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The interaction of macro and micro level factors in hybrid formation: A case study of social enterprise in health and social care

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Abstract

This paper examines hybrid formation. It explores the interaction between the macro level (policy framework) and the micro level (organisational behaviour). A case study is used of a recent hybrid formation. This new social enterprise was the result of a public sector health provider being given the permission to spin out its community health services as an independent organisation. The findings suggest that a permissive policy environment is not sufficient to form a hybrid organisation. There also has to be senior management with the determination to engineer and navigate the organisation's release from the public sector. An additional finding is that senior management may choose to offer the prospect of democratic participation of staff in the new governance structure while simultaneously denying the staff a democratic role in making the decision to form the hybrid.

Introduction

By applying the logic of the market to public services (Evers 2005; Loughlin 2009), governments have generated policies which have created hybrid organisations. These organisations combine two elements previously thought of as discrete and unlikely to be present in a single organisation: social purpose alongside a profit-driven culture (Brandsen et al 2005; Dart 2004). Therefore their increasing incidence reflects a blurring of the dividing line between the public and private sectors (Crane 2010). Research into these organisations tends to focus on either the macro level or micro level. Macro analyses are preoccupied with the implications of these organisational forms for the democratic system of public service provision and the challenge to co-ordination and accountability that they present (Skelcher 2004). With regard to the issue of hybrid formation, this level of analysis tends to view increased numbers of hybrids as an outcome of a reshaping of the policy environment (Loughlin 2009). In contrast, micro analyses largely ignore the political environment and hence formation dynamics and are essentially managerial in their focus. These studies pay attention to issues of efficiency (Dart 2004; Ryan and Lyne 2008), the significance of strategic management in maximising performance (Brandsen et al 2005; Joldersma and Winter 2002), and the function and composition of governance structures (Huyberts 2010; Low 2006; Mason et al 2007; Spear et al 2009).

This paper draws on insights from both the macro and the micro treatment of hybrid organisations to analyse the formation of a UK based social enterprise in 2011. This organisation was the result of a public sector spin-off which was the local outcome of national changes in health policy made by the UK government. These changes were initiated in the 2008 'Next Stage Review' of the UK National Health Service (NHS) (Darzi 2008). The policy proposed a focus on what was referred to as 'transforming community services'. Community services include those that do not necessarily have to be delivered in acute hospital settings. For example physiotherapy, podiatry, dietetics, and sexual health all come under this heading.

These services received attention in the review due to the anomaly of their being provided by a Primary Care Trust (PCT), the principal health commissioning body in a local area. PCTs typically cover a population of several hundred thousand and their budgets are usually between €550m-€1.1bn. Since the 1980s successive UK governments had sought to improve the health service through creating an internal market with a purchaser-provider split. The assumption was that the introduction of choice for commissioners would drive up quality and drive down cost due to competition between public sector providers, particularly hospitals (APSE 2011). The Next Stage Review proposed that community services could be improved or even 'transformed' by exposing them to the disciplines of competition rather than them being commissioned internally by the PCT – effectively commissioning itself to deliver services. Darzi (2008; p.62) also argued that this cosy, in-house arrangement did not suit clinical staff who 'speak with passion about the potential for using their professional skills to transform services, but are frustrated at the historic lack of NHS focus on how to free up these talents'.

The solution offered by Darzi was to stop PCTs delivering community services themselves. As a first step a PCT was to create 'arm's-length provider organisations that remained accountable to the [PCT] board' (Darzi 2008; p.62). Secondly the PCT would then be required to spin-off the arm's-length organisation into one of two main options:-

- Integration with another provider organisation within the NHS i.e. a hospital trust, or
- Become an independent social enterprise

The case study featured here focuses on one PCT's decision-making which led to the formation of a social enterprise hybrid organisation to deliver their community services. The paper explores the significance of the role played by senior management in this hybrid formation. They enacted policy changes at local level but within a range of options. This raises a question about when hybrid formation is not mandatory, but exists as an option,

What role do senior management play in hybrid formation?

Given that strategic choices were made at board level within the PCT, the focus of this research is on the board that took the decision to create this new hybrid organisation. Governance theory is used as an organising framework to structure the investigation and frame the actions of this senior management body. The next section offers a brief overview of the governance literature including both corporate governance theory, and not for profit and social enterprise theory.

Governance theory

Although there are many definitions of governance, a useful one can be found in the corporate governance literature that highlights factors of particular significance, 'the relationship among various participants in determining the direction and performance of corporations' (Monks and Minow 1995; p.1). Central to this definition is the emphasis on *relationships* and *direction*. Although the debate continues around the importance to modern organisations of stakeholders other than shareholders (see Mason et al 2007, Donaldson and Preston 1995 for summaries of the key issues), it is clearly necessary for senior management to attend to the needs of stakeholders to some degree in order to achieve their objectives. This requires relationships to be built with these stakeholders,

including the employees of the organisation. Secondly, the direction of the organisation requires senior management to set goals and to offer leadership (Diochon 2010).

Dominant models of governance tend to sit within sectoral boundaries. Corporate governance in the private sector tends to follow the stewardship model (Muth and Donaldson 1998). This privileges the role of executive directors to make decisions in the best interests of the organisation although the periodic incidence of corporate scandals does place a question mark over the application in practice of this model (Clarke 2005). The stewardship model privileges the views of senior management to almost the total exclusion of other stakeholders (Donaldson and Preston 1995), and is commonly found in the structure and functioning of public sector boards. Although there are non-executive members on public boards, they are selected and could not in any meaningful sense to be said to be representative of the community that they serve. Rather, the focus is on refining the governance skills of a board selected for its ability (NHS Institute for Innovation and Improvement 2011) rather than being the product of a democratic exercise which would anyway likely receive little favour in clinical circles (see McLellan 2010 for a brief critique).

In contrast the dominant governance model for social enterprise hybrids, the stakeholder model (Spear et al 2009), follows that of the wider non-profit sector. It allows a more open and hence representative board membership and does not simply elect board members for their expertise (Iecovich 2005). In traditional co-operative organisations this is an article of faith and particularly emphasises the rights of employees to be elected (APSE 2011), or at the very least to have a significant influence on who gets elected to the board (OPM 2011). As such the control exercised by executive directors has the potential to be severely reduced in favour of a more complex decision-making process (Letza et al 2004). The stewardship and democratic models of governance will be used to frame the formation of the hybrid analysed here. The next section begins with an explanation of the case study before progressing to the findings derived from an analysis of the governance dynamics of this hybrid formation.

Case Study

The case material that was drawn on for this paper was collected over a six month period from July 2010 to December 2010. A qualitative approach to board-level analysis can provide more insightful data than purely quantitative methods (Diochon 2010). The data set created included observation of board meetings; roadshow events where staff briefings were given and questions invited from the floor; staff surveys of views around organisational change; and internal board documentation. However, it must be noted that the data was not collected as part of a pre-designed research exercise. Rather it was the result of a consultancy project led by the author. The University had been approached to advise the PCT, as an independent party, on the technicalities of social enterprise and its appropriateness as an option for their community services. Being a part of a change process and so effectively acting as a participant observer can bring distinctive insights (Parker 2007; Samra-Fredericks 2000) but also carries the threat of producing a less unbiased analysis of organisational phenomena (Silverman 2000). Therefore this case analysis should be read in light of this observation.

The boundary of the case study is the process of the formation of the independent hybrid being examined here, social enterprise organisation ABC, which was initiated by the primary care trust (PCT) board, referred to here as PCT X. As mentioned earlier the 'Transforming Community Services' policy had stipulated that PCTs must divest themselves of providing any community services. One

option available was to spin-out these services into a new, independent hybrid organisation, which would take the form of a €50m social enterprise. The process of formation was to follow from meeting the gateway criteria for each of the steps below:

1. an initial expression of interest in creating a social enterprise to be submitted by the PCT to the regional arm, the Strategic Health Authority (SHA), of the UK Government's Department of Health
2. submission by the PCT of an Outline Business Case (OBC) for the social enterprise to the SHA for approval
3. submission by the PCT of an Integrated Business Plan (IBP) for the social enterprise to the SHA for approval
4. creation of the new organisation

(Department of Health 2010)

This process of formation required the board of PCT X to select and pursue the option of creating organisation ABC to house its community service provision. Therefore the analysis that follows will address the question posed earlier,

> What role do senior management play in hybrid formation?

To answer this question the data was scanned for evidence of the board acting in line with a stewardship model, and in line with a democratic model. The evidence for each will be presented in turn.

A stewardship model

The manner in which the board of PCT X took the first step towards creating a social enterprise, submitting an expression of interest, was very much in line with a stewardship approach. They explained their actions in a briefing document 'Further Qs[questions] and As[answers] on Organisational Form' which was issued to all staff:

> Q. Why have we put in an Expression of Interest (EOI) to become a social enterprise before the staff have had a chance to give their view?

> A. This is time related...if we left putting in the EOI any later we would not have met that deadline. We have committed to exploring our options with colleagues and this is happening...if the senior management team's investigation into how we would become a social enterprise leads us to conclude that it is not a sensible move, we will withdraw the EOI.'

The emphasis is on the decision-making authority of the board, both in terms of the decision to submit the EOI and whether to pursue things to the next stage of hybrid creation. Staff are treated as just another stakeholder whose views are encouraged but not allowed to influence the agenda. It was observed at the staff road show meetings that staff views were not even formally captured either through audio or visual means.

The next question confirms the impression that senior management have already committed themselves to a course of action,

> Q. What happens next with the EOI?

> A. ...If the submission is turned down...we will appeal to the Strategic Health Authority

The other main option, that of merging with a Foundation Hospital Trust i.e. another NHS organisation, was given little credence in the same document,

> Q. What are the advantages and disadvantages of merging with a foundation trust?

> A. '...community services would not be the main focus of that organisation and we would have to fight for our share of resources'

The road show events had offered a similar dismissal of the merger option. Senior management claimed that job security was said to be more at threat under the merger option. On-line staff surveys made it clear that they believed this was part of a co-ordinated communications plan,

> 'I attended the road show and 2 options were explained for the future...Unfortunately only 1 option was explained at length which was the Social Enterprise option. I felt that this option is the one that [Senior Manager] was trying to sell and it felt that *the decision had already been made'* (italics added)

> 'As time is very short what steps are management taking to pursue other options'

Two trade unions also made a submission to the board of PCT X on behalf of the workforce,

> 'The previous board meeting...gave the go-ahead to create an integrated business plan for this **with the rider** that unless it could be proven that the staff are in favour of the move then final approval would not be given. We submit to you that this assurance has not been proven' (their bold italics)

The final aspect of this stewardship approach is illustrated by the decision not to offer staff a vote on the organisational change being proposed. The issue was addressed in the Further Qs (questions) and As (answers) on Organisational Form distributed to all staff:

> Q. Will we have a vote?

> A. At the moment that's not the plan because a straightforward vote doesn't reflect the breadth and depth of people's feelings. In a sense *this situation is too important for a vote*. We want to know your reactions, your uncertainties, your suggestions, your fears and hopefully feel your excitement at this opportunity for change. *Guidance from the Department of Health Social Enterprise Unit is not to have a vote'* (italics added)

The next section clearly showed that senior management presumed that this would prompt a further question,

Q. How are you going to be sure you really know what staff want?

A. By listening to what you have to say at the Road Shows and via your emails...We are also setting up a system of online surveys so from your answers to questions we can gain a rich picture of your views.

This caused significant resentment and was exploited to confirm the impression of staff being ignored. On-line survey responses such as this one were typically emphatic,

'I do not want to be a social enterprise, I would like to remain in an NHS organisation and merge. So far we have NOT been offered a vote of what WE want to do' (their capitalised letters)

The trade union analysis took things further and used the statistics generated by the on-line survey,

'It was presented that 49% of staff were in favour of an S[ocial] E[nterprise]. When asked [Senior Manager] confirmed that there were only 130 responses to this survey, which, he stated, amounted to 10% of the staff employed by the organisation. This amounts to *63* [1]members of staff.'

Not surprisingly they then concluded,

'The presentations...have been a blatant attempt to pressure staff into accepting the ***management's decision*** to press for an SE.' (their bold italics)

As a final finding it should be noted that some staff survey responses indicated that they were happy to delegate the decision-making to senior management,

'...would rather those decisions were made for me by more well-informed senior people rather than creating a political circus disrupting business as usual'

'We are nurses and not business men. How are we expected to know what is best for us?'

'As long as I have a job at the end of discussions I will be happy with whatever way forward we go.'

'I think social enterprise offers the best option for us to provide excellent local care for the people of...It gives us more freedom to develop the vision we have for the future.'

At the same time as the board of PCT X were enacting this stewardship role, they were also proposing a democratic model of governance for the new organisation, ABC. The next section of findings analyses the data focussed on the governance structure that was proposed for the new hybrid organisation.

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[1] This figure could not be verified through the research as the survey appeared to allow for repeated anonymous submissions.

A democratic model

In the Integrated Business Plan, which was the final submission required before the social enterprise could be formed, the PCT board emphasised their intentions,

> 'Employees of ABC will play a part in the formation and development of the organisation...[and] we require evidence of staff being consulted and engaged in the development of the vision and structure for the new organisation'

The IBP further detailed how staff were to be given representation on the Board as enshrined in the constitution of the new organisation,

> 'The key elements for the selection of the legal form and constitution have been defined as: accountable to staff with staff actively involved and empowered constitutionally'.

The technicalities of this were then explained,

> 'A Council of Governors will have assigned rights such as approving appointment of Non-Executive Directors to the Board'

This Council was to be elected by the staff membership,

> 'All staff will automatically be members...becoming involved as a member of [the organisation], with voting rights'

The road show events reiterated that there was to be a new form of governance in the new organisation and staff surveys indicated a positive response,

> 'Good – it would give us opportunity to 'own' the social enterprise'

> 'I like that staff will have ownership as this will help drive the new organisation forward and help to make it a successful organisation that puts the patient first'

The backdrop to these changes was an economic outlook and austerity drive by the UK government so it is perhaps not surprising that a desire for control in uncertain times also came to the fore in responses. In particular, the effectiveness of a democratic form and its collective responsibility were highlighted by staff,

> 'Good – all staff would have the opportunity to be involved in decision making, everyone focused on the 'end goal' not just managers'

> 'I think this is a good idea and should help staff feel more empowered and be heard within the organisation'

Though it is worth noting that some staff were more cautious accepting that accountability would always be present,

> 'I feel that staff would be happy about this – as staff would have more of a say in organisational changes...as long as the correct procedures are in place for staff to be able to meet with the board members to discuss up and coming changes then this would be great'

The contrast was also made with the absence of a vote on the formation of the hybrid,

> 'It's better than nothing but would have preferred to have the opportunity to vote re becoming a social enterprise'

A parallel was also drawn with other aspects of management,

> 'I welcome this approach as this is clearly a democratic process unlike the previous elections within the organisation'

The next section offers a discussion of these governance findings before attempting to draw conclusions for both theory and practice.

Discussion and Conclusion

The findings offered here capture the process of formation of a new hybrid organisation. The data collected shows that there were both macro level policy factors and micro, internal factors, driving the change and pushing formation. In particular senior management were critically important internally with their determination to pursue the hybrid option characterised by their stewardship approach to governance. This entailed dominating the decision-making to the exclusion of other stakeholders such as the employees. It is not common to ask staff to vote on major organisational change and so the articulation of a demand for voting rights for staff is clearly exceptional. Another PCT that the author had worked with previously did offer staff a vote and the option to create a social enterprise received less than a third of the votes cast. PCT X knew of this situation and therefore it is not surprising that they avoided this route. The reaction of staff and their trade union representatives has been reported above. The difficulties for senior management of gaining active acceptance of their plans is common with other researchers noting that the creation of new organisations from public sector spin-offs leads to 'difficult periods of transition'(Spear et al 2009; p.268).

Set against this view of the conduct of senior management is the observation that as they denied staff a vote in the organisational change that would lead to the creation of the hybrid, they simultaneously offer increased democratic control in the new organisation. This control included voting rights and a measure of control over the governance function of the new social enterprise. This in effect would result in a shift from a stewardship mode of governance to a democratic mode of governance. The study of hybrids often poses democratic questions at the societal level. The observations on democracy in this case study are focussed at the organisational level and so merit further attention.

As Evers (2005; p.738) contends 'since the developments that lead to processes of hybridization are ambiguous, they constitute a challenge for what are seen as core values of welfare such as...democratic transparency'. The findings support this view of a challenge to democratic transparency during the formation process given the conduct of senior managers as perceived by the employees of the organisation concerned. However the resulting governance arrangement in the new hybrid organisation supports the opposite view that 'while administrative decentralization can follow the logic of neo-liberal reform, it may also follow the logic of participatory democracy by seeking to make administration more accessible and accountable' (Loughlin 2009 p.61). To sum up,

in this example of public sector governance, the elimination of democracy in the formation of the organisation leads to an unprecedented level of democracy in the new organisation.

The UK Government elected in 2010 has committed itself to the use of hybrids to deliver health and social care and so there is likely to be an increase in the number of these organisations. The debate about the role of such organisations in the delivery of public services is likely to continue. Not least as questions continue to be asked of the evidence base on which the decision to increase the number and use of hybrid organisations is made (APSE 2011). While the focus of scrutiny tends to be on organisational effectiveness, this paper has demonstrated that governance and democratic involvement are also important and that longitudinal studies of adherence to these new aspirations of democratic involvement would also be a useful line of enquiry.

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