers or paid staff. In deprived urban areas, the effect of turning eager parents into volunteers able to learn and develop within the school and ultimately into paid classroom assistants, for example, can be profound.<sup>58</sup> In schools where the vast majority of teachers drive to work, having staff and volunteers who walk to school with pupils and their families can be culturally very significant. It can make a big difference to the opportunities for local people, who may begin as timid volunteers but ultimately qualify as public service professionals.

Clearly, public services do not need to be mutuals to adopt these kinds of community development-style approaches. However, the question remains as to why at present they are the exception rather than the norm. Co-operative and mutual governance structures place citizens within services who can both stand up for local people's decision-making and help to ensure that local people benefit from the institutions in practice, and for that reason their potential is well worth exploring further.

## 5. The future for co-operative public services

Co-operatives and mutuals are not a panacea for public services. Like any approach to governance, they bring a set of risks that need to be managed and they are not appropriate in all circumstances. They have the potential to add to the tools available to public services, not to replace one for another. For this to be effective, we need to be clear about how to manage the risks associated with them and where they are most likely to add value.

It would be a painful irony if government decided that co-operatives and mutuals were a great idea in the name of local self-determination and then legislated so that they became compulsory. While that is an extreme example of how ideas can become distorted as they are enacted, there is a risk that co-operatives and mutuals could become simply a fad of public service reform. Perhaps the most significant of this kind of risk is that we seek to grow or create co-operatives and mutuals that are so large that they lack the very features that made them attractive in the first place.

In practice, public services will need to explore what these limits look like in different areas. However, it is clear that, as co-operatives and mutuals grow, they face the challenge of how staff and/or citizens can hold a growing cadre of professional managers to account and effectively influence and increasingly complex set of operations. For example, Rowlands argues that 'local ownership (membership) is the mechanism by which the efficiency of the organisation is driven, fuelled by the interest of those who have paid for the service, those who use or rely on it, and those who work for it'.<sup>59</sup>

While research for the Department of Health suggests that their governance is functioning 'increasingly effectively',<sup>60</sup> for example, this is clearly a challenge for Foundation Hospitals. In the UK, the number of multi-stakeholder NHS Foundation Trusts grew from their initiation in 2004 to 109 in November 2008 and at that point they served 1.12 million patients and had 294,610 employees with a turnover of £16.16 billion.<sup>61</sup> They have had to do considerable work to help stakeholders understand just what they are govern-

ing, and how they might go about it, before they can exert real influence.

While Foundation Hospitals ought to be able to manage the trade-off between appropriate scales for effective operation and effective governance, this can be more challenging for other organisations. For credit unions, for example, critical mass is necessary for long term survival but size brings increased investment in premises, staff and technology carrying the risk of decreasing returns to scale, increasingly tenuous commitment from staff and members and an erosion of the social capital generated locally.<sup>62</sup>

As a result, policy-makers will need to be careful both that co-operative and mutual models are not grown beyond a scale at which they can be effective and that they are not used in areas in which the tensions between operational and governance requirements cannot be resolved.

The second risk mutuals and co-operatives face in public services is that of organisational capture. If their decision-making were driven by a partial set of professionals or citizens it could damage both their performance and their legitimacy. Here it is important that mutualism is not taken as a guarantee that organisations operate in the public interest. Methods for managing these risks within co-operatives and mutuals begin with establishing governance arrangements that reflect the desired outcomes, rather than the established interest groups. Keeping this governance refreshed and relevant is critical in all co-operatives and mutuals.

The final risk relating to co-operatives and mutuals in public services is generally understood in terms of the relationships between 'choice' and 'voice'. At times, where people are more able to voice concerns about poor local services, they may also be more loyal to them, and strategies for public services need to face up to this tension. Keith Dowding argues that 'greater possibilities for consumers to change doctors, go the private sector or move jurisdictions may have an impact on... collective participation'.<sup>63</sup> It seems likely that these effects could also run the other way.

As a result, it is important for services to be very clear – including with the public – about what their strategy is for service improvement. In some services where there are regular transactions but there is no need for deep, personal relationships, it makes good sense to encourage people to influence services by remaining loyal to a good provider or moving away from a poor one. For example, the shift by the NHS away from providing prescription glasses is surely a good thing. However, in other areas, exiting from a service – for example, removing a child from a primary school and from the friends they love – is difficult, costly and painful. Here, public services should be clear about how parents can influence services through voicing their ideas and concerns.

These risks are important, but public services will be well able to manage them, particularly if they are clear about the circumstances in which co-operatives and mutuals can add greatest value. Drawing evidence about their potential to contribute to

public services, and the associated risks, it seems that co-operatives and mutuals are most likely to add value if:

- *They have a clear community constituency*  
Whether it is a community of interest – for example, patients with the same long-term condition – or a geographic community, co-operatives and mutuals need to be clear about the community they serve and how that community can hold the organisation to account.
- *They do not out-grow their community*  
It is possible for co-operatives and mutuals to grow, but in doing so they must manage the risks. They may need to re-define their membership or change how they are structured to ensure that those they serve can hold them to account. They may also find that there is a size beyond which they cannot maintain a sufficiently strong community relationship.
- *They focus on services where the contributions of citizens are critical to their success*  
In services where there is no need for deep, personal relationships with service users, there may be fewer benefits in co-operative and mutual models, both for providers and for citizens. Transactional models work well for transactional services.
- *They work in areas where they can build long-term relationships with members*  
In services where there is a high turnover of staff or citizens,

engaging them in a co-operative or mutual may be too difficult and costly to be beneficial.

- *They focus on services with which citizens aspire to engage*  
Some services require excellent relationships with service users but involve some policing of behaviour. Here, co-operative approaches to governance may be operationally very difficult and subject concerns about justice and fairness.

Public services might wish to adopt and develop these criteria in order to give clear signals about their view of the strengths and weaknesses of these governance models.

In order to build on the potential of co-operatives and mutuals, this paper argues that they should be seen as part of a broader challenge to create an ethic of engagement across our public services. If public services are keen to take on that challenge they could address it from two sides simultaneously:

- They could think about how they might support groups of staff and community members who wanted a greater say in how local services were run
- They could think about the kinds of public services that might most benefit from greater input from staff and citizens through co-operative and mutual governance

If they wished to make progress in these areas, there a set of practical steps that public services could consider to explore and develop the potential of co-operative and mutual governance for public services. To support staff and community members

who wanted a greater say in how local services were run, public services might look to:

- *Extend the right-to-request to services beyond the health system*  
The right-to-request enables primary and community care staff to set up social enterprises, often co-operative or mutuals. If this is right for the health system, what are the implications for other services? Public services might look to extend this right to a much broader range of staff, so that it becomes part of the informal social contract between the state and public service professionals.

- *Open up governance design to staff and citizens*  
In some cases, like the creation of Foundation Trusts, the governance structure of organisations emerging from the public sector has been tightly prescribed. Where service organisations emerge from the public sector in this way, public services might choose to create greater openness about their governance structures, supporting local stakeholders to make these decisions for themselves. Government might look to set minimum standards but support people to work together to define for themselves how a service should be governed. For example, Government might seek to require that services become social enterprises – in order to protect the public interest – and to define the relevant stakeholders for a given service, but to support these stakeholders to decide for themselves how a service should

be governed. This would require high-quality advice and support, but would also honour local expertise and build local ownership.

- *Encourage the growth of co-operatives and mutuals around personal budgets*  
As the use of personal budgets grows, this is an ideal area to support the development of co-operatives and mutuals to help service users work together. This is an area where the need for peer support on the part of service users is matched by a supportive environment for responsive small- and medium-sized organisations.
- *Ensure that potential co-operatives can get access to high-quality advice and support*  
Individuals can found a company in half an hour, but it makes sense that creating a co-operative or mutual takes longer. Groups need to clearly define their community and their mission. However, this process would benefit from high-quality guidance and facilitation, and once their plans are clear the process of registration and start-up should be as smooth as possible.

To support public services that might benefit from greater input from staff and citizens through co-operative and mutual governance they could:

- *Develop a community right-to-request for public services*  
The right-to-request could be extended beyond staff to citizens, enabling groups of service users to request changes in governance that give them a greater voice in

services they use. In some cases, groups might invoke this right out of dissatisfaction with the existing service – in others, such a request might reflect enthusiasm on the part of the community to contribute more. For such a right to be genuinely empowering, it might need to be accompanied by the kind of high-quality advice and support described above.

- *Address the capitalisation of co-operatives and mutuals*

The state has shown a willingness to endow Foundation Hospitals with millions of pounds worth of assets, but it can be risk averse in the face of requests to transfer smaller assets smaller groups. We need a clear rationale for capitalising co-operatives and mutuals and a social investment system that supports it. There may be some areas where there is simply a lack of available capital, but there are also areas where co-operatives and mutuals may just need more support to access what is available.

- *Support more research into co-operatives and mutuals and their potential for services*

While evidence about the work of co-operatives and mutuals is emerging, conclusions about their potential for public services are necessarily speculative. More research is needed to look systematically at the characteristics of co-operatives and mutuals and their significance for different service sectors.

- *Embed a strategy for co-operatives and mutuals across and beyond public services*

Public services may need a more holistic approach to making the most of the potential of co-operatives and mutuals. There may be a case for consolidating the changes in legislation that have been introduced over recent years to bring co-operative legal models into line with their company counterparts. At the same time, service systems in which all providers are expected to support and listen to their staff and service users are systems provide a level playing field for co-operatives and mutuals.

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