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The Ownership State

Restoring excellence, innovation and ethos to the public services

Phillip Blond

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NESTA is the National Endowment for Science, Technology and the Arts. Our aim is to transform the UK's capacity for innovation. We invest in early-stage companies, inform innovation policy and encourage a culture that helps innovation to flourish.

Foreword

The Ownership State is the first in a series of provocative reports written by Phillip Blond, which will focus on how innovative solutions can help us meet the social and economic challenges that confront the UK.

The subject of this piece of work – how we use innovative new forms of delivery and organisation to drive real change in our public services – is of paramount importance to the country. The UK's public services are faced with a daunting triple bind, as major social challenges combine with rising public expectations and an increasingly threadbare public purse.

The themes of the report – better engagement of frontline workers, greater involvement and ownership by users, and the power of innovative social ventures – are all themes that have been borne out both in NESTA's practical work and in our own research.

This report is a powerful example of NESTA's role in providing a forum for bringing fresh ideas and innovative thinking together to tackle the most pressing problems the country faces.

As with all our work, we welcome your input and views.

Jonathan Kestenbaum
Chief Executive, NESTA

October, 2009

Executive summary

It is hard to underestimate the challenge faced by our public services. Not only must they contend with ever increasing public expectations and societal challenges such as an ageing population, but they must do this in the face of the biggest shock to public finances in living memory.

Our current model of public sector reform is not up to this challenge. Over the last ten years, our public services have experienced a real terms funding increase of 55 per cent, financed by an increase of 5 per cent of GDP in public expenditure since 2000. Yet public sector productivity has continued to fall: by 3.4 per cent over the last ten years, compared to the private sector's 27.9 per cent productivity gain over the same period.

A new approach is needed. This report argues that real improvement depends on harnessing two powerful forces: the insight and dedication of frontline workers, and the engagement and involvement of citizens and communities. Too often these forces have been underexploited or set in opposition to one another. What is required is a new model that binds their interests together so that provision most effectively meets need.

Unless we allow nurses to ensure that hospital wards are clean, unless someone takes responsibility for abused children, unless the single mother can obtain her benefits quickly when she loses her part-time job, then UK citizens will carry on dying unnecessarily from MRSA, scandals like Baby P will continue to occur and vulnerable members of society won't seek the part-time paths out of welfare they so desperately need for fear of losing all income and security.

Likewise, without active and vocal engagement from citizens, making clear what they want from the public sector and taking an active role in its delivery, services will be unresponsive to users' needs, and the burden of care will increase as problems like obesity and inactivity multiply. Engaging providers and recipients multiplies the effect of individual action and changes group behaviour and social outcome. It enables ordinary people to make a difference by giving government the tools to realise the actions and concerns of its citizens, it takes out the costs and burdens of ineffective management and promotes self-organisation and social transformation. It is the future of public services.

Not only do engaged workers and citizens promote better public services, they also make them cheaper. The experience of private sector businesses from Toyota to John Lewis is that empowered staff are better at cutting costs and correcting failure than those managed by command-and-control methods. Wasteful middle management can be reduced. Examples of this approach applied in the public sector suggest that empowering frontline staff to drive service improvement can result in very significant savings: in the order of 20-40 per cent.[1] At the same time, citizens who take an active interest in their health and welfare initiate behaviour change and cost the state less than those who are passive and de-motivated recipients of government largesse.

But engagement, whether of the people who use services or frontline staff who deliver them, is a hard thing to achieve. The very structure of our public services militates against it. Trying to achieve true engagement in existing structures invariably feels like a partial fix in an otherwise hopelessly compromised system. Frontline leadership is a scarce commodity in large multidisciplinary organisations with centralised cost control and management by target. User involvement often becomes not co-creation but the choreographed rubber-stamping of top-down decision making.

We argue that the way to unleash the energies of frontline staff and citizens and scale up their impact is through the power of shared ownership. We propose a new model of public sector delivery, in which services are provided by social enterprises led by frontline workers and owned by them and the communities they serve. These new social businesses would exchange economies of scale (which are all too often illusory) with the real economies that derive from empowered workers and an engaged public.

The involvement of both the public and frontline workers provides a vital safeguard for the interests of the vulnerable: a powerful public stake prevents organisations from becoming producer interest groups, while the role of public sector experts helps ensure fair and high quality provision.

To deliver this, we recommend that a new power of civil association be granted to all frontline service providers in the public sector. This power would allow the formation, under specific conditions, of new employee and community-owned 'civil companies' that would deliver the services previously monopolised by the state. Central to this power would be the obligation to ensure that full budgetary delegation of all the supporting services goes along with new responsibility. The new civil company would be structured as a social enterprise, with the scope and flexibility to allow a number of different governance structures in the light of local conditions. Such structures include community interest companies with an asset lock that prevents external transfer of the resources of the new organisation, or alternatively a similar level of social reassurance could be provided by a partnership trust along the lines of the John Lewis model.

Governed neither by the public state or the private market, this new civil association would localise responsibility, direct agency and promote ethos. It would do this by spreading the ownership of publicly funded provision, revolutionising public service delivery for the benefit of all.

Part 1: Where it all went wrong – the origins of the present impasse

The imperative for change in the management of public services is now recognised by both right and left. However a full engagement with and an analysis of the failed consensus has yet to take place. J. K. Galbraith wrote that it behoves the left to be much smarter about business and management than the right. From the experience of the labour movement it had every cause to be suspicious of the ruling orthodoxy. And if (in an earlier age) it was nationalising economic basket cases or (as now) using state agencies to bring services to the citizens, it ought to have some pretty sophisticated ideas about how to run public services. Unfortunately, this has not always been the case. Old Labour was too quick to dismiss management and all its work, while New Labour's public sector critics have argued that it has been too smitten by private sector management theory. But this latest swing is not specific to the left or the right: with few exceptions the debate over different methods of improving our public services has been abandoned to a purely market-driven approach, whose domination of the speaking parts is so complete that in the middle of the greatest management meltdown in history, management responsibility for the financial crisis is entirely shielded from question. Resource allocation, risk, product design, accounting, reward and governance: the visible hand of the financial and banking sector hamfistedly got every single aspect of management wrong. Yet not only is there no investigation, no critique and no alternatives on offer to the model that has got us here; the same model that caused the crash is now expected to get us out of it again. This is especially poignant in the public sector, where accelerated 'reform' is certain to mean more market-based discipline in the form of competition, choice and contracting out.

Market versus statist thinking is a crude false dichotomy, based on an ideologically gloomy vision of human nature which has led both sectors into today's cul-de-sac – a nightmare treadmill where every problem thrown up by a dysfunctional system can only be addressed by prescribing larger doses of the treatment that got us into the mess in the first place.

The management model that has come to dominate all the airwaves, from the A-grade journals that shape the academic research agenda to the management consultants and eminent advisers who influence government policy, and (unbeknown to many of them) the practical managers who have absorbed it because it is 'in the air', is the neo-liberalism of the Chicago School economists whose line of descent goes back to the radical individualism of Smith (of the *Wealth of Nations* rather than *Moral Sentiments*), Hume, Locke and Bentham. Before he died, Milton Friedman consoled himself for (he judged) Chicago's relatively small influence on economic practice with the knowledge that: "Judged by ideas, we have been on the winning side". He was right. Almost all the social sciences – sociology, law and social psychology as well as economics – have been colonised by Chicago economics. This is especially true of management, which in its efforts to be recognised as a real science has been as consumed by economics envy as economics has by that of hard physics, to its enormous detriment.

For the radical individualist (the figure the Chicago School most extols), the ideal organisation is the 'marvel of the market', where individuals contract with each other coordinated by the price mechanism. In this view companies from the start are a second-best option, the product of a kind of market failure. In this market, morals and ethics don't count. Famously, what puts dinner on the table is not 'the benevolence of the butcher, the brewer, or the baker ... but ... regard to their own interest', aka the 'invisible hand'. The dismissal of the ethical dimension and assumptions of strong self-interest are carried over accordingly into neo-liberal views of the company – after all just another kind of contractual instrument, 'a continuation of market relations, by other means', as one writer has put it – where, given human imperfection, the problem of organisation is as much about preventing people doing bad things as encouraging them to do good.

In the private sector, these beliefs found their justification in what critics saw as the cosy corporatism of the 1970s. After 25 years of easy living after the Second World War when they could sell everything they made, managers and companies had gone soft. True to the predictions of self-interest, they seemed more interested in building corporate empires to shore up their own status and prestige than making money for shareholders. The prescription was straightforward. Companies would be run as strong hierarchies, with managers disciplining their underlings with sharp incentives and sanctions. Manager-agents in their turn would be aligned with owner-principals through the use of incentive pay, typically stock options. Self-evidently, following Milton Friedman, the sole responsibility of the corporation was to maximise returns to shareholders. A vigorous market for corporate control would ensure that managers who succeeded in this enterprise attracted extra resources, while those that failed would be ejected and their companies taken over. If there was an activity that another company could do more efficiently, outsource it; if its entire business was less efficient, then the company should put itself up for sale. This was the age of the raider, the break-up and the deal. As a token of the change, whereas in 1980 the total value of US mergers and acquisitions was less than 2 per cent of GDP, by 2000 it had reached 21 per cent. Equity-based remuneration for suitably self-interested company executives exploded in proportion. According to Standard & Poor's, stock options granted to US executives, non-existent in the late 1980s, in 2002 were equivalent to 20 per cent of all corporate profits.

In the state sector the same principles translated across into public choice theory and the parallel mantras of new public management. As James Buchanan, a leading light of public choice theory, put it, "[state employees and politicians] act no differently from other persons the economist studies"; that is, they can be assumed to be as self-seeking and narrowly self-interested as anyone else. In this view it is of course perfectly legitimate and predictable for people to pursue their own interests. The problem therefore is not motivation but organisation. If public services are self-serving (one reason why state spending always goes up), it is because they are monopolies delivering producer-designed services to weak consumers who lack purchasing power or the ability to choose.

As in the market sector, the solutions follow directly. Privatisation is one answer, but if that is impossible because of dependence on tax finance (e.g. the NHS) the next best thing is for the state to simulate a competitive market. If services are producer-dominated, then create strong purchasers (the purchaser-provider split). If there is lack of choice, establish competition. In other words, bureaucratic hierarchy is replaced with competing market institutions within the state as well as across its boundaries.

It is hard to overestimate the force of these prescriptions, particularly in the UK, which has been one of the most radical proponents of the neo-liberal state. By pushing back the boundaries of state ownership and absorbing into it the disciplines and relationships of the market, they have ushered in the most profound changes to public administration since the 19th century. Notably through the various governance codes, all heavily based on agency theory, it has also overseen the absorption of neo-liberal principles into the bloodstream of the corporation.

As an indication of the change, consider two contrasting expressions of the duty of corporate management. In 1981, the Business Roundtable, an organisation of CEOs of the 200 largest US companies, described it thus: "Balancing the shareholders' expectations of maximum return against other priorities is one of the fundamental problems confronting corporate management. The shareholder must receive a good return but the legitimate concerns of other constituencies (customers, employees, communities, suppliers and society at large – also must have the appropriate attention... [Leading managers believe] that by giving enlightened consideration to balancing the legitimate claims of all its constituents, a corporation will best serve the interest of its shareholders." By 1997, obediently rewritten to incorporate Chicago, it came out like this. "The notion that the board must somehow balance the interests of stockholders against the interests of other stakeholders fundamentally misconstrues the role of directors", the Roundtable now considered. "It is, moreover, an unworkable notion because it would leave the board with no criteria for resolving conflicts between the interest of stockholders and of other stakeholders or among different groups of stakeholders."

Unfortunately, the remedies brought by market individualism have turned out to be more destructive than the problems they were supposed to cure.

The elusive 'magic of management' is synergy: to get more out of the resources at its disposal than went in. The distinction of the present management model is to do the reverse. In the market sector, Wall Street and the City of London are full of firms staffed by people with the highest academic and business qualifications who are collectively so witless that they have not only burned their own houses to the ground but almost brought down the whole edifice of capitalism. As Alan Greenspan admitted sadly to the House Oversight Committee in October 2008: "I made a mistake in presuming that the self-interests of organisations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms."

In the state sector, any gains from increased spending have been nullified by induced organisational stupidity of a different but equally debilitating kind. With the aim of cutting costs ('reform') consultants have introduced Fordist, computer-driven programmes centred on the mass delivery of standard packages from whose awful results they are shielded by, in Robin Murray's words, a complex 'diseconomy' of knowledge. In cases such as the NHS, the purchaser-provider split creates a situation in which the purchaser is not the same as the end-consumer. This creates a challenge for the system: how do you ensure high-quality outputs? Under the current structure, since the purchaser, like everyone else, is self-interested, he or she is likely to pay more attention to senior managers and political masters, on whom jobs and prospects depend, than weak consumers. One well rehearsed response is to institute specifications and targets and penalties for failure to meet the standards. But as has become abundantly clear, targets not only deflect attention from equally important but non-quantifiable aims; they also induce gaming, misreporting and an emphasis on process rather than hard-to-measure outcomes.

The resulting regulatory arms race has some remarkably paradoxical consequences. The first is that the market solution generates a huge and costly bureaucracy of accountants, examiners, inspectors, assessors and auditors, all concerned with assuring quality and asserting control that hinder innovation and experiment and lock in high cost. The second is that this model of control harks directly back to the tight supervision, separation of execution from decision-making and emphasis on compliance of Taylor's 'scientific management'. The third is that in a self-fulfilling cycle, such management runs the danger of generating the very opportunistic behaviour that justifies another turn of the supervisory screw (the 'supervisor's dilemma'). The fourth is that public service institutions can only work if they are sustained by the kind of professional ethics and commitment to standards that public choice theory denies.

There is a more productive way of looking at organisations than pursuing the sterile market versus state debate. Traditionally managed organisations in both the public and private sectors grew up as fundamentally closed systems – that is, they are machines that operate with limited interchange with their environment. They are instrumental, designed to carry out certain tasks, and planned and managed from the top. Consumers function as essentially passive receivers of products and services tossed over the wall and pushed out to the market. To reduce their vulnerability to changing conditions, as Galbraith noted in *The New Industrial State*, such firms attempt to adapt the environment – for instance through heavy advertising and lobbying – rather than the reverse. This is the typical pattern of mass production.

Open systems, on the other hand, recognise that uncertainty and change render traditional command-and-control ineffective. Instead, the aim must be to adapt continuously to the environment. Instead of top down, such organisations aim to function 'outside-in', as John Seddon puts it. The consumer is a source of intelligence, as are suppliers and competitors. In production terms the goal is to make to order, at the exact rhythm of market demands, rather than to make to a company-defined schedule or plan. If the closed, mass-production system is General Motors, the adaptive open system is more like Toyota.

Open systems are organic rather than mechanistic, and require a completely different management mindset to run them. Strategy and feedback from action are more significant than detailed planning ('Fire – ready – aim!' as Tom Peters wrote); hierarchies give way to networks; the periphery is as important as the centre; self-interest and competition are balanced by trust and cooperation; initiative and inventiveness are required rather than compliance; smartening up rather than dumbing down. We intend that the structure we propose meets these baseline requirements.

In the mid-1990s with the emergence of ideas like public value theory, and thinkers like Peter Senge and his notion of the learning organisation, there was a brief moment when new thinking in the shape of joined-up management and the learning organisation seemed to have a chance. But all too quickly, these experiments were shut down by the deterministic certainties of an invigorated pure market approach and the growing tyranny of the capital markets. In the grip of those false certainties each new excess – the dotcoms, Enron, the banking crisis – seemed to reinforce the pessimistic assumptions at the heart of the model, leading to all-enveloping webs of external regulation that by emphasising formal controls perversely make organisations less adaptable, more stupid in systems terms. It is time to stop trying to make a broken model work – what Russ Ackoff calls the misguided attempt to 'do the wrong thing righter', which just makes us wronger – and set out on a different, more hopeful but at the same time more realistic management path.

Part 2: Overcoming inefficiency and disempowerment

This ideological journey is of more than just academic interest. Its most practical legacy is two severe and structural problems that can be found throughout our public services. On the one hand, we have a demoralised public sector workforce, sick of command-and-control and suspicious of anything described as reform. On the other, we have a track record of declining public sector productivity that bodes ill for future attempts to restore the public finances. We argue that these two problems are intrinsically linked, and need to be solved together. Let us consider them in turn, starting with the question of productivity.

The productivity question

According to statistics released by the Office for National Statistics (ONS – see Figure 1), even during the period of prosperity from 1997 to 2007 in which the dictates of New Public Management and Public Choice reforms took root, public sector productivity declined by 3.4 per cent – compared with a rise in efficiency of 27.9 per cent in the private sector.[2] The Centre for Economics and Business Research values this relative loss at £58.4 billion pounds per annum, equal to the national VAT take.[3]

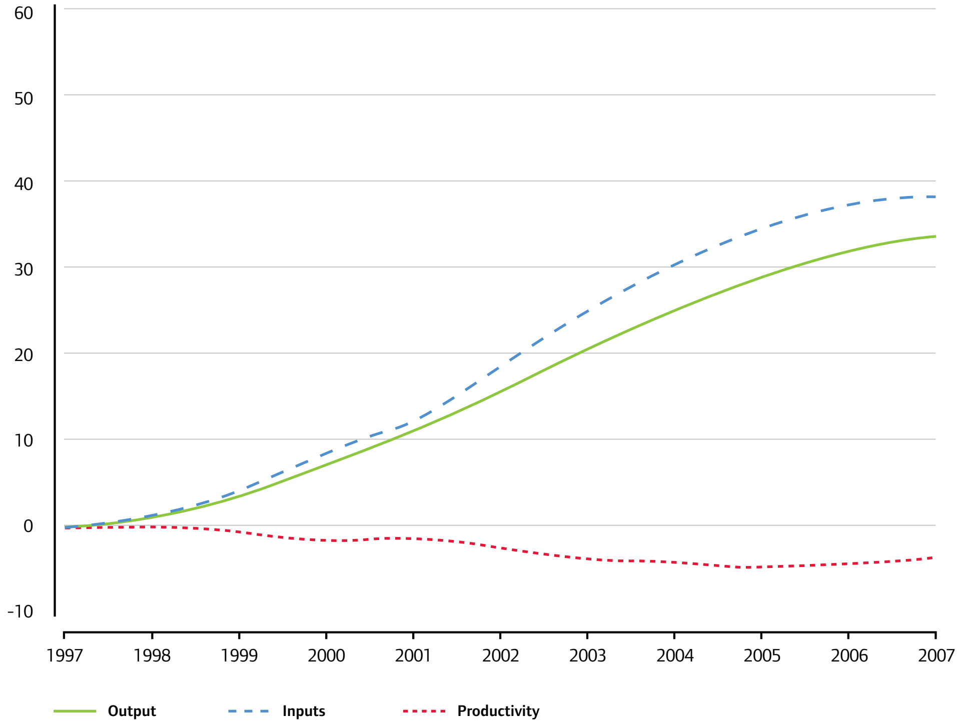
The major parties now agree that to resolve the fiscal bind that the Government finds itself in, the public sector needs to spend less. But experience tells us that cutting services without reforming them is counterproductive. It degrades quality even further, and pushes services into a meltdown phase that requires urgent remedial spending further down the line, leading to more waste and expense.

Moreover, if the cuts agenda is pursued through a traditional salami-slicing approach – just cutting the system without reforming it – managers typically react by retreating from innovation and relying on established systems just to deliver basic outcomes. Consequently ill-managed and ill-conceived cutting is likely to fail even on its own terms: it can distort service provision to such an extent that the demand for more resources to combat the resultant system failure becomes politically impossible to resist. The real imperative is then to innovate before one administers cuts, because only then can one protect public service outcomes and genuinely save money.

What is needed is an approach that saves money by addressing the productivity challenge. This is important both as a source of savings in its own right, and as the prerequisite for any broader programme of cuts that may be fiscally necessary.

But if public services are to be freed from state bureaucracy and the penalties of compliance to a centralised agenda,

Figure 1: Total public service outputs, inputs and productivity estimates, 1997-2007



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Mean
Vol. of output	0.0	1.6	3.7	7.4	10.8	15.8	20.7	25.1	28.5	31.9	33.6	2.9
Vol. of input	0.0	1.3	4.1	8.9	11.9	18.5	25.3	30.3	34.7	37.4	38.3	3.3
Productivity	0.0	0.2	-0.5	-1.4	-1.0	-2.2	-3.6	-4.0	-4.6	-4.0	-3.4	-0.3

Source: Office for National Statistics then some might argue the solution is obvious – contract out for productivity and efficiency gains. We would not deny that some cost savings have been achieved by outsourcing (some academics have estimated savings of some large schemes at 6-12 per cent), but often the system-wide savings are evanescent: with a destruction of civic capital, an explosion in accountability and audit costs and concomitant pressure on the wages of workers the fall in income of whom triggers in the UK further state subsidy through the tax credit system.[4]

Management academics often identity the benefits of outsourcing as the enhancing of productive efficiency through competition, incentives and ownership.[5] We do not disagree, but standard market practices in maximising extrinsic incentives for managers can crowd out intrinsic motivation for staff and ultimately erode trust and quality at the point of client contact and between staff and staff and managers.[6] In addition, many outsourcing savings are in effect transfer payments from workers to managers either through reductions in real wages and benefits or increases in worker effort.[7] What is needed is an approach that blends the productivity advantages of using competition for cost reduction with productivity gains through utilising intrinsic motivation.

The productivity challenge is important both as a source of savings in its own right, and as the prerequisite for any broader programme of cuts that may be fiscally necessary. Employee inclusion and empowerment is a vital component in any real productivity gain.

The empowerment question

Labour came to power with a mandate to invest in and further reform the public services. Its sweeping electoral victory and subsequent re-election were seen as signs of public and political consensus in support of public spending. The argument had been won that public investment could be a positive social force. The major increases focused primarily on health, transport, education and criminal justice drove public spending from 37.4 per cent of GDP in 1999 to 41 per cent in 2005 where it remained until the financial crash – which, the IMF is forecasting, will push government spending to 55 per cent of GDP in 2014.[8]

Having made the case for public spending, the government now needed to deliver visible results. From the government's perspective, the problem of the public sector was a problem of compliance: having identified a set of visible outcomes it wished to prioritise (reductions in heart disease and cancer mortality rates, increased literacy and numeracy, an increased proportion of offences brought to justice, etc.), mechanisms were needed to guarantee that the public sector delivered. And deliver they did: Figure 1 bears witness to the rise in public sector output in the period.

The chief mechanisms adopted to drive performance on the frontlines centred around a system of centrally-set targets providing quantifiable benchmarks to assess progress, sharp accountability, good real-time data, transfer of best practice, transparency, and incentives to reward success.[9] The intention of this system was that once public confidence and public sector capability had been built, detailed targets would be replaced with fewer, high-level outcomes, and public sector organisations would receive more discretion to act.

But the vision of a reformed public sector in which committed frontline workers enjoy autonomy can seem remote. Public sector staff frequently find themselves trapped in what was intended to be a transitional stage, experiencing an aspect of New Public Management which seems neither particularly efficient nor particularly modern. Ironically, the hierarchical and inflexible organisational model that obtains is one that is shunned by progressive and successful private sector organisations (as discussed in Part 3).

Last year's NHS Staff Survey bore these concerns out. Only 27 per cent of staff believed that managers involved them in making important decisions, while only 26 per cent believed their employers valued the work that they did. Only 15 per cent believed that communication between Trust headquarters and frontline staff was effective. Most alarmingly, 18 per cent believed that their Trust did not regard patient care as a top priority, with 27 per cent giving an ambivalent answer.[10]

This is a problem for two reasons. Firstly, it builds resistance to change. Staff who resent the imposition of top-down controls are likely to see any attempts to increase productivity as further unwelcome disruption. Change fatigue is a serious issue in the NHS, local authorities and beyond.

Secondly, it is self-perpetuating. Julian Le Grand, an influential advisor to Tony Blair on public sector reform, famously asked what motivated public sector employees: were they knights – honourably committed to the public good – or knaves – primarily interested in personal gain? One of the observations springing from this question is that a system that overemphasises knavish motives – through crass incentives or rigid targeting – will accentuate them. Or to put it another way, since you get the behaviour you plan for, treating workers like knaves makes them more likely to act like knaves.

The combination of a public sector productivity shortfall and a disengaged workforce presents us with a serious challenge: how do we improve our public services and reduce their cost in a climate where inefficiency seems built in to our delivery models and the staff who we might depend on to help solve the problem are suspicious of change?

Part 3: The levers of change

There are two powerful forces that can address this dual problem of low productivity and disempowerment. The first is frontline leadership, and the second is the involvement of users and communities.

A. Frontline leadership

The first powerful force that we must harness to transform our public services is the energy and motivation of frontline staff. Their disengagement, highlighted in the previous section, is not just a human resource issue: it is a fundamental bar to real improvement.

The benefits of empowered employees

Devolving power to the frontline is more than just a lever for employee satisfaction. When important decisions are made based on frontline expertise, public services can draw on an often neglected source of knowledge. Frontline staff frequently confront problems or become aware of opportunities long before strategic managers. Many of the most important issues affecting productivity and efficiency are not cosmic questions benefiting from a detached, bird's-eye view, but detailed questions of implementation and execution. Worker involvement improves morale and builds trust, reducing the need for intensive supervision and monitoring. Increased employee involvement would help to cut organisational waste. And, as John Seddon argues in *Systems Thinking in the Public Sector*, bringing decision-making and service design to the point of delivery can generate vast savings for any service.

A critical flaw of the current system of public management is its disproportionate focus on controlling worker productivity and budgets – a fixation which actually undermines efficiency. The problem is that this strategy fails to distinguish between 'value demand' and 'failure demand'; between productive work and waste.

'Failure demand' is the valueless, cost-creating work generated by the failure of an organisation to deliver services that work from the customer's point of view. Examples of failure demand include:

1. "I don't understand this form."

2. "Why haven't my benefits been paid?"

This can be contrasted with 'value demand', which is productive. Examples of value demand include:

1. "I would like to apply for benefits."

2. "Can you fix my window?"

According to Seddon, failure demand in banks typically runs from 40-60 per cent of total demand and in Local Authorities it has been found to reach as high as 80 per cent.[11]

By focusing on reducing transaction costs (for example, by using offshore call centres) and transaction times (for example, by setting targets for customer call lengths), strict managerial controls such as targets actually embed incentives to exponentially increase the amount of unnecessary demand.

A council where employees are under pressure to address user problems in a limited amount of time creates a system where addressing a problem requires a user to contact the council multiple times. Similarly, benefits, housing and immigration applications rejected to meet quotas, arrests made to meet targets, etc. all create unnecessary demand in the form of appeals, repeat applications, police, court and prison time, etc. This extra demand often falls on other agencies.

Instead of management being seen as a mechanism for the 'command-and-control' of workers, the role of managers should be first and foremost to study demand from the customers' point of view: to identify patterns, determine predictable and preventable demand, and facilitate frontline workers in tackling that demand. This will not only increase efficiency by reducing failure demand, but improve user and citizen satisfaction.

Empowering employees and their managers with the flexibility to design against local demand has resulted in efficiency gains of over 400 per cent in council services that have followed the recommendations entailed in John Seddon's work. In one authority, capacity for housing repairs rose from 137 jobs per day to 220 in four months. Over the same period, the number of repairs requests rose from 141 per day to 279, and the number of jobs completed on first visit rose from 42 per cent to 57 per cent. Seddon's work implies that the lean savings from this kind of change can amount to a staggering 20-40 per cent of costs.[12]

The benefits of employee ownership

It appears that employee ownership plays an important part in achieving the benefits of frontline empowerment.

Employee ownership is of course nothing new in the private and voluntary sectors. Indeed, there is a long literature recounting the benefits of employee ownership of for-profit organisations.

The defining attribute of employee-owned companies is that employees have a controlling stake in the business. This may involve employees owning shares individually, or 'common ownership', where assets are held indivisibly in trust rather than in the names of individual members – for example, no employees own shares in the UK's largest employee-owned company: the John Lewis Partnership (see the case study on page 18).

The employee ownership model offers several distinct characteristics, which the public sector could benefit from:

Case study: John Lewis Partnership

The 69,000 members of the John Lewis Partnership's staff are all 'partners' in the business and, as such, are entitled to a share of the annual profits. The bonus has ranged from as low as 8 per cent of an employee's salary to as high as 24 per cent, depending on the Partnership's financial performance.

The employee ownership structure is accompanied and reinforced by a strong culture of corporate democracy. Every store has an elected branch forum, which addresses local issues at the store. Stores also send representatives to district councils and the Partnership Council which holds the Chairman to account, develops policy and agrees changes in governance. The Council can trigger the removal of the Chairman through a two-thirds majority vote.

The Partnership also has a written constitution, which begins by enshrining that: "The Partnership's ultimate purpose is the happiness of all its members, through their worthwhile and satisfying employment in a successful business." Employees report high levels of happiness and satisfaction.[13]

1. Less risk aversion (compared to the public sector) and therefore greater potential to innovate.

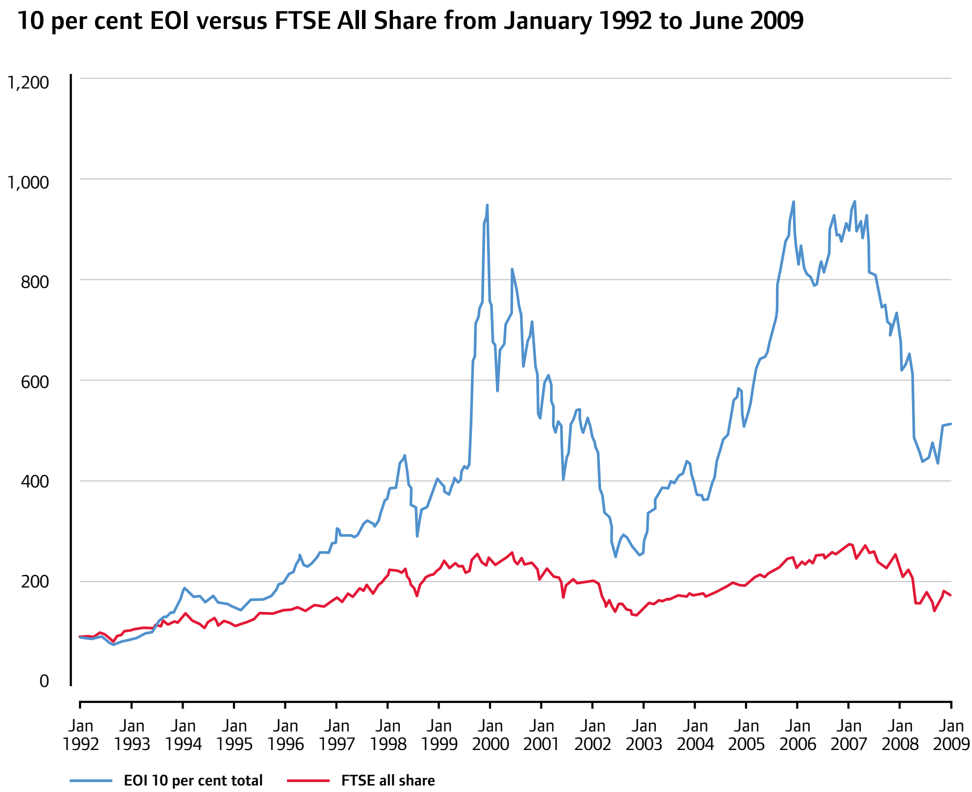
2. Greater entrepreneurialism (compared to the voluntary sector).

3. A greater sense of mission (compared to the private sector).

4. An open, egalitarian culture.[14]

Employee ownership is a force for loyalty, inspiring commitment and creativity which benefits the company, and improving the level of business and financial literacy amongst employees. On the productivity side, there is evidence from the literature on options that widely dispersed ownership has a powerful effect (one study reported "unambiguous evidence that broad-based stock option companies had statistically significantly higher productivity levels and annual growth rates compared to non-broad-based stock option companies in general and among their peers"[15]). Treasury literature and research has also confirmed this effect, citing a 5 per cent productivity increase.[16] One of the most compelling statistics is that in the UK, over the last 17 years, employee-owned companies have outperformed FTSE All-Share companies each year by an average of 10 per cent.[17]

Figure 2: Employee Owned Index (EOI) vs. FTSE



This opens a number of possibilities for the public sector. Where the governments of the 1980s and 1990s sought to outsource services to the private sector, this raises the question of whether some of the same incentives and benefits can be captured through 'insourcing', devolving ownership and responsibility to the employees of services themselves, without some of the potentially disempowering and dis-incentivising effects sometimes associated with outsourcing and privatisation.

Employee ownership could also offer a way to mitigate some of the pay issues of particular types of public sector work. In 2008, the mean gross annual pay of a public sector employee in the UK was £23,943.[19] However, 1.5 million of these public sector employees were paid less than £7 per hour (23 per cent of the

Case study: Newcastle City Council[18]

As with councils around the country, Newcastle City Council had a legacy of reform, following the introduction of Compulsory Competitive Tendering under the Tories and Best Value Surveys under Labour. While these reforms had delivered efficiencies, the pressure to save money had engendered a culture of short-term planning and savings. Outsourcing was a typical case: preventing future savings and leaving a democratic deficit.

Structurally, decision-taking and responsibility in the council were deferred upwards from the frontline to managers. Backroom tasks were isolated from the rest of the service, and each service had separate IT systems, with little communication. Services were available from 8:30 to 4:30 with 40 people waiting for one hour, on average.

When faced with still further outsourcing of services, the council organised a public tender to compete with a private bidder (BT). The public tender took a 'business approach' – i.e. "rigorous thinking about the best ways of allocating limited resources to meet social goals" – but differing from the private bid in that it offered "a model based on the maximisation of public benefit not profit, subject to the cost savings constraint."

Organising a public tender for services was no small task and, crucially, it entailed:

1. Union engagement and leadership.

2. Managerial ownership.

3. A general acknowledgement that 'the status quo is not an option.'

Creating the plan for redesigning more efficient services required participation from all levels of public sector workers. 'Diagonal focus groups' brought staff of all levels together to brainstorm reforms. Frontline staff then developed 'workers' plans', generating new ideas for products and methods of delivering service.

This also entailed a radical shift in management style. Managers were expected to take on a facilitating role for largely autonomous teams – adopting the ethos of 'managers as servants'. Rather than driving the agenda, managers relied on worker initiative and creativity.

Ultimately the public tender was accepted and is set to deliver £28 million in savings over 11.5 years, which was greater than the private bid. The reformed customer service centres it produced have a 95 per cent satisfaction rate and 98.4 per cent of benefits claims are processed correctly. Financially, this resulted in reduced costs of administering payroll and benefits processing and improved council tax collection rates.

total workforce in the UK earning less than that amount).[20] This figure accounts only for workers employed directly by the public sector, and therefore does not include staff employed by contractors working for the public sector. Of the 1.5 million people working directly for the public sector and earning less than £7 per hour, only 300,000 were under 25 years old. This low level of remuneration may go some way to explaining falling productivity levels, as well as dissatisfaction over recognition of good work amongst public sector employees. Employee ownership has the potential to transform workers from wage labourers to common owners of the services that they deliver.

The public sector needs to capitalise on this potential for building productivity by giving providers a tangible stake in the services that they provide.

Collegial quality

Frontline workers also have an important role to play in ensuring services are high quality. New Public Management has agonised over the question of how to stop incompetent or even criminal staff from abusing the system. The spectre of 'the next Shipman' hangs over most decisions on how to police workers in positions of trust, and has led to an increase in auditors and inspectorates. We argue that frontline leadership has a role to play here as well.

More engaged public service professionals who take responsibility for their services and their wider teams are less likely to stand by in cases of misconduct than disempowered workers who assume that intervening is the job of a manager or a regulator. Research by MORI and the Improvement and Development Agency casts light on this phenomenon. Examining employee attitudes within different local councils, the study found that staff in the most successful councils share a common set of characteristics:

1. They have a say in management decisions.

2. They are able to use their initiative and creativity, and to contribute to planning their own work.

3. They are kept well informed of organisational developments and change.[21]

The report found that excellent and good authorities, in contrast to fair, weak and poor ones, "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".[22] Other factors, such as satisfaction with pay and workload, had a much more limited (if any) correlation to positive outcomes.

This clearly emphasises the importance of employees engaging more with managerial decision-making. When asked how to improve trust in the management of their organisation the top three responses given by employees are: "frequent and honest communication", "more meaningful consultation" and "a greater voice in decision-making".[23]

The contribution of engaged and trusting employees to performance cannot be underestimated. The Society of British Aerospace Companies' Human Capital Audit, found that high performing firms benefited from 62 per cent more value added per employee than other businesses. The high performance model places great emphasis on keeping workers informed and involving them in decision-making.[24]

They are also best-suited in the first instance to assess the success and failure of their peers. An organisation where workers are committed to collective goals can effectively self-regulate against free-riding knaves, when empowered with appropriate mechanisms. Horizontal structures of regulation, such as peer sanctioning, staff hiring and firing, democratic wage and bonus setting, build on existing relationships of trust and solidarity amongst co-workers.

A new structure for empowering public sector workers must include mechanisms for joint decision making and the mutual regulation of co-workers. As a recent study found: "The vast majority of workers have a good idea of what fellow workers are doing (a pre-requisite for co-monitoring); that workers paid shared capitalist compensation are more likely than other workers to act against 'shirking' by fellow workers; and that worker co-monitoring or anti-shirking behaviour is associated with higher worker effort and better workplace performance."[25]

Social experiments have found that individuals in cooperative situations will sanction defectors even when it is not in their individual self-interest to do so, due to strong social norms of reciprocity.[26] One of the reasons commonly attributed to the success of micro-lending projects around the world has been the efficacy of peer sanctions in group lending.[27] Together, employee involvement programs and shared compensation improve outcomes such as job satisfaction, attitude toward the workplace, and the likelihood of staying with an organisation. The best outcomes occur when organisations combine pay for company or group performance with an ownership stake in the organisation and employee involvement committees. This supports the notion that these policies form a complementary package of employee-management relations.[28]

By empowering frontline workers to make more decisions and to hold each other to account, not only will services be more productive, but the need for managerial and audit-based supervision will be drastically reduced.

B. A mobilised public

Giving frontline workers a meaningful stake in the services that they deliver is a necessary but not sufficient step towards addressing the challenges facing the public sector. Overhauling our rigidly structured public services will also require us to change the way that the public interact with the services that they receive – not just as customers but as stakeholders, designers, deciders, implementers and evaluators.

There are four main routes through which members of the public can influence their public services:

1. **Representative political democracy** – affecting change through the ballot box and elected representatives.

2. **Consumerism** – through market-like arrangements in the public services.

3. **Participative democracy** – through self-organisation in unions, church, third sector organisations, etc.

4. **Involvement as co-producers**.[29]

In the cross-party neoliberal consensus that has emerged over the past three decades, public sector reform has been circumscribed by the first two types of mechanism – the state seeking to empower citizens in their capacity as constituents in the first case and in their capacity as consumers in the second.

Where these approaches conflict, the issue of reform is too often presented as an intractable right-left dichotomy between a consumer approach which offers individuals 'voucher empowerment', granting consumer sovereignty at the risk of inequality and a focus on individual satisfaction, and a social democratic approach which emphasises equal treatment and due process, at the expense of outcomes.

What unites these models is the assumption that services are provided by professionals and guaranteed by the state – while consumers and citizens nominally feedback by exercising choice and voice. Gone, or reduced to supplements, are the great intermediary institutions of British life and the nonprofessional contributor. In keeping with the scepticism of civil society that has become the founding myth of modern liberalism, these two approaches expect, and therefore design for, little active involvement by civil society.

The public stake

A remarkable number of successful private sector companies today – including Amazon, BMW, Google, Harley-Davidson, Honda, IKEA, JetBlue, Starbucks, Toyota and Whole Foods – attribute their success at least in part to turning the traditional conception of shareholder interest on its head. Looking past their own shareholders, these organisations extended significant stakes to employees, customers, suppliers or society as a whole. These same 'firms of endearment' uniformly outperformed the rest of the market, returning eightfold the S&P500 average on investments.[30]

This progressive private sector practice has an analogue in public management theory. Public Value Theory (developed in the 1990s as a response to managerialist and consumerist approaches to public sector reform), in attempting to emulate the private sector through the introduction of quasi-market mechanisms, put consummate emphasis on end-user satisfaction. In doing so, these approaches to reform ignored the wider contribution (the 'public value') that the public sector adds to communities.

Public Value Theory calls for the inclusion of the general public as stakeholder in public organisations, challenging the role that market-based reforms assign to

Case study: The Police and Safer Neighbourhood Teams

By the time safer neighbourhood teams were rolled out in 2004, the police were amongst the most heavily inspected and highly regulated public services, subject to hundreds of Statutory Performance Indicators as well as a strict National Crime Recording Standard. As a result, police were spending (and continue to spend) nearly half their time in the office, between 20 and 30 per cent of their time on paperwork and only 14 per cent of their time on patrol – with just over 1 per cent of their time spent in the community on foot patrol.[31]

Safer neighbourhood teams – which vary locally in size, powers and jurisdiction (for example the Metropolitan Police have one team per ward, generally consisting of one sergeant, two fully-sworn officers and three community support officers) – were introduced as a counterbalancing tier of policing, largely free from central control. As such they have increased time for community interaction, partnership work, street patrol (community support officers on average spend 75 per cent of their time on patrol) and therefore visibility. They also report having increased discretion to solve locally identified problems with flexible responses.

These teams are specifically mandated to communicate and work directly with their stakeholders: local people, community organisations, crime and disorder local partnerships and local councils. These stakeholders set the agenda and priorities for local teams – often including addressing problems that do not directly affect crime or disorder, such as working with councils to establish facilities for children or adolescents.

The success and widespread popularity of safer neighbourhood teams is a very concrete example of how a structural change that gives meaningful discretion to the frontline of a public service to solve problems can give community members a tangible stake in their local services. Crucially, safer neighbourhood teams incorporate simple but essential mechanisms that give local people a seat at the table as stakeholders, directly involved in the setting of priorities for, and evaluation of, their local team.

the public service manager. Rather than serving a primarily bureaucratic function (implementing political directives), managers are seen as entrepreneurs maximising public value – in the same way that private sector managers attempt to maximise profit for shareholders.

The benefits of user participation

Opening public services to public stakeholders offers an often lauded but seldom tapped potential for direct participation in shaping the services that they use and delivering the social outcomes that they desire. While engaging service users in new ways has long been considered desirable, it has proven extremely difficult to realise in practice.

There have been a number of reasons for this. Genuinely treating the public as partners requires, by its very nature, flexibility in the way services are delivered. One prerequisite for developing partnerships between the frontline and the public is sufficient autonomy for the frontline to respond to demand. Structures which create excessive aversion to risk or overly pressurise performance at the expense of personal relationships deter or render meaningless user engagement.

> *"Advocates of a kind of public service 'modernisation' may imagine that it is safer and more efficient for professionals to deliver narrow units of help to passive clients, compromised by a welfare system defined by target and risk. But they shouldn't then wonder why their costs are spiralling out of control and their targets fail to reduce the needs they are trying to address."*[32]

The most immediate benefit of public participation, a reduction in the cost of inputs (such as labour), has seen many public services making use of volunteers throughout their history – a practice common in, for example, nursing and fire fighting.[33] The value of these contributions is enormous: according to Carers UK, volunteer carers alone save the state £87 billion per year – more than the entire NHS budget.[34]

However, public involvement improves services not just at a delivery level, but also at the level of design, decision and evaluation.

There is a strong demand on the supply side for meaningful partnerships with the public towards the co-production of services. For example, as part of a recent initiative, Diabetes UK had 60 expressions of interest and 31 applications for three pilot programmes aimed at involving users in decision-making.[35]

What is needed is a system that will give the public, as individuals and as client groups, a literal stake in their service providers. The state must enable new associations of service-users, community members, voluntary contributors and existing social organisations to take ownership of their services, as partners with direct influence over providers.

An engaged public acts as a bulwark against producer capture and improves

Case study: Sure Start

When the Sure Start programme was first implemented in 1998, it was to feature 200 local programmes, concentrated in deprived areas, but with participation not confined to poor families. The initial aim of Sure Start was to blend core programmes of early education, play and health (child and maternal), with a view to reaching out to families who might be initially inclined to shun services offered. In recognition of the fundamental role each individual associated with the programme had in tailoring services to best suit their specific community, local projects were granted relative autonomy, with user involvement in decision-making a crucial ingredient, allowing the possibility of extra services such as debt counselling and benefits advice to be added if there was felt to be a demand on the ground.

The initial structure of Sure Start was a partnership between statutory agencies (local councils and PCTs) and the voluntary and private sectors, with funding ring-fenced and guaranteed for ten years. The principal focus was child development, building on extensive research that suggested outcomes for children from disadvantaged backgrounds were to a large extent influenced by early-childhood experiences. Because it was predominantly operating in deprived areas, with the associated difficulties in parent participation, Sure Start was initially run on community development principles, structured to allow local people to fully participate in determining content and management, realising that without local input, the scheme ran the risk of being perceived by parents as another quick-fix initiative from Whitehall. Because of the time needed to persuade sceptical parents to become involved, the programmes developed relatively slowly. As a result, centres began to lose their autonomy as their services became more uniform, with directives being set by the centre. The Department for Work and Pensions began to wield an increasing influence as Sure Start centres evolved into places offering childcare so mothers could return to work.

services through participation in a real, tangible way in the design of services, allocation of resources, priority-setting, decision-taking and evaluation.

The benefits of real public engagement

Public engagement is not only about participation in the supply of public services, but also about members of the public taking ownership of their personal and shared social environments. In this sense, co-production includes the direct impact that everyone has on the outputs of public services: for example public safety, health, and access to the welfare system.

For example, the production of a safe environment is drastically affected by the participation of citizens in enforcing norms of behaviour, acting as witnesses, supplying information and minimising personal risks. Similarly, active parenting is essential to the effective education and health of children.

The Wanless Review of 2002 plotted three scenarios for the medium term future of healthcare in the UK; solid progress, slow uptake and fully engaged. Achieving the highly desirable third scenario – wherein people actively take ownership of their own health, leading to a sharp decline in key risk factors such as smoking and obesity – would require a "dramatic improvement in public engagement, driven by widespread access to information".[36] However, if delivered, this would generate projected savings of some £30 billion in health resource needs alone by 2022.[37]

At the moment, tapping the potential of an engaged society to reduce demand on public services remains an aspiration, however new structures of ownership are needed to make this a reality. These structures, such as the extension of co-ownership to voluntary associations willing to participate in service delivery or to groups of people with related needs, would provide a nudge to form these groups and engage.

Part 4: The challenge of doing this

The idea of empowering frontline workers is not new, nor is the idea that user involvement is a good thing. But it is remarkable how little practical headway these two ideas have so far made in our public services. It is instructive to consider why this is the case.

A number of Government policy documents have declared their support for harnessing user engagement and frontline leadership to improve public service design and delivery. The 2008 Cabinet Office white paper *Excellence and Fairness* extolled a variety of methods for achieving world-class public services, including: "empowering citizens not only by further extending choice, but also by strengthening accountability mechanisms and radically increasing transparency... unlocking the creativity and ambition of public sector workers to innovate and drive up standards in partnership with service users... [and] less micro-managing and more strategic leadership from central government."[38] Lord Darzi's *NHS Next Stage Review*[39] went further, promising healthcare professionals the freedom to establish their own social enterprises, a freedom which has already been taken up by clinicians in Central Surrey.

Organisations ranging from Monitor, the NHS Foundation Trust regulator[40] to the Design Council[41] have stressed the importance of users and frontline workers, and of course the public sector as a whole has a long history of public consultations and staff surveys. Reports suggest the NHS employs close to 34,000 people through Patient Advice and Liaison Services, complaints and public engagement, at a cost of approximately £600 million per year.[42]

But neither the endorsement of the Cabinet Office, nor the signal action of the Department of Health, nor for that matter the work of a raft of smaller organisations has yet unleashed the transformation that we believe is necessary.

The reason for this is structural. Central to our argument is the belief that it is not credible to promise real empowerment to staff and real control to users when the structure of the system works in the opposite direction. The fact is that most of our public services are owned by government, rather than the people who use them or the people who work in them. This sends an unspoken message of disempowerment more clearly than any endorsement by policymakers.

It is no surprise that the part of the NHS where leadership by clinicians has been taken most seriously is among Foundation Trusts, which are the closest the NHS has come to a model of staff and public ownership.

The Cabinet Office report proposes 'strengthening accountability mechanisms', while concurrently 'unlocking creativity and ambitions of public sector employees'. This requires a new, delicate framework. The current method of operating, in an environment of extensive auditing, often excessive levels of bureaucracy, and risk-averseness, poses a major obstacle to reform. The inability of management, policymakers and politicians to strike the fine balance between granting freedom to the frontline to innovate, and mitigating against failure, through an extensive management structure which tends to prioritise compliance and box-ticking ahead of questioning and creativity, has slowed reform in public services. At the frontline, even if employees were granted more generous freedoms, staff sometimes lack the necessary training and support to excel. Therefore what is needed is a work environment that supports staff development, allows horizontal support and sanctioning structures, and allows the frontline genuine freedom to innovate while guaranteeing service users against failure or absence of services. A new system for the public sector must encapsulate a remedy to all these issues.

Part 5: The ownership state

What we are arguing is that ownership is the crucial means by which true leadership by frontline employees and real engagement by users of public services can be achieved. When both users and frontline can have a stake – a genuine share of ownership – in the organisations that deliver public services, then the benefits of real engagement will result. This has radical implications for the way we structure our public services and the role that the state plays.

Ownership is a good, but too often in the public sector it is a limited good – ownership is concentrated at the centre, and the centre shows every sign of wanting this restricted situation to continue. Where ownership is given up, most notably when services are outsourced, the ultimate owners are generally not employees or service users but corporates (and typically, because of the nature of the procurement process, large ones). Since there is only one big state and few big companies, a public monopoly often passes to private oligopoly and in neither situation is the employee or end user offered a stake in the company or an alignment of their interests with those of the provider organisation.

Our solution is different. In the realm of public services we propose to offer not just employees a new power of civic ownership – but also to extend this new stake and this new power to their clients as well.

The new power is that of 'civil association'. Any self-organising frontline group of professionals who thought that they and their clients would do better by themselves in an alternative model of public provision would have a new 'power of civil association'. This power, if granted, would allow a group of staff in the public sector to self-organise and constitute a new civic organisation. Crucially, the budget (including where appropriate budgets for support services and non-fixed overheads) for providing those frontline services would go with the self-organising association. Thus, if the application to be a new civic association was granted, the new organisation would benefit from the resources that had previously been spent internally to provide the service.

As these new civic associations would typically be established according to how services are delivered, they would offer a powerful boost to leadership by the frontline. The new organisations will put the real needs of service delivery first, and will allow for the stripping out of middle management and for clinicians or other frontline workers to play the leading role. The organisations will themselves be responsible for many of the functions associated with the worst aspects of command-and-control, such as internal performance management, staffing, and even pay. The most illustrative model for these new civil companies (though it is by no means definitive) would be the model of the community interest company that was first legislated for in 2005.[43] Such companies are more radical forms of a company limited by guarantee – they have an asset lock that prevents the transfer out of the company of the public assets of that company. They exist in the company for the public good and for no other benefit. However there would need to be returning covenant for these civic companies so that if the company failed the disaggregated assets would return to the centre. The hope is however that the cost savings engendered by such organisations would enable both service improvement and increased staff remuneration.

Ownership is and should be an incentive – the precise shape of such a reward can be determined later – but as equal members of a company I see no reason why some dividend or profit share should not be distributed to company members. One reason why few employees in the NHS have currently applied to run their service as a social enterprise, even though that power was offered last year, is that the incentives are just not there and the risks are perhaps too high. Hence I would offer employees an asset lock on their present pensions so that their future was secured and I would offer them a profit share in the savings and efficiency they were able to generate. If people are to work harder they should be rewarded. Indeed one of the most notable things about employee share options is that if they are offered to just senior management then their effect at best is utterly negligible or at worst completely disastrous. Research strongly demonstrates that share options only really scale up productivity gains for a company when they are offered to all staff rather than just some.[44]

Another additional advantage of structuring these new 'civic companies' along CIC lines is that it enables the sector to avoid the costs and downside of contracts, compliance and auditing. A CIC trust model would enable the whole public sector to structure itself along the lines of a limited liability partnership – where partners at the centre decide the appropriate budgetary allocation without the need for contract or cost specification. See Figure 4 for a graphic representation of this idea. This structure would allow a matrix of common interest to pervade the whole sector and would prevent sectional interest from trumping shared interest.

However we cannot and should not at this stage specify the precise structure of this new civic company. We need to be open to the idea that ownership is a diverse good and that the same good can be realised differently by a number of different structures and instantiations.

For example an alternative model for civic companies would be the partnership trust model as evinced by John Lewis. This also injects as an incentive the opportunity to earn bonuses, the opportunity to make creative trade-offs in terms and conditions of employment, and the incentive to do deals, such as mergers and acquisitions, which the asset lock model of CIC would frustrate. The partnership trust model of employee share ownership has the advantage therefore of allowing expansion which it could be argued would propagate best practice and create multi-function enterprises that enjoy economies of scale. Trust ownership (it could again be argued) guarantees long term, responsible ownership. With a trust, you therefore don't need an asset lock. In fact, an asset lock would frustrate mergers and combinations, which is what the public services need.

A realisation of our 'power to associate' along the lines of a partnership model would mean suitable public service businesses being transferred into companies owned by 'partnership trusts', that operate for the benefit of present and future employees (and as we shall see, citizens). The emphasis on majority-owned leaves open the possibility of minority ownership by investors, user groups, management and employees individually, or indeed private sector operators, etc. – whatever best suits the circumstances. The notion of a majority share could perhaps be given to clients so that the crucial notion of co-ownership and co-production could be maintained.

Over time, these civil companies would become part on an enriched social economy. Other community organisations and social enterprises would have the right to bid to provide their services offering a further way to improve quality.

The other vital principle behind these civil companies, is that they should be co-owned with citizens who use their services. This combined ownership model is essential to ensuring high quality, responsive service, and unleashing the second force for improvement: public involvement. The right of the public to co-own their services is a powerful way to ensure their voices are heard, and in turn makes them more likely to engage with issues (such as healthy living or self-care) that affect the effectiveness of the organisation that they now co-own.

The balance of ownership between workers and the public is particularly important. Most importantly, it prevents these organisations becoming captured by producer interests. The public in a given community are best placed to know what services they want, and empowered users are better equipped to hold public servants to account. The other side of this coin is that the role of frontline professionals in running the organisation mitigates the risk that delivery of services will be inadequate in areas where communities are weak or where citizens lack the assertiveness to demand high quality.

The closest parallels to these organisations are NHS Foundation Trusts and the thousands of social enterprises that form from the interaction between communities and people who deliver services. There are, however, important differences: the unit at which it is expected to work would typically be much smaller than a Foundation Trust: an individual care team or benefit office could take advantage of the policy and localise its structure and implementation. And the organisations would be more central to core public services than many current social enterprises. But in spirit the initiatives have much in common.

This does raise important definitional questions: what is the frontline, and what section of the public service can most effectively disaggregate and form a 'civil company'? Evolutionary and behavioural psychologists tell us that there is an optimal size for human group behaviour. Roughly speaking this appears to be around 150 people – any more than this and horizontal sanctioning and ethos building begins to suffer from the old managerialism and the rise once more of sectional interest and disengaged piece work by workers and staff. If we are to avoid reinventing the bureaucracy and really gain the intensive enhancement we believe possible – then our emphasis most be not on scaling up but on scaling down, and bringing this innovation to bear on every locality and every part of the public sector. That means producing something that can work on the small scale so that its universal applicability delivers gains to the widest possible magnitude. Our aspiration should be 'mass micro' – innovation that when repeated across the public sector can yield a macro-gain. What we want to attain is the most effective public sector organisation possible. At the core of the decision process must be the question of whether the public good is best served by economies of scale or by a small more attentive, engaged and dedicated service?

Conclusion

It is worth concluding by reflecting what is at stake in this proposal.

First of all it would generate a radically flatter management structure in the public sector, one that removes the artificial distinction between management and professionals, and one where workers and employees take up responsibility and engagement with their colleagues, the company's aims and their client's needs. It would be a structure where peer-to-peer motivation builds ethos and expertise and replaces vertical sanction. The most important operational decisions, from resource allocation to staff scheduling, would be made by those with intimate knowledge of delivering the service in question, and the remit and responsibility to seek out efficiencies. Financial transparency, autonomy and effective cost management would be a company priority and a specific member responsibility. Employees would no longer be de-skilled and de-motivated by long years in the same job, staff could be re-invigorated and enthused, and intrinsic motivation could be fostered rather than taken for granted. The very nature of this new association will mean that staff learn new skills and develop a new civic agenda that allows them to innovate manage and act far more effectively than before.

I have argued before for a massive redirection of budgets and responsibility to the frontline of public services.[45] This itself would be no mean feat, as it requires a complete reversal of decades of employee distrust and the embedding of a purely centralised management as a result. But such an intention, while honourable and right, is insufficient to deliver what is needed. Delegated budgets remain a vague platitude and an unfulfilled promise unless some real power of association and formation is given to the frontline so that it can disaggregate its budget and assume power and cost responsibility for public service delivery without asking the permission of the centre. This proposal offers the shift of power necessary to make this a reality.

Appendix 1: The journey towards civil companies

The following graphs represent the process and structure of how existing public sector organisations or teams might become civil companies.

Figure 3

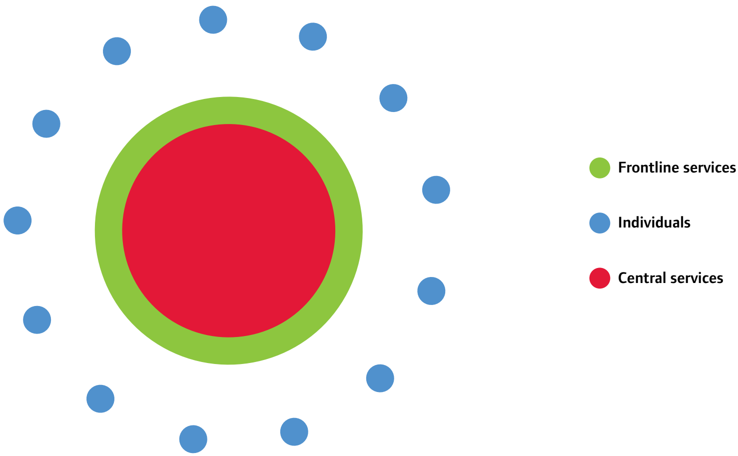


Figure 3 represents the standard and current model of public service provision. A large determining centre controls resources and selectively provides a frontline with budgets, limited power and responsibility.

Figure 4

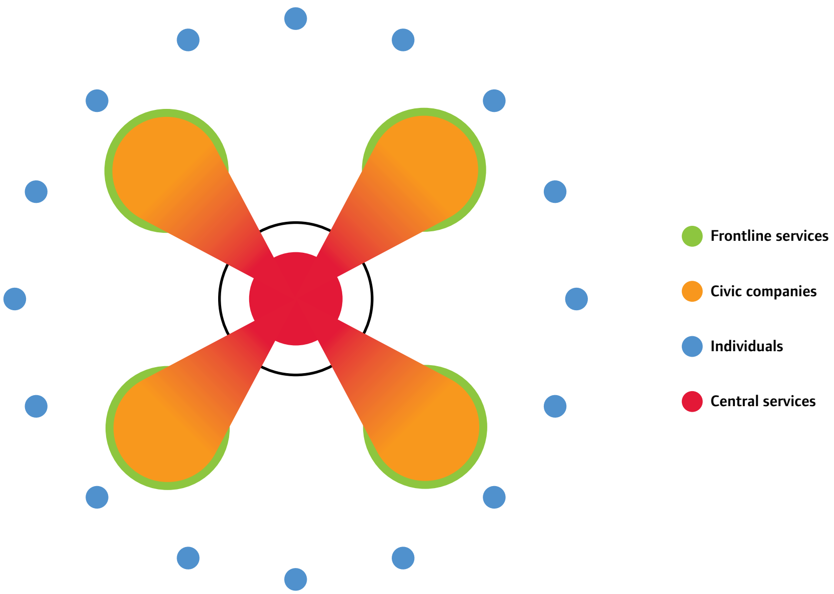


Figure 4 represents the power of civic association. As new civil companies are formed by employees and users, they start to draw the central costs into themselves and shrink the bureaucracy at the centre. With a more engaged staff and greater awareness of cost and applicability, more resources are directed to the frontline.

Figure 5

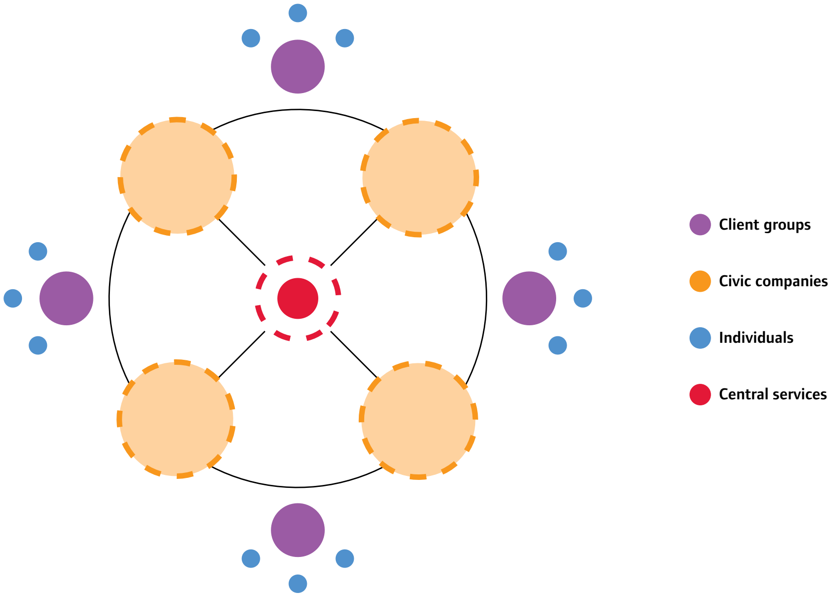


Figure 5 represents the now shrunken centre. There will always be some central services, but these are now managed by a board which has place-holders for clients and members of the new civic associations. The civil companies themselves have formed and they are in a similar manner also porous with places for citizens and users of services who wish to engage and take up membership.

This process of association also provokes similar associative moves by the client groups. It is likely at first that these new associative companies will have to help service users participate, working actively with existing community organisations. Where ever possible, the process should rely on existing communities, not artificial ones.

Figure 6

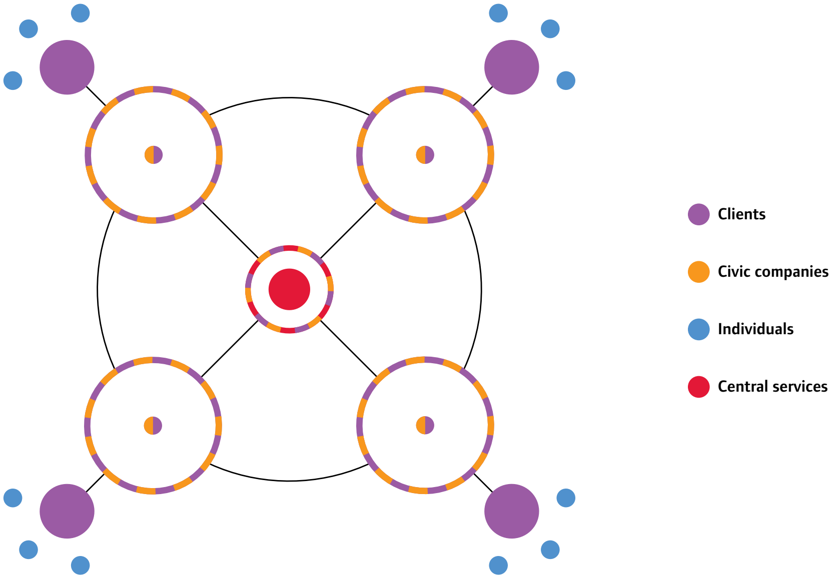


Figure 6 represents the ideal state for the new associative system. Citizens group together and put members on the civic companies that are designed to meet their needs. As such they can co-create and co-produce the services they receive.

Likewise these civic companies now join the management of the centre at the centre, representatives of their board sit on the central board and manage the budget allocation and cost base of the centre.

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43. A community interest company is a new type of company introduced by the British Government in 2005 under the Companies (Audit, Investigations and Community Enterprise) Act 2004. It was designed to create a new commercial company structure for social enterprise that would not have the constrictions and limitations of a charity but would have an asset lock that prevented any extraction of value or selling of the company's asset base. See also http://www.cicregulator.gov.uk/

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