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The Oxford Centre for Mutual and Employee-owned Business
The Centre for Mutual and Employee-owned Business at the University of Oxford is Britain’s leading academic research centre dedicated to the study of mutuality and alternative corporate forms. It is directed by Professor Jonathan Michie and supported by a number of distinguished associates, including Dr William Davies who co-authored this Report. The Centre runs residential training courses for leaders of mutual businesses, as well as bespoke workshops and other events for a range of mutual organisations.

The Centre provides research for the annual Mutuals Yearbook (which covers the entire mutual sector). The Centre provided the research support for the Ownership Commission (2010–2012), which reported in 2012. The Centre’s other clients include the Building Societies Association, the Association of Financial Mutuals, the Wales Co-operative Centre, the Co-operative Group and the International Co-operative Alliance. The Centre has published a number of influential reports on ownership in the financial services sector, which received considerable political and media attention.

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EXECUTIVE SUMMARY

Understanding Public Service Transitions to Mutuality
A significant proportion of public service transformation is starting to take a mutual and cooperative form. The coalition government has made it a policy to support the emergence of more new mutuals; yet, there is little systematic understanding of the process of transition. This research analyses the following key features of a distinctive process of change.

1. Governance
When seeking the most appropriate governance architecture for their context, organisations enter an intense, often collaborative, learning phase, where they explore what it means to become a mutual, including what institutions and procedures are needed, how to define their membership and build their member community, and how to redesign the Board.

2. Leadership
During this learning phase – and also during the transition process itself – leadership is vital in two respects: firstly, to enhance organisational capability by raising the confidence, knowledge and activity levels of key individuals and stakeholder groups, and secondly, to model and foster mutual values and culture.

3. External Obstacles; External Support
Identifying the right model for the new mutual is one of the keys to successful transition, requiring the organisation to spend significant time searching for expert professional advice and seeking examples of best practice. Making the change is often made more difficult by some combination of poor local and national government support, being judged against external standards which express an incomplete understanding of mutual performance, an inappropriate regulatory environment and meagre financial resources.

4. Critical Factors
Preparing the space for successful transition requires money, supportive external relations and favourable market conditions. Internally, it requires some key people to invest time and energy over and above their job descriptions, and ideally a pre-existing culture and values set which are in sympathy with mutuality, as well as some active ways for employees and service-users to participate and some prior experience of different organisational forms.

5. Future Enablers
The widespread emergence of new public service mutuals will depend upon the development of key resources, such as the ability to access organisational models, affordable expert advice, money to support the costs of change, a shift in the way targets are set, and the emergence of new models and practices of leadership.

The Theory and Practice of Change
This report sets out the features of a distinctive approach to successful transition and change for mutual organisations which include: firstly, clarification of social and economic purpose; secondly, a plan for change which aligns single and multi-stakeholder interests through a democratic governance architecture; and thirdly, evaluating and measuring change against both stakeholder value and mutual culture.¹

1. THE PROMISE AND PRACTICE OF MUTUALITY

The concern to restore public trust in vital institutions such as banking, and to find ways of meeting public needs through more responsive and affordable public services, has led the UK’s Coalition Government to be attentive to the social and economic benefits of mutualism. The Cabinet Office has set a target of one million public sector workers to be transferred into mutual organisations by the end of the government’s current term of office (2015), and there are one hundred nascent mutuals in the Cabinet Office pipeline. To facilitate the emergence of new mutuals, the Cabinet Office has invested £10 million in a mutual support programme and appointed fifteen mutual ambassadors to mentor future mutual leaders. But despite the Coalition Government’s examination of key issues such as ownership (for example, their welcoming of the Report from the Ownership Commission) and the promotion of mutualism in public service transformation (see ‘Mutuals Taskforce’, the Cabinet Office), systematic understanding of how organisations apply the principles and practices of mutualism – including what is the purpose of the mutual, how to create mutuals and how to assess their social and economic impact – is lacking. Therefore, this research on the transition experiences of new public sector mutuals is both timely and necessary.

The Importance of Mutuals
Mutuals are vital to our economic and social well-being. In 2012, mutuals contributed £116 billion to the UK economy, employed more than 800,000 people, and more than one in three of the UK population were members of at least one mutual. Mutuals create value, add jobs and look after their members and customers across a wide range of industrial and social sectors, including food, financial services, manufacturing, retail, health services, social care and education. And the mutual sector is expanding – the cooperative economy alone grew by 1.5% in 2011, and by 20% from 2008 to 2011. The financial crisis, caused by the 2007-2008 global ‘credit crunch’, has led to calls for greater corporate diversity within the financial services sector, including strengthening the mutual sector. The Oxford Centre for Mutual and Employee-owned Business contributed to the Ownership Commission report (March, 2012) which found that good ownership requires institutional plurality, stewardship governance, and stakeholder engagement. Consequently, the important contribution that mutuals already make, and could make in the future, to a healthy degree of corporate diversity is increasingly being recognised.

The Distinctive Features of Mutuals
As a philosophy, mutualism is a set of ideas and principles governing the relations between individuals. As an organisational practice, mutuality is characterised by distinctive ownership and governance structures which express the values of equality, fairness and mutual respect through democratic decision-making. Thus, the key features of a well-run and high performing mutual are a governance architecture instituting community (and sometimes employee) ownership; organisational processes and practices designed to realise social, as well as economic, purposes; and values, culture and leadership behaviours which sustain an associational life based upon the principle of democratic cooperation.

Importantly, mutuals are a way of structuring organisational life which goes with the ordinary flow of human relationships – relationships which seek to express necessary inter-dependence, the
desire for belonging and the need to do something worthwhile in cooperation with others. They are able to combine social values with commercial focus, legitimising the generation of an economic surplus in public service delivery because that surplus will be deployed to benefit their members. Furthermore, when mutuals succeed in aligning their governance architecture with their culture, values and organisational practices, they become highly effective vehicles for realising basic human needs for belonging and decent work – as well as producing goods and services for their customers and communities which both welfare state and conventional private enterprise may have failed to deliver.

Understanding Transition and Change in Mutual Organisations

Public service mutualisation needs to be understood and evaluated against the general pressures and trends in public sector transformation more broadly. Historically, mutual organisations developed where there was expressed unmet social and economic need at the community level. Contemporary mutualism is emerging from a different set of social and economic pressures, including loss of trust in political and social institutions, democratic deficits and low levels of political and social participation, the withdrawal of the State from public service delivery, and rising social and economic need in an increasingly unequal society. We can now discern the limits of New Public Management, for example, in gaming tactics to achieve targets or the indiscriminate application of market mechanisms. As a result, mutuals – with their inherent capacity, through democratic legitimation and voice, to address the problems of accountability and power – are understood to be fruitful mechanisms for producing public services in new ways.

The Contribution of Mutuals to a New System of Governance

As a general strategy for public service transformation, mutuals contribute in vital ways to the emergence of a system of governance which attends to human relationships – one where multiple centres of power and influence must cooperate for the common good. Since public services are delivered against a complex social and political background of collaboration, partnership and accountability, Gronroos & Ojasalo (2004) argue that productivity and efficiency should be united in a system of performance governance, embodying ‘a mutual learning process of customers and service providers, in which resources and production and consumption processes of both groups are reconciled’. New ways of thinking, talking and working are needed. Crouch describes a process of ‘recombinant governance’, where organisations reject a single institutional logic in favour of entrepreneurship and innovation which enables them to adapt to systemic shocks and change. Stakeholder and employee voice is central to performance governance. This is because organisational processes aimed at productivity and efficiency are more likely to realise their potential, when they are democratically authorised, and when they incorporate human energy, ideas and information through democratic participation. And mutual values, principles and practices are particularly fruitful enablers of voice and participation, bringing stakeholders into the heart of accountable and open public service delivery.

The Research

We know little about what happens to organisations when they become mutuals, such as, how they go about the task of identifying the available options and what they do to realise the economic and social potential of the mutual organisational model. In order to excavate different experiences

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of transition, we interviewed managers and stakeholders from six public sector mutuals, all of different scale and origins. For example, Salford Leisure Trust, with 650 employees, 450 members and 130000 users, has been a mutual since 2003, but Rochdale Boroughwide Housing, with 600 employees, over 2000 members and 17000 users, mutualised only in 2012. We were interested in both the internal and external conditions for successful transition, including what motivated change, what support mutuals received, how they overcame barriers and how they involved their stakeholders. Several consistent themes emerged from the interviews: governance challenges; leadership; external supports and constraints; critical factors; and key enablers for promoting mutuals.

The Distinctiveness of Mutual Transition

Transitioning to becoming a public sector mutual is still a novel and distinct experience which is interpreted by individual organisations in ways particular to their local context and public service sector. The sense of being an early adopter can be an aid to change, because entrepreneurial and creative individuals within transitioning public services can use the uniqueness of their undertaking to inspire their employees and communities, generating a strong sense of solidarity and pride in the new organisation’s achievements. But champions of mutualisation can often find themselves working alone, searching for the right model for change, and having to invent governance structures and voice mechanisms from the bottom up. They can also be side tracked by legal and professional advisors seeking to shoehorn the emergent independent public service into conventional business models which institute organisational structures limited in their capacity to realise the full social and economic potential of mutual co-ownership. And they can be blocked by political interests at a local and national level which are ideologically shaped by the dichotomy between state welfare provision and private investor-led businesses. But even though each organisation narrates a unique story, transitioning to becoming a public service mutual contains common elements which distinguishes the process from other kinds of organisational change.

This report concludes that mutualism is a source of ideas and organisational practices sufficiently rich to enable organisations to create a distinctive plan for change, leading to broad based social and economic benefits. Public services which transition successfully include the following elements in their change process:

1. **They clearly define their purpose**

High performing mutuals bind their governance architecture to organisational practices which structure power, values, status, behaviours and accountability for the achievement of social and economic purposes.

2. **They assess their readiness for transition**

Successfully transitioning organisations usually benefit from a pre-existing culture based upon values such as the public sector ethos of service, some already established involvement and participation mechanisms, some prior experience of innovative organisational forms, and the willingness of managers to undergo a change in leadership style.

3. **They evaluate and measure the progress of change**

Applying mutual values and principles to governance and to organizational life raises the productive capacity of the organisation. In one sense, mutuals can be thought of as engines for improving the quality of the conversation in order to achieve better decision-making and organisational outcomes. New channels of interaction with employees, service users and other stakeholders enables information and innovation to flow, giving the organisation access to enriched intelligence on its performance and future possibilities. In order to harness this information, transitioning mutuals seek to evaluate and to measure change against both social and economic purposes, using evaluation to reflect, to consult and to stimulate the next phase of change.13

2. GOVERNANCE

‘What [the Commission] wanted was a model that gave them assurance that the interests of [the community] would be preserved and embedded within the governance of the organization….it was proper public sector ownership in the real sense of the word in that it is the stakeholders that are benefiting from the organisation who are involved in leading that organisation and making the decisions that affect it’ (Director).

Organisations which convert to mutual status invariably confront a governance dilemma, to which there is no straightforward or correct response. On the one hand, mutualism offers organisations a way of drawing staff members and service users into decision-making processes, which potentially increases levels of dialogue, trust and transparency. On the other hand, organisations can then feel very vulnerable, due to the lack of expertise on the part of these new participants, and lack of expert advice on how to organise the governance model. Getting a mutual governance model to work takes time, work and money, often with little expert assistance. Yet many organisations also report that the process of designing, debating and implementing a governance model is central to its value in the long term. In this respect, the notion of imposing an entire template from elsewhere may not necessarily be optimal.

The most prominent governance challenges are as follows:

Membership
Mutuals are defined by the fact that they are accountable to their members. However, getting membership to work is perhaps the toughest of the governance challenges. Problems that our case studied organisations encountered included the following:

- **Designing membership**: There is scarcely anywhere to turn to, in search of advice on the design of a membership scheme. For example, what is the best voting system for appointing member representatives? In some instances, the membership scheme [and the rest of the governance model] is designed by a member of staff, with no previous knowledge or expertise. There are also questions of whether and how to involve potential members (such as employees or local people) in the design of the membership scheme, so as to achieve greater legitimacy and understanding once it is established.

- **Communicating membership**: Many of those overseeing the transition to mutualism encounter a problem of understanding, amongst their employees and their service users. One reported that ‘mutual membership did not sink in and is only just starting four years on’. People often understand the meaning of co-operative membership in terms of the dividends that customers receive from shopping at a co-operative. But the lack of a dividend payment to members of public service mutuals leaves people confused. The question of what is the extra offering to members, that non-members don't receive, is a pressing one in terms of furthering public understanding. One senior manager reported that the term ‘member’ simply doesn’t work for his mutual, and a new concept and term is needed.

- **Implementing membership**: As with the design of a membership scheme, expertise on how to run and extract value from a membership programme seems non-existent to the mutuals we spoke to. One manager reported that ‘The big complicated thing in the transition to mutualism was how to run the new model. We didn’t have a clue about what it meant to be a membership organisation.’ Another mutual tried to hire a ‘membership
manager’ to run their scheme, and found it impossible to find one. Most still view
membership as an area of governance where they still have a huge amount to learn, and
great untapped potential.

For opt-in membership schemes, recruitment of members is a constant challenge which takes
time and hard work. For both opt-in and opt-out schemes, encouraging members to vote and
participate is another challenge. In communities where there are low levels of trust in local
services, it can also be a challenge to convince local people that the democratic elements are
genuine and transparent, and that their voice really can be heard. As one Managing Director put it,
’it is difficult to free people, to give them confidence that their decisions and judgments count’.

Making Membership Meaningful in a Community Leisure Mutual
The shift to mutualism was principally experienced as a governance challenge, of making a new
model work, with scarcely any experience of having done this before. The whole notion of
membership is difficult to apply in a context where people are using services as customers,
and don’t understand the benefit or purpose of participating any further. The right to attend
an AGM is not nearly enough. This is the area that is working least well. Senior managers are
currently exploring other ways of bringing this to life, including changing the term
’membership’. Local political participation is already low, so turnout for elections for
representatives is very low. The mutual needs to find the ‘extra’ that members get, perhaps
this could involve using membership to support small-scale clubs and community groups
organise themselves. Equally, it could provide the Council with a way of getting closer to
local people.

Boards
The dilemmas of mutual governance manifest themselves in questions about the right kind – and
size – of board. Large, elected boards can be more representative; smaller, professional boards
can be more expert and focused. Again, finding the right kind of board may be a matter for
individual organisations, but they benefit from advice.

- **Designing board structures**: There is a shortage of advice on how to design this aspect
  of the governance structure. This can result in considerable anxiety: one senior employee,
  who had been tasked with governance design, told us that she often worried ‘what if
  the model breaks? What have I missed?’ On the other hand, few organisations would want
  advisors to simply instruct them on what to do. What is needed is advice that frames the
  questions that need asking, so that the design of executive and non-executive boards can
  be done with confidence, in ways that suit the organisation concerned (see Chapter 4).
  More than one mutual that we visited has had to re-design their board structure since
  mutualisation, once they realized that it was not working adequately.

- **The dilemma of expertise**: Public service mutuals offer some representation to members
  at board level, and/or via some similar non-executive, representative body. One of the
  resulting challenges is how to encourage these representatives to see the ‘bigger picture’
  and ‘strategic goals’ of the organisation, beyond their own personal experiences. This is
  likely to require some training, as otherwise they may view their elected role mainly as an
  opportunity to air grievances. There is a risk that mavericks and ‘busy bodies’ will want to
  get involved, which needs anticipating. Associated with this, executives often complain
  that the elected non-executives do not sufficiently hold them to account, do not ask
the right questions or put them under pressure. On the other hand, there is a risk that members can be patronised by professionals at board level. One of the mutuals we visited had appointed non-executives purely on merit, through advertising the positions nationally.

- **Ethics and transparency**: As an unusual form of governance, mutuals struggle to demonstrate that they are run in a correct and transparent fashion. Board members need additional training in the precise legal nature of their responsibilities, and there is additional pressure to abide by correct procedures. Making the chains of accountability work can be difficult, which raises the ethical pressure to ensure procedures are understood and adhered to.

- **Efficiency**: The more complicated board structures of mutuals represent a burden, in terms of time and money spent making them work. If the board structure does not appear to be succeeding in its basic function, of holding senior management to account, this seems all the more inefficient. Depending on how serious this concern is, some mutuals have taken the decision to concentrate power in a small board of professional appointees and executives.

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**Redefining the Board in a Community Leisure Mutual**

Initially the board was 18 people, including local community reps. However, this board was too big, and didn’t put any pressure on management. Members of this board weren’t able to offer a strategic vision of a large complex organisation, of which they only knew a small part. Some of the local reps were raising their own personal gripes at board level. There weren’t enough necessary skills at board level, and so nobody was genuinely challenging managers which was risky. The rules were redrafted, to create a smaller board of 6 people, all of whom are appointed. Under the new board, senior management experience closer scrutiny, and are more likely to have their decisions challenged. However, the problems that previously afflicted the larger board now afflict the non-executive board, though with the added problem that many employees don’t really know what it is, if they’ve heard of it at all. One employee reported that ‘I’m not really sure people understand what the [non-executive board] is’. Members are not yet fully equipped with the skills or the organisational perspective to engage on big strategic issues.
3. LEADERSHIP

‘It is a strange feeling as a leader of an organisation to think, ‘No, I don’t like that’, and actually there is nothing I can do about it and I have got to sell that now to people because that is what collectively as an organisation we signed up to and that is what our members want. It is a strange position to find yourself in.’ (Director)

Those who have led organisations through the transition to mutualism recognize that, while governance problems are a regular headache, the primary leadership challenge is to produce a mutual culture. This means achieving a level of understanding of mutualism amongst staff and service users, and encouraging members to take decisions and use their initiative. It means leaders handing over power, and sticking by the mutual organisation model, even when this results in bad decisions being made. The members need to take mutualism seriously, and not view it as a gimmick. Some will inevitably view the transition with cynicism, but culture can be changed if mutualism enthusiasts can be found and empowered at all levels of the organisation. Others will view it first with fear, where they assume that the safety net of traditional public sector services or employment is being taken away. But this can give way to excitement if some tangible improvements become apparent within a respectable time period.

Spreading mutual culture

The transition from public sector to public service mutual requires a particular form of change management that involves high levels of consultation and dialogue between leaders, employees and service users. Some features of this challenge are as follows.

- **Getting the pace of change right**: Achieving successful culture change requires leaders to demonstrate tangible differences that mutuality has made, in a reasonably short period of time. However, it also requires demonstrating important continuities, in quality of service and organisational identity. The leadership challenge lies in balancing these two requirements: stakeholders need to notice the difference mutuality makes, but not be alarmed by it. One senior manager told us that ‘my job doesn’t feel as different [from pre-mutualisation] as it should, and that concerns me’.

- **Identifying the ‘early adopters’**: Every organization will have certain people who are quicker to embrace and understand mutualism than others. This will vary in terms of age, job description and personality. Leaders discover that engaging with these people early, and working with them, can help to gradually win over most of the other stakeholders over time. Inviting individuals to join a taskforce for mutualism, prior to the transition, can bring these individuals into view and give them an opportunity to get engaged in designing a governance structure and helping to spread the word.

- **Dialogue**: Mutualism requires a closer relationship between leaders and the front-line of service delivery, with power being handed over from the former to the latter. A strategy for dialogue is needed to make this work. One leader told us ‘trust is built up in an organisation when they know that you’re honest and transparent. Half of the problem is when you’re not transparent and honest’. Another organisation accompanied its mutualisation with a strategy for getting all staff (right up to the Managing Director) out of the office, to meet service users across the community. Some had never done anything like this before, and their understanding of their customers increased markedly.

Most organisations accompany the transition with the creation of forums, to discuss values and goals of the organisation.
• **Escaping ‘public sector culture’**: The culture of the public sector is associated with high levels of hierarchy, routine, target-chasing, job security and financial security. A mutual culture, on the other hand, is one in which individuals feel empowered to introduce changes, without seeking permission from above. But this can be destabilising. Since mutualism usually results in many of their responsibilities being pushed towards the front line, middle management are considered particularly liable to resist. The extent to which a public service mutual can escape public sector culture depends partly on the extent to which it achieves genuine financial and managerial autonomy. If leaders remain constantly accountable to government, and mutuals remain under-written by the state (as most will), then a degree of traditional public sector culture will remain. As one leader in this situation put it, 'we don’t feel we can take the risk to give away power any more', as the senior management remained judged by their results by central government.

• **Attentiveness to Building the Member Community**: Building the member community is an on-going organisational discipline which requires structure and resource. New mutuals found it was particularly important to clarify and communicate the advantages of membership, and to provide multiple channels for members to participate in shaping the future of the organisation. ‘We have been clear on the benefits of shareholding and over the eighteen months they are starting to become more and more engaged. Through our governance structure they are coming more to the table and asking rather than just waiting to be asked. That is a change.’ (Managing Director)

• **Democratic Dynamics**: All the participating organisations reported the emergence of a distinctive pattern of democratic life in their new mutual which issued in different conversations, information flows and eventually decision-making. Democratic dialogue depended upon board level permission for new conversational interactions, supported by both representative and direct channels for individuals to engage in decision-making. ‘At board level…it is basically creating the opportunity for dialogue that would not have existed before. Then at the bottom level you are trying to get the grass-roots flourishing…It is based on an ethos around the values for change so people can readily accept that and say that is something I want to do and that is seeking equity where there was not equity before’ (Mutual Leader).

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**Culture and Values in a Health Service Mutual**

It was a major challenge to preserve public sector/professional values, but to also update them to reflect the organisation’s new position of independence and ability to command its own destiny. It was a significant undertaking to engender in management and employees the knowledge, understanding and behaviours consistent with the new governance architecture. Post-mutualisation, people continued to behave according to the old organisational models. New values and attitudes were supported through an intensive programme of leadership development aimed at the top management and professional teams. Management board workshops were established to explore different topics, and the leadership programme included: culture; customer awareness; leadership style; and constitutional architecture, such as the role of members and governors.
Redefining management

Basic functions of management need to be subtly re-thought in order to fit with an organisation that is accountable to its members. Again, there is no obvious source of advice or training for much of this, and leaders find that they themselves are tasked with writing job descriptions and rethinking tasks, in ways that are more compatible with and supportive of mutual culture.

- **New job descriptions:** A number of new roles arise as a result of mutualisation, which do not fit easily into conventional job descriptions. This is partly because some of these roles do not map onto either public or private sector: for example, one manager spoke of the difficulty of finding a finance director, who was both familiar with the public sector, and with commercial procedures in case of liquidation. Finance Directors are under particular pressure to bridge between traditional public sector and private sector forms of risk management. The HR function might also need to change, in view of the fact that employees are also members.

- **Marketing:** Public service mutuals struggle with projecting an image to the outside world, that is neither commercial nor public sector. This hinders culture change, because service users may still think they are dealing with government-run services. There is no advice on branding or marketing that deals with this. In some cases, as with health service mutuals, the mutual continued to use the NHS logo. In other instances, mutuals want to communicate that they have changed, and are no longer run by local or central government, but without letting this be perceived as privatisation. This is experienced as a distinctive marketing and branding problem by some leaders.

- **Audit and evaluation:** There are no ready-made systems through which public service mutuals can assess how well they are doing, which prevents them providing relevant data to the outside world. Equally, there are no ready-made tools available to demonstrate transparently that correct due process is being followed. They tend to use existing public sector performance evaluation and audit methods, to increase their transparency, but these miss the distinctive qualities of mutuality. Alternatively, mutuals have invented new
systems and measures, suited for their particular purpose. As one senior manager told us, ‘we changed the meaning of profit’.

- **Leadership behaviours:** Making the shift to new mutual values, even where they were grounded in traditional public sector values, was a major and ongoing challenge. New mutuals often experienced a two-step process to move individuals with the right capabilities into the right roles: first, identification and recruitment of the new technical skillset, and second, clarification of values and recruitment to secure cultural fit. As the governance architecture settled into place, the new mutuals found themselves with the challenge of finding new models of shared and collaborative leadership, and developing the leadership practices which aligned with mutual principles and culture.

**Employee engagement**

‘All the council-provided services came and joined our group and they came from a failing council that was being performance managed within an inch of its life to an organisation where we did not tell them what to do, we just said, ‘You know your business, off you go’. They were all waiting to be told and performance managed and it was not happening. They flourished. The staff really, really flourished.’ (Chief Executive).

In principle, mutualisation should make employee engagement stronger, if the governance structure can be made to work, resulting in higher levels of transparency and trust. However, the exit from the traditional public sector and pace of change also represent a leadership challenge, in terms of the fears and disengagement that this can spread amongst staff.

- **Employee engagement strategy:** As part of the transition to mutualisation, leaders have found it helpful to formally establish a series of forums, via which fears and questions can be aired. Introducing this sort of face-to-face dialogue can be tough for leaders. As one Chief Executive put it, ‘staff involvement can be very challenging because you discuss tough issues directly with employees’. This can be further complicated by the fact that mutualisation is often running in parallel with other forms of change, such as redundancies.

- **Dealing with misinformation:** Until employees fully ‘get’ the idea and the model of a public service mutual, they may rely on rumours or an assumption that this represents privatisation by stealth. Leaders need to tackle misinformation with a clear communication strategy. Some of the leaders we had spoken to involved outside experts and advocates, such as the Co-operative College or Co-operatives UK, to give presentations to the staff to explain what was taking place, and the differences it might make. Clarifying pension and job security is also critical, for employee engagement.

- **Trade Unions:** Trade Unions are often assumed to oppose public service mutualisation, as a form of disguised privatisation, which will undermine job security. In the cases we visited, this was recognised as a potential obstacle, but one that had not in practice proved very significant, as unions had been successfully convinced that mutualism was of benefit to their members. There are some positive examples of trade union representatives getting involved in the mutual governance structures. The underwriting of pensions and jobs by the public sector is understandably critical to trade union co-operation.
Involving Employees in a Health Service Mutual

Involving employees remains a continual organisational discipline, even when the mutual becomes well established. In one health service mutual, employees have the opportunity to be, not only ordinary members, but also elected staff governors and staff representatives. During the year, staff lunches are held where an elected staff governor is asked to invite up to 20 colleagues from their constituency in order to discuss an issue of particular importance, such as quality programmes. Employees are now presented with more opportunities to express their voice in decision-making at an organisational level through indirect representative mechanisms, supported by some new initiatives to express direct individual voice through special invited occasions, but, on balance, the nature of decision-making at the level of the team is unchanged.
4. EXTERNAL OBSTACLES, EXTERNAL SUPPORT

“We did not have the money and we just carried on going anyway. It was like working on the kitchen table. You do these things despite rather than with the support of others” (Mutual Leader)

All organisations, whether public sector, private sector or mutual, sit within an infrastructure of regulations, expert advice, financial provision and wider social norms. Even organisations with very good governance models and leaders can struggle, if their methods and goals are at odds with this larger infrastructure. The public service mutuals that we visited were all pioneers of mutualisation, which required them to operate without clear roadmaps or support. They needed to have a certain ‘maverick’ ethos in order to manage this, which involved ignoring the normal way of transforming and running an organization. As one Chief Executive explained, ‘Doing something different which didn’t exactly fit into every box along the way was tricky’. On the other hand, none acted entirely alone, and all received some inspiration or input from some external source. What were the main hindrances, and what were the enablers, that these mutuals encountered?

These depend heavily on the specific sector that the organisation is operating in, and the perceived nature of risk in each case. The capacity to devolve responsibility or reinvent service provision is inevitably greater in some areas than others. But nearly all needed some advice, and some type of policy permission.

Advice and inspiration
The reasons why these organisations became mutuals are different in each case. But in no case did they develop the idea or the governance model out of thin air. They needed advice and inspiration, which they found to varying extents.

- **Legal advice:** Lawyers who understand the mutual model, and the possibilities that it offers, are vital in every case. In the first place, some explanation of the available models, their pros and cons, is needed from an available expert. Lawyers also need to be willing to challenge orthodoxies themselves, and not seek to impose a one-size-fits-all model. But such lawyers are hard to find – in some cases, senior management discovered them via google. Money to pay lawyers is also vital, which represents a major hindrance to more mutuals being established.

- **Education and training:** The Co-operative College, the Co-operative Group and Co-operatives UK have all played a role in disseminating information and education about mutuality. This included running training programmes for those involved in governance. Some of the leaders involved in the transition to mutuality had happened upon prior examples of co-operatives or mutuals, or were long-standing enthusiasts for co-operatives. The examples of Housing Associations, Foundation Trust hospitals, and policy enthusiasm for ‘Social Enterprise’ created precedents from which other public service mutual have learned.

Finance
The issue of raising finance has not been a significant barrier for the organisations we studied. For many of them, this is because there has not been a significant transfer of risk or assets from the public sector so there is no need of – or possibility for – private finance. However, the transfer into autonomous or quasi-autonomous status necessitates a greater degree of financial discipline and private sector risk management techniques. In instances where the transition to mutuality has been facilitated with debt finance (typically secured with assets that are transferred), this also
adds to the requirement for financial discipline and strict business planning. One of the mutuals we visited had hoped to be financed by a mutual or co-operative lender and approached some, but was disappointed not to succeed (they later received loans from conventional banks).

Government
Central government in Britain developed a new enthusiasm for public service mutuals in 2010, resulting in the Cabinet Office’s Mutuals Taskforce. This has benefited mutuals in terms of furthering general understanding of the model. However, it is questionable how much it has contributed to altering the overall regulatory infrastructure in which public service providers sit, which typically assumes that they are either public or private sector.

- **Central government**: There is a general consensus that the rhetoric of mutualism (and, prior to that, social enterprise) emanating from central government is beneficial in terms of achieving greater support for new models. However, a number of people we spoke to doubted whether central government would ever do anything more substantial, to support them or similar organisations. Some had received visits from senior politicians, who were eager to appear as supportive, but unless there were very specific favours that the mutual needed from Whitehall, this political support was not very useful. Lack of financial support, to pay for lawyers and governance processes, may cast doubt on the sincerity of central government support. There is also a risk that establishing mutualism as a Cabinet Office issue may result in suspicion or lack of understanding of mutualism by the department responsible for delivering a given service.

- **Local government**: Often it is local government that is the key player in facilitating a transfer to mutual status. Councils that understand and favour mutuality (sometimes because it seems to conform to certain political values) are viewed as a crucial enabler. In cases where local government retains certain risks, assets and liabilities, mutual leaders need to work on maintaining a co-operative relationship with councilors and council leaders, on a day-to-day basis.

- **Regulation**: Regulations are not established to deal with mutuals, and this is a constant problem for some (though not all). Some find that they struggle to provide the sort of information that regulators need, because their activities do not fit the regulator’s template. Others find that they are still being expected to achieve restrictive national targets, making autonomy meaningless. There is lack of clear guidance as to whether public service mutuals are covered by Freedom of Information law. In general, the problem is that regulation is by its nature a top-down method of dealing with risk; mutuals take a more bottom-up approach to risk, so conflict inevitably arises.

Mutuals which are more financially independent of the public sector reported that regulations are also a major competitive disadvantage, as they strive to operate in commercial marketplaces. Health and safety regulations (for small mutuals) and TUPE (Transfer of Undertakings Protection of Employment, which requires the mutual to maintain public sector employment and pension terms) were both cited as examples of burdensome or costly regulation. (However, it’s worth noting that TUPE is also crucial for achieving employee engagement and union co-operation.)
 Regulatory Fit in a Care Services Mutual

It is very unclear how to design this model for regulators. Their knowledge management requirements don’t fit. The regulators want information to be collected and reported in a certain way, but these methods do not fit the new mutual’s model. Equally, it is not clear whether or not the organisation is covered by Freedom of Information law. They face a constant struggle to make themselves transparent and accountable, and are worried that at some point they will be accused of not being. But this is due to how regulatory systems are designed, not because they’re not trying to collect information in the right way. For example, reporting to National Patient Safety Association has become harder. In the end, the new mutual tends to report more than it needs to, out of anxiety. There is a constant battle to prove credibility, including financial credibility to the Financial Services Authority (as was). The problem with regulation is that it tends to be focused on what sort of entity you are, not on what you’re doing. Regulators also have a problem understanding this more devolved, flexible approach to risk. It doesn’t fit with a centralised, knowledge management approach to risk, which is based on a view from the top of the NHS.
5. CRITICAL FACTORS

None of the case studies we visited can be viewed as a ‘typical’ public service mutual. As pioneers in this field, they each had different motivations for pursuing mutualisation, and encountered different levels of support and opposition along the way. None feels that they have yet reached a stage where mutualisation is working as well as it should or could. However, all have made remarkable progress in reimagining public services, often with little financial or political support. So the question can be asked – what are the identifiable critical factors, that have made mutualisation possible and sustainable at all, in these instances? It may be possible to extrapolate lessons for the broader programme of public service mutualisation, or for individual organisations in similar sectors, from answering this question.

Individuals

While this may be a feature of the fact that public service mutualisation remains for the time being an unusual thing to do, it is clear that most of the mutuals we visited depended on highly committed individuals, willing to persevere with a model they believed in, even while others did not. They are, as one leader described them, all ‘bloody-minded’ people.

- **Long-term leadership:** Given the complex process of change management that mutualisation involves, engulfing employee engagement, governance changes and new forms of service delivery, continuity often has to come from the person at the top. Often this individual had conceived, advocated and propagated mutualism right from the very start. While these leaders often downplayed their personal significance in our interviews with them, stressing that mutualism is a collective endeavour, a vision of mutualism – and often the initial discovery of the mutual option – needs to come from the person at the very top, to counter-balance the sometimes unwieldy processes of democratisation.

- **Champions:** In addition to the most senior champion for mutualism, additional individuals need to be brought on board, to celebrate and explain mutualism at all levels of the organisation. A guerilla strategy is required, whereby the idea and benefits of mutualism are sold in a peer-to-peer fashion, at all levels of the organisation.

- **Finding the right expert:** Simply finding the right person for a particular role can be the difference between success and failure, for organisations that do not fit a conventional public sector or private sector mould. We came across two key examples of this repeatedly. Firstly, mutuals need to find the right lawyer to advise them on governance and constitution, as discussed. Secondly, they need to find a finance director with skills that bridge public and private sector models. The process of searching for these skilled experts can be very time-consuming.

Prior experience

Mutuality is still an atypical model for public service delivery, which meant that every mutual we studied had a story as to how they had discovered mutualism in the first place, and why it seemed a good fit for their organisation. Typically, organisations already have some culture of co-operation, and some form of enlightened leadership or participatory governance, that is then harnessed once a mutual model is formally introduced.

- **Precedents:** Generally, those involved in establishing a mutual have already had some experience or knowledge of co-operative or mutual models of business or service delivery. This may be via the precedent of Foundation Trusts or the co-operative movement in
some way. Alternatively, it may be via other examples of decentralised public service delivery or governance, as in the case of school governance or housing associations. These similar models can be an important stepping-stone, in developing an understanding of what mutualism is and how it can work.

- **Institutional experience**: Many of the cases we studied had already experienced some form of innovation in governance or management, which gave them added flexibility and employee engagement through the institution of a voice system. For example, one mutual had already been established along a new partnership model, between the NHS and the local authority, three years before mutualisation. Senior managers believe that this gave the staff a new confidence and openness towards innovation, which made the subsequent shift to mutual ownership and governance more feasible. In these situations, the mutual model is not valued for its own sake, but is viewed as a means of preserving something that already exists in the organisation, and keeping it independent of both government and the market. A quasi-mutual culture often precedes the formal introduction of mutual governance, and eases the transition. And once an organisation has become grounded in a mutual model of governance, the scope of imaginative possibilities enlarges: ‘…that is where you start to look at mutual structures as the scaffolding for paradigm leaps’ (Director).

**Resources**

To date, public service mutuals have been established without much of a supportive regulatory or advisory infrastructure, making them largely dependent on the vision and innovation of key individuals. But without resources of various kinds, even these individuals would have been defeated at some stage. These include:

- **Time**: Establishing, explaining and operating a new, participatory governance model is a time-consuming business, for which there is little available ‘best practice’. Often employees give their evenings and free time to this task, or else use part of their working day, when they should be doing other things. This can be a major strain on individuals and organisations.

- **Money**: Legal fees are one of the most significant deterrents for organisations seeking to devolve from the public sector. In one case we visited, money for this came directly from central government. In another case, lawyers provided much of their time for free. Those within the mutual, who give their free time towards making the governance model succeed, may feel that they are doing two jobs at once, but only being paid for one of them. Money to pay for the operation of the membership model and the additional board meetings is viewed as crucial, if mutuals are to succeed in the long term.

- **Risk-sharing**: There is a crucial question as to how much risk a public service mutual can explicitly – or implicitly – carry. The transfer of power from the public sector has typically involved a significant degree of risk (and often assets) remaining with the public sector. This includes the risk to pension funds, job security and basic service outcomes. Services that are regulated as public services are liable to be taken back into the public sector if they cease to deliver to a certain level. Even where significant risks are transferred out of the public sector, some interviewees took the view that the government would still have to step in if serious failure looked likely (the problem of moral hazard). While this may cast doubt as to how much power is realistically transferred, leaders we spoke to were adamant that this sharing of risk (and leaving key risks with the government) was an
absolutely crucial condition of the model functioning. A mentality of partnership, in which both public sector and mutual develop a shared agenda, ought in principle to place risk in both hands simultaneously.

- **Friends in the right places:** Despite largely swimming against the tide, each successful mutualisation project depends on having a key supportive institution, without whom the transition probably would have failed. Yet the identity of this institution is different in each case. In one instance, it was the regulator; in another it was central government; in another it was local government. Establishing some sort of ‘partnership’ relationship with this external supporter, whoever it is, with whom knowledge is shared and leaders are in close and regular contact, provides a resource from which the new mutual can draw, when things are most difficult.

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**Commitment to the Community in a Children’s Centre**

The mutual model was adopted primarily to defend what had already been achieved in local community engagement and participation. Much effort went into convincing local people that this was truly their organisation. The model simply enshrined this commitment.

**Honesty and transparency:** The key challenge when working with a marginalised community is creating the honesty and transparency, so that people come to believe that this is really their organisation. ‘Trust is built up in an organisation when they know that you’re honest and transparent. Half of the problem is when you’re not transparent and honest’.

**Community engagement:** A huge amount of time and energy has to go into consulting with local residents, asking them what they want, and convincing them that this organisation is for their benefit. This takes time and tenacity above all else. Having the same personnel in place over time makes a huge difference: the Chair has been involved since 2001. The governance model was discussed locally and consulted on. In the early days, local parents were trained as community organisers, to go and build engagement locally. Keeping local people onboard is a continual challenge, which requires constant vigilance.
6. FUTURE ENABLERS

The current government is committed to an exciting program of public service mutualisation. There are a number of risks attached to this, as this report has highlighted. Without careful attention to the precise challenges posed by mutuality, leaders may find the process too difficult, employees may disengage, and service users may view the model as a gimmick. There is a risk that the entire notion of mutuality will become tarnished, if this new wave of mutualisation is not supported with understanding, the right kind of advice and a supportive regulatory and policy infrastructure. Over the course of our case studies, we asked members and leaders of existing mutuals what they thought it would take in future, for the transition process to be easier and more appealing. Here are some of their answers.

- **Rethinking regulation and risk:** The regulatory infrastructure of British public service provision is oriented around a centralised system of audit and target-setting. Leadership of service deliverers is conceived in terms of pursuing the most efficient path to the target. By contrast, the great benefit of mutuals is that they are able to alter their goals, to meet the particular changing needs of their users. They foster relationships between employees and service users, both of whom can potentially become members of a single entity. Their goals emerge from these relationships, in ways that cannot be easily communicated into measurable outcomes; risks are mitigated through better understanding of user needs. Central government needs to question its own assumptions about knowledge management, audit and transparency, if it is to demonstrate real commitment to devolution of power.

- **Making the case for mutualism:** Central government enthusiasm for mutualism has been welcomed by many in the mutual sector. However, it can breed suspicion amongst those who see it as a threat to their power. Whitehall spending departments, local government and regulators may view mutualism as a project to disempower them. Politicians seeking to aid public service mutuals can make best use of their power by strategically winning these bodies over, explaining what mutalism means and what mutual organisations are, and articulating a role for these institutions in nurturing mutualised public services. Furthermore, government has a vital role to play in giving permission for innovations in mutualism but also to act as ringmaster by insisting on accountability, transparency and maintaining the progress of change. Essentially, government can act as both stimulant and critical friend, particularly if a clear strategy is adopted to use mutualism as the plan for transformation in the public sector.

- **Sharing best practice:** Mutualised organisations discover that there is scarcely any advice on how to establish and run a membership scheme and an effective governance structure, engendering a mutual culture and encouraging leadership behaviours appropriate to the mutual organisational model. And yet this knowledge is accumulated by those who work it out for themselves. The government could play a simple role in enabling peer-to-peer learning in this respect, allowing those who have gone through the process to share their advice and stories with those who are about to. A central advice service, which collects and distributes best practice, would help a great deal.

- **Training:** Public service mutuals routinely face a number of significant skills gaps. The most significant ones, highlighted in this report are in the design and management of membership schemes, suitable financial expertise, and non-executive directors who are both professional in their outlook and respectful of member voice. The government
could help fill these gaps by investing in training programs and making them available to organisations undergoing mutualisation.

- **Templates**: The notion of template models must be treated with caution, as mutualisation cannot work if leaders are simply following a consultant’s orders. Models always need selecting and adapting via a process of informed dialogue. However, some of the legal documentation, including constitutions, could be replicated from one mutual to another, representing a huge cost saving on fees.

- **Defining ‘membership’**: Public service mutuals struggle to explain what their membership proposition is, seeing as it doesn’t involve a dividend like consumer co-operatives. A new term may be needed, and some new thinking on how the benefits of membership might work, beyond voting rights. Some mutuals are exploring the possibility of benefits-in-kind for members. Some leadership from policy-makers might help to develop thinking in this area.

- **Pooling resources**: In addition to sharing best practice and some templates between public service mutuals, there may be untapped efficiency savings to be made, in sharing back office functions between different organisations. Many public service outlets are used to having their back office support provided by local government. When they devolve, then this suddenly becomes their own responsibility, which can make them less economically competitive in an open market, where competitors may include large public sector outsourcing firms.

- **Mutuals financing mutuals**: The sense of shared endeavor that lies at the heart of mutualism would be increased if mutuals could turn to mutual financiers – building societies and co-operative banks – for loans.
7. RIDING THE NEW WAVE OF PUBLIC SERVICE MUTUALISATION

To date, public service mutualisation has been a piecemeal affair, without any larger sense of there being a local, regional or national strategy which evaluates and deploys mutualism as a strategy for regional or sector-based public service transformation. There are signs, however, that this might be changing. We now have the prospect of the large-scale mutualisation of the Post Office,14 as well as emerging whole council approaches to cooperation, such as Lambeth Council.15 And with the government’s consultation on rehabilitation services we have the opportunity to envisage how mutual values and principles might be applied to a whole sector.16

If councils adopt mutualism as a strategic imperative, then the questions arise: ‘what is the Council for?’, and ‘how do our relationships with stakeholders, council members and community groups change?’. A new kind of leadership is required to balance stakeholder engagement with resource reductions and the need to build organisational capacity, which includes careful auditing of community intelligence to identify early adopters and suitable mutual pilots.

Learning and Valuing in a Whole Council Approach

‘The importance of political and managerial leadership cannot be overstated, because there are tough decisions to make about whether you have the right people. But you should also seize the opportunity this presents because [mutualism] is a very positive motivating force and very exciting.’

‘[Mutualism] means all sitting around as equals; having a deeply respectful conversation; not a sense of who’s best and who has the power. And getting a much, much better product.’

If public services shift to mutualism on a broad basis, then understanding the theory and practice of change which is particular to becoming a mutual organisation is vital. This research has concentrated upon the process of transition, the outcome of which is the founding of a new organisation with a new governance architecture and new productive potential. However, constructing the building is only the first step; then the co-owners of the building – the managers, employees, community members and other stakeholders – must learn how to live within it. This requires an ongoing commitment and attention to organisational practices of leadership, culture, values, voice and power. In other words, the discipline of realising the mutual organisation model requires distinctive approaches to organisational change. Organisations which have undergone transition identify differences between mutual change and conventional change, including:

- Defining a compelling purpose with both financial and social dimensions.
- Giving up dependence upon the heroic charismatic leader figure and adopting models of shared leadership.
- Generating deep, sustained participation for multi-stakeholders by connecting the governance architecture to democratic voice, both representative/indirect and individual/direct.
- Securing the background conditions for the maintenance and reproduction of the new mutual by building a member community, and creating a civic culture of democratic values and habits.

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14 Co-operatives UK (2011) Mutual Options for Post Office Limited
16 Ministry of Justice (2013) Transforming Rehabilitation: a revolution in the way we manage offenders
• Communicating and enacting a fundamental shift in power relations through the organisational structures, processes and culture/values.
• Securing a rich set of values which draws upon public sector virtues of trust and pride, but adds commerciality and organisational effectiveness.
• Defining and modelling leadership behaviours which enhance organisational capability by raising the confidence, knowledge and activity levels of key stakeholder groups, and which model and foster mutual values based upon equality, fairness and mutual respect.

The generic process of change has three key phases:

• **Preparing for transition**
  ▫ Clarifying economic and social purposes.
  ▫ Entering into an intense collaborative learning phase, exploring what mutualism is and asking how to realise the potential of the mutual organisation model.

• **Planning for change**
  ▫ Identifying the appropriate mutual organisational model
  ▫ Assessing organisational assets such as pre-existing culture, prior experience of different organisational models, or established participatory mechanisms.
  ▫ Assessing readiness for change, such as a sense of common purpose and a recognised need for change.
  ▫ Articulating the gaps between the present and the future organisation.

• **Measuring Change**
  ▫ Identifying economic and social metrics relevant to understanding what performance will look like in the new mutual organisation.

**Understanding and Realising the Mutual Difference**

What difference does mutualism make? The participants in this research project were clear in their own minds that they would never want to step back from being a public service mutual. They valued the psychological and material difference that autonomy, mutual structure and values, and stakeholder involvement made to their decision-making, organisational outcomes and strategic possibilities.

‘Our added value for commissioning or tendering for work is the social aspects and redistributing the surpluses back into the community or into additional services, so commissioning services from ourselves to extend or expand additional service lines’ (Managing Director)

But mutual benefits are not realised automatically. The process of transition gives way to the demands of continual attentiveness to culture, values and leadership which seeks to ensure that employees and members experience the substance, not simply the formal status, of being co-owners – with all the entitlements and obligations this implies.
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