Public Service Mutuals: Towards a Theoretical Understanding of the Spin-Out Process

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Abstract

Over the past few decades the policy environment in the UK has gradually sought to encourage public sector workers to 'spin-out' the services that they deliver into social enterprises. The research reported in this paper draws on semi-structured interviews with eleven representatives across four local authorities in the UK that are spinning out a public service into a social enterprise. The services being spun out operate across four different sectors, which allowed the research to identify the common experiences and barriers to spinning-out. The analysis is underpinned by a theoretical model of partnerships/collaborations by Takahashi and Smutny (2002). We present an alternative version of this framework based on public sector spin-outs. In doing so, the research identified the complex partnership arrangements used in a spin-out involving multi-stakeholder collaborations with staff, services users, and public, private and third sector organisations. We also identify and discuss the challenges that this brings to local authorities in relation to managing the process.

Introduction

The last three decades have seen numerous and far-reaching reforms to public services in England, which have resulted in less direct provision of public services by local authorities and an increased 'marketisation' of the public sector (Hall et al., 2012a; Simmons, 2008). This marketisation of public services has been led by a desire to create more cost-efficient services that are also responsive to service user's needs, and has involved the use of funding reforms and legislation. In doing so, successive UK governments have encouraged the transfer of local authority staff into new employee-owned mutual organisations (also known as 'spin-outs'). 'Public service mutuals' have been defined as '…organisations which have left the public sector i.e. spun out, but continue to deliver public services and in which employee control plays a significant role in their operation' (LeGrand and Mutuals Taskforce, 2012:9). These spin-outs often take the organisational form of social enterprises, which are self-reliant, independent organisations that use market mechanisms to deliver non-economic outcomes (Nicholls, 2007; Dart *et al.,* 2010).

There remains however, a limited amount of academic research into this crucial area of government policy. This is particularly true in relation to research that helps to build a theoretical understanding of the spin-out process. This paper seeks to fill this gap in knowledge by linking our research on spin-outs to prior theoretical research into multi-stakeholder collaborations and partnerships. As such, we argue that spin-outs involve collaborations between multiple stakeholders including staff,

service-users and public, private and third sector organisations. Furthermore, this collaboration occurs due to the formation of specific 'policy-windows' that develop due to exogenous macro-level economic and political pressures (Kingdon, 1995). These 'policy-windows' provide the catalyst for nascent social entrepreneurs working within the public sector to innovate in the design and delivery of public services. This paper therefore makes a significant contribution to knowledge by theorising the development of spin-outs as a new form of public-service delivery, centred upon a process whereby 'macro-level' policy-development leads to 'micro-level' social innovation.

In order to develop this theoretical explanation, the paper begins by providing an overview of the spin-out sector in the UK, followed by an exploration of the existing theoretical research into social entrepreneurship in relation to the public sector. There then follows a discussion of the existing theoretical research into partnerships and policy formation, including the development of 'policy-windows' (Kingdon, 1995; Lober, 1997) and how they can lead to multi-stakeholder collaborations (Takahashi and Smutny, 2002). Our research data is then discussed and an explanative theoretical model for the spin-out process is presented.

'Spin-Outs' in England: An Overview

The idea of public service spin-outs emerged from academic arguments based around entrepreneurial government in the 1980's and 1990's. Such governments would be more prone to take risks and to engage with the public, as well as being outcome orientated and dynamic (Osbourne and Gaebler, 1992). In the UK such arguments in part paved the way for the creation of Housing Associations and New Leisure Trusts. There has also been a significant amount of policy support for the establishment of public sector mutuals and social enterprises in more recent years. The English government is investing in public service mutuals (here on in referred to as 'spin-outs') through programmes such as the £10 million 'Mutuals Support Programme' (LeGrand and Mutuals Taskforce, 2012) and its' predecessor the 'Mutuals Pathfinder Programme' (Cabinet Office, 2011). In the health and social care sectors, the 'Right to Request' and subsequent 'Right to Provide' programmes (Department of Health, 2008a; 2011a), which provided English community health workers the opportunity to 'spin-out' their services as a social enterprise (Department of Health, 2009), have led to the establishment of at least 38 new social enterprise spin-outs (Miller *et al*., 2012a). Furthermore, the Localism Act 2011, effective from April 2012, has provided opportunities

for community groups to take over and run their local services (Department for Communities and Local Government, 2012).

Such initiatives have provided all public sector workers with the rights to take over the running of their service (except in sensitive areas such as defence and security), as a way in which to make savings to the public purse and at the same time to improve the quality and choice of services (Birchall, 2012). The main cited benefits for public sector staff spinning-out their public service relate to: increased staff involvement in the decision making processes; greater staff engagement/commitment (Cabinet Office, 2011); lower staff turnover and sickness levels (Social Enterprise Coalition, 2011); and increased efficiency (Addicott, 2011; Hall et al., 2012a; Alcock et al., 2012). These types of motivations can be defined as 'mercantile' motivations; that is the motivation to exert control and seek autonomy in the delivery of a service (LeGrand, 1997). However, Kendall *et al.* (2003) argue that the motivations of actors operating within the public sector needs to be understood with reference to institutional and relational factors, such as organisational boundary changes and the reallocation of property rights (Bridge *et al.*, 2013). This suggests that for spin-outs, negotiating the relational factors within their parent authority and amongst other stakeholders could well be the defining factor in their success.

Policies have also been developed to increase the demand for services provided by mutuals and social enterprises, including reforms to the commissioning of public services. The passing of the Public Services (Social Value) Act into legislation, seeks to provide a level playing field for third sector organisations competing for public service contracts by ensuring that public procurement processes include provisions relating to social value (Teasdale *et al.*, 2012). Social value can be defined as the "goods and services provided by organisations with social purposes such as promoting community development, advocating for fairer and more inclusive policies or dealing with a variety of other social problems" (Felício, Gonçalves and Gonçalves, 2013:2140). Furthermore, the establishment of the 'Any Qualified Provider' policy in 2012 sought to encourage a diversity of providers of health and social care services, thereby enabling patients greater choice over the care and treatment they receive and the organisations that they receive it from (including public, private and third sector providers) (Department of Health, 2011b). Such policies do not however, directly prioritise social enterprises or mutuals over other providers; although they may indirectly prioritise them by providing performance related contract provision that is aligned with the economic, social and environmental aims of third sector organisations.

However, there remain questions about the long-term impact of marketisation on public services, particularly the juxtaposition between public service values and the entrepreneurial and managerial ethos of the market (Simmons, 2008; Hall et al., 2012a). The long-term sustainability of spin-outs is also unclear, as the transition time required to spin-out is often long and once established the spun-out service may struggle to compete with larger private sector providers (Cabinet Office, 2011; Miller and Millar, 2011; Hall et al., 2012a). Furthermore, spin-outs often struggle to access support and investment (Simmons, 2008). What also remains unclear is the impact that the 'spinning-out' of a service has on service-users in relation to the quality of the service provided, outcomes and accessibility (Simmons, 2008; Hall et al., 2012a).

Nonetheless, spin-outs are being encouraged to compete with other public, private and third sector organisations for contracts to deliver services. This competition leads to spin-out organisations (or potential spin-outs) having to engage with a multitude of stakeholders to be able to successfully compete in the marketplace. This engagement often involves the development of partnerships, either informally (e.g. with service-users) or contractually (e.g. with the parent public sector authority or a private sector consultancy firm). The need to engage in partnership building also occurs internally with the engagement of the service staff, which can include formally involving them in decision-making processes (Cabinet Office, 2011; Alcock et al., 2012; Miller *et al.*, 2012a). This emphasis on partnership building means that the prior literature on partnerships provides us with a strong theoretical explanation for understanding the spin-out process. However, before exploring this literature it is important to first examine existing theoretical explanations of social entrepreneurship, specifically in relation to the public sector.

Social Entrepreneurship within the Public Sector

Social entrepreneurship has attracted widespread interest in the UK over the last decade amongst policy-makers and academics (Parkinson and Howorth, 2006). Zahra, Gedajlovic, Neubaum and Shulman (2009:519) state that social entrepreneurship "…encompasses the activities and processes undertaken to discover, define and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organisations in an innovative manner". This focus upon a market-driven response to social problems means that social enterprise has become an important organisational form in the delivery of public services. Whilst research into the role/impact that social

entrepreneurship can have in in the public sector is limited, there have been studies (most notably in the leisure and health sectors) that have evidenced the potential of social entrepreneurship in delivering public services (Simmons, 2008; Farmer and Kilpatrick, 2009; Hall et al., 2012a; Hall et al., 2012b). Dey and Steyaert (2010:91) critically theorise that social enterprise has been sold as the saviour of public services, offering both market and quasi-market efficiency, whilst at the same time being seen as the 'guardian of virtue and morality'. Such underpinnings make social entrepreneurship appealing to both sides of the political spectrum (e.g. the 'Third Way' and 'Big Society' policies), despite the 'language' of social entrepreneurs being at odds with the 'managerial' language of UK public service and social enterprise policy (Parkinson and Howorth, 2006).

Dey and Steyaert (2010:97) also suggest that social narratives may be constructed by social enterprises through the process of dialogue between stakeholders. This has important implications for scholars interested in exploring theoretical conceptions of public service 'spin-outs', as it suggests that true hierarchies, processes and structures can be identified through the analysis of stakeholder perceptions and relationships. In doing so it also moves away from the 'individualistic' or 'heroic' theories of social entrepreneurship that have often been used to explain the development of the social enterprise sector (Cho, 2006; Spear, 2006), by emphasising the roles of multiple stakeholders, institutions and networks in the formation and growth of social enterprises (Defourny and Nyssens, 2006); Di Domenico, Haugh and Tracey, 2010).

Partnerships and Collaborations

Partnerships are increasingly used in the delivery of public services and are seen as a way to maximise civil society inclusion in the delivery of these services (Fenwick, Miller and McTavish, 2012). A partnership is a non-hierarchical relationship (at least formally) that involves common ownership over problems and a commitment to improve the efficiency of the organisations involved (Coulter, 1999; Gallant *et al.,* 2002). Whilst the terms partnership and collaboration are often used interchangeably there have been attempts to differentiate them. Carnwell and Carson (2008) defined 'collaboration' as "what we do" (the verb) when we engage successfully in a 'partnership' (the noun) ("what we are"). They argue that the two terms share traits of trust and respect for partners, joint working and teamwork. It is these common traits that we will focus on in this paper, and as such these terms will be used interchangeably from now on.

Partnerships can either have a legal status that binds the involved parties to agreed actions and outcomes (Rose, 1994) or can be based on more informal mutually enforcing agreements (Domberger *et al.*, 1997). Partnerships are generally viewed as providing the partners with added-value based upon the different capabilities and skillsets that individual organisations bring and so are viewed as highly dependent relationships (Steijn *et al.,* 2011). Partnerships can also bring greater democracy to decision-making processes, and can increase the rights and participation of employees and other stakeholders (Guest and Peccei, 1997; Roche, 2009). Whilst the majority of partnership research is focused on business partnerships (Casey, 2011), partnerships are of course not limited to the private sector, but can also be utilised by public and third sectors bodies. Indeed, cross-sector partnerships have become an increasingly common arrangement in dealing with social and environmental problems (Lober, 1997). In the UK, cross-sector partnerships have arguably increased since 1997, as the 'New Labour' government focused upon 'third-way' policies in welfare delivery (Haugh and Kitson, 2007). Partnerships have been used as a way to solve complex social problems, increase efficiency or develop more responsive services. The UK government has actively encouraged partnerships; for example the Department of Health's 'health inequalities' policy (DH, 2009b), required local service providers including Primary Care Trusts (now replaced by Clinical Commissioning Groups) and Local Authorities to work together to tackle the wider determinants of health including poverty and poor housing (Carnwell and Carson, 2008).

Partnerships have been established as a common strategy to tackle complex service-user problems, especially those from disadvantaged groups that may require multiple service inputs. However, partnerships are not only with other organisations but also with service-users. Indeed, academic literature and policy documentation on partnerships emphasises the need to place the client at the heart of a service. Cahill (1996) argues that partnerships with service-users range along a continuum which begins at 'involvement', moves to 'collaboration', then 'participation' and finally 'partnership'. 'Partnership' is arguably the goal to which all practitioners should aspire and requires the integrated involvement of the service-user in the organisation. However, service-users involved in full 'partnership' can be viewed as an overly idealised state that is often impracticable with the day-to-day running of a service. Indeed, research by Hazenberg et al. (2013) highlighted that such formalised partnerships (through service-user involvement at board-level) occurred at less than one-fifth of spin-outs in England.

There is also a growing academic literature surrounding public-private partnerships that seeks to explain their origins, processes and governance (see: Lober, 1997; McQuaid, 2000; Savas, 2000; Parker and Vaidia, 2001; Takahashi and Smutny, 2002; Huxham and Vangen, 2005; Steijn *et al.*, 2011; Cornforth *et al.*, 2013). Steijn *et al.* (2011) states that there are three main features of a public/private partnership; mutual coordination; shared risk/profit-making; and an organisational arrangement that facilitates such cooperation. These allow the partnerships to achieve: cost-reductions through greater efficiency (McQuaid, 2000; Savas, 2000); added-value through the joint enhancement of products/services (Steijn *et al.,* 2011); and greater innovation through shared skills and expertise (Parker and Vaidia, 2001; Huxham and Vangen, 2005). Partnerships can also allow the public sector to behave more flexibly during times of policy or fiscal flux (Domberger *et al.*, 1997). This highlights the fertile ground that partnership theory has in providing a theoretical base for understanding the process of spinning-out public services. Spin-outs usually involve a complex network of collaborations; including with staff, service-users and public, private and third sector organisations (or individuals). For example, in the early 1990's Greenwich Leisure Limited, a not-for-profit organisation, took over a number of public leisure centres in partnership with local authorities across the South East. Their partnership arrangements also included staff who elected to become members and the board also has representation from customers, trade unions, the council and workforce (Sesnan, 2001).

Problems with Partnerships and Collaborations

This is not to say that partnership formation is easy to implement. Huxham and Vangen (2005) argue that partnerships should be avoided if an organisation can identify other means of achieving their goals. This is because the process of making a partnership successful is extremely time-consuming and resource intensive (Huxham, 2003). A lack of communication between partners, either due to the deliberate withholding of information (Currie, Finn and Martin, 2007) or inadequate information structures being in place (Dawes, Cresswell and Pardo, 2009), can also limit the success of partnerships. Furthermore, partners may also focus on pursuing their own goals and agendas (Martin, 2010), which is often related to hidden-hierarchical structures and funding arrangements (Whitehead, 2007; Fenwick *et al.*, 2012).

Weiner *et al.* (2000) identifies that early-stages of public partnership formation often end in failure, as the partners cannot balance their need for organisational independence with the needs of the

partnership for inter-organisational interdependence (Weiner *et al.*, 2000). Indeed, Martin and Guarneros-Meza (2013) argue that the success of public service partnerships can be dependent upon the amount of 'hard-steering' (i.e. the use of performance indicators) and 'soft-steering' (i.e. more informal support/direction) that partnerships receive from government agencies. This can also be further compounded by the reluctance of organisations to share strategic information with partners, which can damage the formation of trust and cooperation (Domberger *et al.*, 1997). This is a feature of the spin-out process, as successful spin-outs are more likely to be those that have support from a range of stakeholders (SEC, 2011). The delays that a lack of full cooperation can bring from partner organisations including the parent authority also leads to problems accessing finance and securing contracts (Hall et al., 2012a; Miller and Millar, 2011). However, the formation of public-private partnerships and specifically spin-outs does not occur within an organisational vacuum, as the wider political and environmental context also shapes and constrains partnership formation.

The Formation and Sustainability of a Partnership

A useful framework for understanding how collaborations are formed was put forward by Lober (1997), as developed from Kingdon's (1995) notion of policy formulation. Kingdon developed the idea of 'policy windows' (the opportunity for policy development), which are opened or closed by three streams in political life; the problem stream (a problem requiring a solution); a political stream (the role of political institutions); and a policy stream (policy development processes). Policy-windows are similar in nature to 'political opportunity structures' (Kitschelt, 1986), which relate to the configuration of resources, institutional arrangements and historical precedents for social change. Policy windows produce various strategies that are proposed by stakeholders to solve the problem in question and the successful strategy is selected based upon feasibility, contemporary political attitudes and anticipated future constraints (e.g. spending cuts) (Kingdon, 1995). The success of a strategy within a policy window is also shaped by the concentration of power within the window. The formulation of policy has been viewed as being a socio-cultural 'practice of power' (Levinson, Sutton and Winstead, 2009) in which language and power are used to shape policy discourse (Shore and Wright, 1997).

Within policy windows operate 'policy entrepreneurs', who both shape policy formulation and/or develop networks to implement policy on the frontline (Oborn *et al.,* 2011). Whilst policy entrepreneurs have often been viewed as individuals operating within the political structures

(Mintrom, 1997), they can also be seen as actors *external* to the formal political processes who actually implement policies *in practice* (Roberts and King, 1994). A policy entrepreneur(s) is crucial in the implementation of policy as they play a key role in creating networks/partnerships amongst *all* of the relevant stakeholders required to make the policy work (Oborn *et al.*, 2011). Indeed, prior research has identified the positive effect that highly connected policy actors (and hence entrepreneurs) can have in using networks to drive policy implementation (Scholz, Berardo and Kile, 2008). Nevertheless, policy entrepreneurs can be constrained by institutions and the socio-political environment (Swank, 2002).

Lober (1997) adapted both Kingdon (1995) and Gray's (1989) model, to look at public/private policy initiated partnerships. Lober's model indicated that to form multi-stakeholder partnerships, a 'collaborative window' is required. These windows occur when four main 'streams' converge; 'problem' (worsening situation); 'policy' (solutions to problems); 'organisational' (organisational behaviour and willingness); and 'social/political/economic' (public opinion and consumer demand). The convergence of these streams provides an opportunity for collaboration; however, this can only occur with the presence of a collaborative entrepreneur to act as a 'critical catalyst' (Lober, 1997:19). However, the explanation provided by this model is arguably too narrow and does not necessarily account for wider exogenous factors beyond the local or even national contexts. Gray (1989) identified external factors as being important in driving collaborative responses to problems and identified this as being a 'perceived crisis' that forces stakeholders together into action. Such crises and the knowledge derived from them can help to break the continuity that is often a feature of policy formulation (Hay, 1996; Duncan, 2009). A pertinent example of this today would be the effect that the global economic crisis has had upon public service expenditure (Davies and Pill, 2012) and hence policy agendas around public service delivery. In addition, globalisation and political institutions can shape and constrain policy, and interact together to create policy-windows. In effect, "…institutions significantly shape the relative political capabilities of collective actors and they promote a prevailing cluster of values, norms, and behaviours that condition the policy-making process" (Swank, 2002:6). Subsequently, the role of ideology should not be discounted in shaping the policy process (Craft and Howlett, 2012).

Lober's (1997) model was further developed by Takahashi and Smutny (2002) in relation to social service partnerships in the US. They expand the model past the formation stage to the operational stage of partnerships and use it to explain the short-lived nature of some collaborative partnerships.

They suggest that the same environmental and organisational conditions leading to the formation of collaborations, can also lead to their demise. The initial governance structure of partnerships can limit their future adaptability and sustainability because of organisational inertia and the time-consuming nature of collaborative governance. They argue that rather than collaborative partnerships providing a more efficient method of problem-solving, they are instead short-term strategies designed to cope with changing funding structures and policy-landscapes. Whilst there is merit in this argument, the rationale overlooks the permanency of some of the changes that such partnerships can deliver. For instance, the 'spinning-out' of a public service would in practice be difficult to reverse by policy-makers, as the public sector loses control over the service in question as the new social enterprise becomes an independent and private entity.

In the UK context Takahashi and Smutny's (2002) model has already been applied in exploring collaborative partnerships between the public, private and third sectors. Cornforth *et al.* (2013) utilised the theoretical model outlined above to explore the governance of inter-organisational partnerships and in particular those between the public and third sectors (see Figure 1). Cornforth *et al.* (2013) explored the validity of Takahashi and Smutny's (2002) model on a selection of case-study public-third sector partnerships in the UK. They identified that the four streams present in Takahashi and Smutny's (2002) model were not independent but in fact interrelated. Specifically, changes in the social/political/economic stream influenced the other three streams and in particular the organisational stream. Exogenic factors within the social/political/economic streams also influenced the duration of the collaborative window, with changes in policy and funding affecting different stakeholder's commitment to the partnership. Internal tensions within the partnership also impacted upon success. Indeed, Cornforth *et al.* (2013) identified that the entrepreneur(s) within partnerships had to balance the tension between efficiency and inclusiveness, often altering the governance structure over time to account for partner deficiencies.

Figure 1 – The Governance of Public-Third Sector Partnerships:
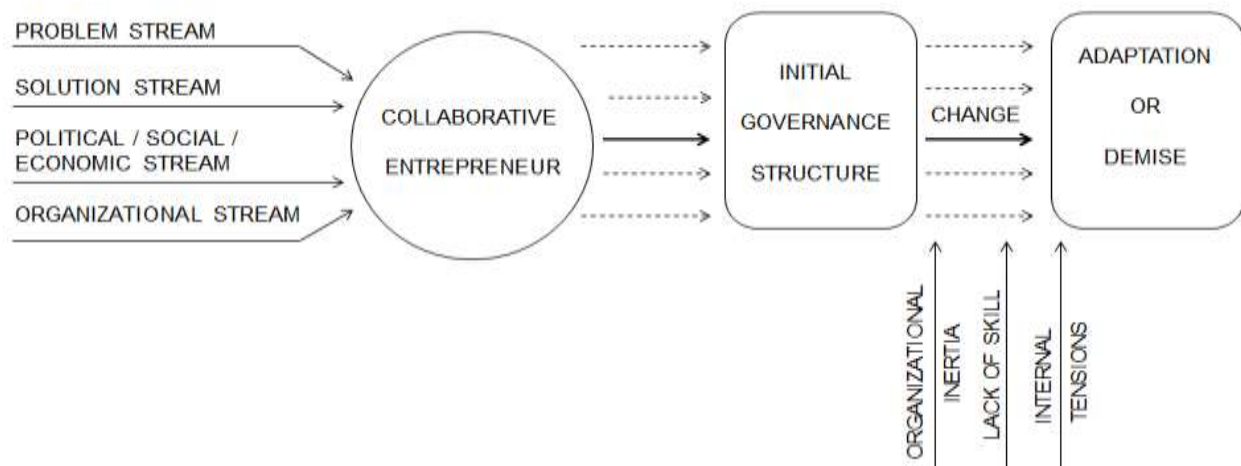
Taken from Cornforth *et al.*, (2013).

Cornforth *et al.* (2013) also suggested that the governance of public/third sector partnerships affected their longevity and effectiveness and identified research into collaborative governance by Provan and Kennis (2008), which stated that there are three types of collaborative governance. First, participant governed partnerships where *all* stakeholders participate in decision-making processes. Second, lead-organisational governance involves one of the stakeholder organisations taking a leading role in the decision-making process. Third, network governed partnerships where governance is undertaken by a separate administrative body that was formed by the stakeholder organisations at the beginning of the partnership. Whilst Provan and Kennis (2008) outlined these ideal types, there is in reality a blurring of the boundaries. As Cornforth *et al.* (2013) state, unequal power relations between stakeholders can still be exercised (even in participant governed partnerships) through hierarchical, contractual and market forces. This is particularly pertinent for spin-outs, as research has shown that many are still largely reliant on the funding and contracts from their parent authority (Hall et al., 2012a; Hazenberg et al., 2013), possibly due to the lack of available market support for spin-outs, for example from the social finance sector (Hazenberg et al., 2013).

This paper argues that spin-outs represent a new type of partnership model in public service delivery. These partnerships involve multiple stakeholders that include the parent public authority, policy-makers, commissioners, service staff and users, as well as third sector and private sector organisations. By framing the spin-out process within academic frameworks centred upon collaborative policy-formulation, organisational partnership and partnerships between public, private and third sector bodies, the theoretical framework in this paper provides an overview of the

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factors that shape the longevity, governance and effectiveness of such partnerships. We apply these arguments to the spin-out sector, and in doing so respond to Takahashi and Smutny's (2002) call for further research on partnership experiences in other social service contexts. The empirical data gathered in this research allows this paper to further develop and refine our theoretical understanding of partnerships based specifically upon the experiences of public sector spin-outs.

Methodology

Design

Our research explored the common factors in public sector spin-outs using four local authority (LA) case studies based in the South East of England. Each of the four spin-outs operated in different service areas; communications and public relations; library; youth and development; and adult social services. Whilst none of these services had yet left the LA, they were all at different stages of spinning out; one was partially spun out, one was very close to spinning out, one was at an early development stage; and another was not going ahead. Whilst the different service areas and stages of development limited our ability to compare outcomes across the spin-outs, this was not the focus of our research. Instead, we sought to explore the commonalities in the spin-out process and the internal/external factors that influenced this. For reference, since gathering the data, two of the spin-outs have 'fully spun-out'; the third is in the transition phase and the fourth service has been put out to a traditional tender.

Participants

Semi-structured interviews were held with eleven participants from across the four LAs outlined above. The participants were all senior managers or council officers from the LAs who had been key stakeholders in the spinning out process and in each of the LAs, the 'entrepreneur' who was primarily responsible for the spin-out was interviewed. In all cases the 'entrepreneur' primarily responsible for the spin-out had assumed the position of a *de facto* Chief Executive Officer, even if this was not their title. The sample was therefore 'purposeful' on two levels (Patton, 1990), as we not only chose examples of local authority spin-outs, but also chose specific individuals for interview within these spin-outs. Whilst this sampling method presents certain limitations as only the perspectives of senior managers and council officers were obtained, this was done deliberately as it

was felt that the senior managers were the most active participants in developing the spin-out, and had a unique knowledge of organisational structures, strategies, and actions. As such, they were best placed to help us to answer our research questions. . All interview data was recorded on a digital audio recording device for transcription and analysis.

Research Ethics

The research was conducted in an ethical and moral manner and in line with the researchers host university's ethical guidelines (University of Northampton, 2010). All of the data collected was stored securely and confidentially. Participants were assured of confidentially and anonymity of the interview data, as well as their right to withdraw from the research. Member checks were also carried out with all participants to ensure the accuracy of quotes used. All participants responded positively to the findings of the research.

Analysis

The interviews used a narrative approach (Reissman, 1993) in order to elicit participant's perspectives and their understanding of the spin-out process in relation to; the barriers and solutions encountered/employed; the stakeholders involved; the perceived benefits of spinning-out; and the policy and funding environments that each organisation operated within. The narratives were used to gather a rich picture of how change occurred within each organisation, in particular what changes respondents felt 'enabled' or 'inhibited' the spin-out. As with Feldman *et al.* (2004), our approach to data analysis was both inductive and iterative. Whilst we were familiar with the literature on spin-outs, organisational change and partnerships beforehand, we did not did not test any pre-determined set of hypotheses or choose a model *a priori*, but instead used the data to develop a theoretical understanding. The analysis focused on the stories of how these entrepreneurs/managers made sense of the spin-out process (Weick, 1995), with the main narrative themes emerging from the data being 'Triggers', 'Entrepreneurship', 'Partnerships' and 'Barriers' (Miles and Huberman, 1994). We then looked for commonalities with established theoretical models in organisational theory, with public-third sector partnership theory emerging as a base for our own analysis and discussion. Having identified public-third sector partnership theory we were able to 'map' our narrative themes onto the models proposed by Takahashi and Smutny (2002) and Cornforth *et al.* (2013). This allowed the analysis to not only identify commonalities with the prior

research, but also allowed the research to build a theoretical model of the spin-out process based in partnership theory, that provides a more nuanced description of the spin-out process than existing theory.

Results and Discussion: A Theoretical Overview of the Spin-Out Process

Our analysis revealed that the process of spinning-out a public service from a LA is complex and involves multiple stakeholders and partnership arrangements. These partnerships included formalised partnerships with third sector and community organisations, public and private sector representatives, as well as service staff and users. Subsequently, we drew on and adapted partnership theory developed by Takahashi and Smutny (2002), which was further developed specifically in relation to the third sector by Cornforth *et al.* (2013), to provide a theoretical overview of the spin-out process. Drawing on this theory, we present four phases involved in a spin-out; the trigger, catalyst, spin-out and outcomes phases (see Fig 2). First, the 'Trigger' phase which involves the initial motivations to spin-out based around the problem, policy, organisational and political/social/economic streams leading to the collaborative window. Second, the 'Catalyst' phase in which the 'social entrepreneur' acts as the 'critical catalyst' by initiating the spin-out and proposing a business model. Third, the 'Spin-Out' phase, in which the spin-out occurs and goes through a process of adaptation and change in response to stakeholder feedback as well as internal and external environments. This results in either a sustainable social enterprise or a failure to spin-out (Outcome Phase). The first three phases, which lead to the success or failure 'outcome', are discussed below drawing upon our interview data in relation to partnership theory and the literature outlined above.

Spin-Out Triggers and the Collaborative Window

The triggers for spinning-out were discussed in detail by our participants. Returning to the models developed by Kingdon (1995), Lober (1997) and Takahashi and Smutny (2002), we found that the four proposed streams required for collaboration can also be applied to a spin-out. First, the *problem stream* was based around the financial crisis and severe reductions in public expenditure. For each service, this context led to the threat of closure, a reduction in the service, or being put out to tender:

> *"We would have been [transferred] into another organisation...Our service would have shrunk considerably...social enterprise was the only option."* (P10)

Therefore, financial cuts meant that for many of the services (particularly non-statutory services), spinning-out was the only option that would allow staff to retain control over the service and to ensure its future survival. This offers support to prior research by Hall et al. (2012a) and Addicott (2012) that identified such pressures as 'push motivations'. Second, the *policy stream* refers to the motivation to spin-out being driven by policy contexts at both local and national levels. Nationally this includes the rhetoric around the Big Society, legislation such as the Social Value and Localism Acts, and funding opportunities such as the Mutuals Pathfinders, which encouraged the use of the third-sector in public sector delivery (Haugh and Kitson, 2007; Cabinet Office 2010; 2012).

> *"We have had cash from the Cabinet Office 'Mutual Pathfinder Fund' to pay for our solicitor's fees and also the training for business administration."* (P11)

This may indicate how ideology acts within the policy stream (Craft and Howlett, 2012), as the desire of the current government to grow civil society and decentralise services through the 'Big Society' and 'Localism' agendas helps to drive and fund spin-outs. Third, the *political/social/economic stream* discussed by Takahashi and Smutny (2002) was also evident in this process when the participants discussed the changes in the political environment, including those that had occurred as a result of elections (i.e. a Liberal Democrat controlled council becoming Conservative controlled); and the social pressures of seeking to maintain and deliver services to beneficiaries within these new environments. Furthermore, the changing economic and policy contexts discussed above also provided a context of local authorities becoming more open to alternative service delivery models.

Finally, the *organisational stream* relates to the support of senior management teams (SMTs) and elected councillors who were crucial in both the decision to spin-out and in the development of the spin-outs. Whilst prior research has identified the importance of stakeholder engagement to the spin-out process (Simmons, 2008) this has often been in relation to staff and service-users. This research suggests that the buy-in of the senior organisational hierarchy is much more important in successfully spinning-out a public service and that the main way to ensure this buy-in is to provide senior management teams with a robust business plan that includes a cost-benefit analysis of the case for spinning-out.

"There are always barriers because we can't read minds; we can't know what our senior politicians or senior officers really want. So we can spend a lot of time working through options only to find that they had never been wanted or favoured. So I suppose there are always political barriers in that we don't always know what we are working with…" (P7)

However, even once the decision to spin-out had been made, other LA restructuring programmes created barriers for the spin-out programmes, as the services in question were undergoing significant staffing cuts (sometimes of 50% or greater).

"Alongside the [spin-out], we [the service] were also going through a whole staff service restructure to contribute to the savings...so we were looking at possible redundancies. So management were not only trying to steer and develop this new service delivery but trying to steer our own staff through this change… It was about a huge amount of change all happening at once." (P4)

This placed the social entrepreneur(s)/manager(s) of such services under great pressure to quickly identify staff skills that needed to be retained for the spin-out, amidst a general restructuring process. This suggests that the political/social/economic stream of the model operates beyond the initial phases of spinning-out, right through until organisational independence from the parent authority has been achieved (and possibly beyond this).

In addition to this last point, it is important to also consider that political/social/economic factors provide both a macro and micro-influence on the spin-out process. Macro political/social/economic factors such as a global recession create the conditions (fiscal cuts in public expenditure) that lead to new 'policy-windows' forming (Gray, 1989; Kingdon, 1995). It is within this over-arching 'policy-window' that the micro-influences of the four streams outlined above interact in the 'Trigger Phase' to create the conditions that are conducive to a spin-out of public services. The research reported in this paper therefore suggests that the micro-level influences of the problem, policy, political/social/economic and organisational streams sit within and are mediated by a wider macro-level political/social/economic influence and policy-window 'bubble' (Kingdon's, 1995). It is in an environment shaped by these macro-level factors and micro-level streams that the social

entreprenenur(s) begins to develop the partnerships that lead to the spinning-out of the public service.

The Catalytic Social Entrepreneur

Within this multi-level environment that provides the context and triggers for spinning-out, lies the 'social entrepreneur(s)'; or what Takahashi and Smutny (2002) and Kingdon (1995) identified respectively as the 'collaborative' or 'policy' entrepreneur(s). These individuals use the 'policy-window' opportunity and micro-factors of the 'Trigger Phase' to develop partnerships across multiple-stakeholders, to facilitate the spinning out of their public service. The participants articulated the need for one individual from within the public service to lead the spin-out. This individual needed to be strong and capable of overcoming the barriers that the spin-out faced.

> *"It needs someone really determined running it and leading it...because you will encounter innumerable barriers and show stoppers and you have to be incredibly determined to get through all of those."* (P11)

Additionally, they needed to be able to engage with and gain support from all of the services' stakeholders (external and internal) and to use this support to drive the spin-out forwards. This is a role that our participants recognised as extremely challenging, and time consuming. As one of the social entrepreneurs (P10) commented, their "*role has more than doubled in the last two years without additional support or resources".*

Whilst the 'social entrepreneur' was an individual at all four of the local authorities in this research, there seems no reason why the same could not also be achieved by a team of individuals acting collaboratively as 'social entrepreneurs'. Whilst in each case this individual had come to the fore to drive the spin-out process forwards, this had only been possible because the 'collaborative window' had been opened by the various triggers outlined above (Lober, 1997; Takahashi and Smutny, 2002; Cornforth *et al.*, 2013). Additionally, the individual 'social entrepreneurs' had all acknowledged the support that they had received from other service stakeholders in driving the spin-out forwards.

> *"There has been learning about the expertise and experience that our community partners are bringing to the organisation, but it's a reciprocal arrangement" (P3)*

Spin-Out Adaptation & Sustainability

Once the decision to spin-out is taken, there then begins a process of adaptation and change. This flux is driven in part by the environmental triggers that were outlined earlier (political/social/economic and organisational); and also by the engagement of both internal and external stakeholders acting as collaborators. As was outlined above, the participants discussed the importance of internally engaging senior management teams, other staff members, and service-users in shaping the service design (Simmons, 2008; Hall et al., 2012a). This engagement was particularly important to staff members who were concerned that the spin-out would affect their employment and pension rights (Birchall, 2012). Whilst the Trade Union Congress (TUC) (2011) has argued that this presents a major barrier to spin-outs, our participants felt that this was easily overcome through a combination of engagement with and information for staff. Whilst service-users were seen as key partners in the process, the general trend was for informal consultations with them through focus groups and meetings that aimed to keep them informed of progress and take on-board their ideas and concerns.

> *"We have had focus groups with service-users and we also have two elected service-users on our programme board... It shifts the ways services work with service-users...it makes them more responsive."* (P11)

Therefore, the engagement of service-users was in a *passive* role (i.e. explaining how the changes would affect them), rather than being one in which they *actively* participated in the spin-out process. Whilst they were included in the governance structures at two of the spin-outs, it remains unclear as to how much input they had to this structure and suggests that service-users may only shape spin-out service delivery and governance post spin-out. This does raise questions as to how much service-users are integrated into formal decision-making processes and how much the spin-out of services genuinely benefits and engages with local communities. The informal nature of these partnerships makes it difficult to quantify service-user engagement and benefits. Nevertheless, this shows that spin-outs are to some extent operating as partnerships, which are characterised by greater employee and stakeholder involvement in the decision-making process (Coulter, 1999; Roche, 2009). However, we do acknowledge that such partnership arrangements seem to be through an informal arrangement (Domberger *et al.*, 1997) and this also potentially highlights the 'idealised' description of partnerships provided by Cahill (1996) in his 'continuum' of partnership development.

In order to pursue sustainability the spin-outs had to adapt their internal structures by identifying staff with the requisite skills to take on a more business orientated role, and those that required business-skill training. As was outlined earlier, this was done at a time of staff reductions and structural changes to the service that would have occurred irrespective of the decision to spin-out and therefore redundancies were inevitable. However, it also led to the engagement of training consultants to deliver business skills training to service staff in order to prepare them for the market environment that they would be operating in.

> *"So we are having to build in all sorts of structures to make sure we have got the right business skills. We have got a business mentor who is working with us who has followed this path before. We are about to have a training course in business administration skills for key staff, and thirdly we have recruited to our board of directors people with commercial and business skills as non-exec directors."* (P11)

This finding offers support to prior research that identified a potential lack of business skills amongst spin-out staff (Hall et al., 2012a). Collaborations with specialist organisations (i.e. law firms and management consultants) as external stakeholders were therefore critical in driving the process of spinning-out itself. This was due to a perceived lack of expert capability and experience within LAs in carrying out the spinning-out of services, particularly in relation to financial and legal issues [e.g. European Union (EU) competition law and Transfer of Undertakings (Protection of Employment) (TUPE)].

> *"I think the big barrier for me that stands out over the last year is actually the understanding and ability to work through those European and other legal obligations of any of the options really…We have legal experts but they aren't experts in this and it strikes me that there must be dozens of councils around the country struggling with this."* (P7)

Whilst prior research has identified a lack of business skills amongst spin-out staff (Hall et al., 2012a), our research suggests that the skills shortage and experience also include wider departments in the LA (i.e. legal, accountancy, HR).

The Spin-Out Model

The discussion outlined above provides support for the applicability of the partnership literature and specifically the literature related to partnership governance (Takahashi and Smutny, 2002; Cornforth *et al.,* 2013). The interview data suggests that whilst the wider macro political/social/economic factors that lead to and continually shape the 'policy-window' remain the key trigger for spinning-out, the micro-factors that are inherent to the 'Trigger Phase' of a spin-out provide the subtle context and final triggers to spinning-out. Within this, the organisational stream of the collaboration (i.e. the parent authority) remains the key arbiter of whether the spin-out actually goes ahead. The flux that characterises the interaction of these four streams is therefore what we term the 'trigger phase'. During this time the 'collaborative window' is open to the entrepreneur(s), but the decision to spin-out remains one of many competing options being considered by the local authority. We do however also recognise, along with Takahashi and Smutny (2002), Lober (1997) and Cornforth *et al.* (2013), the importance of the 'collaborative' or in our case 'social' entrepreneur. Whilst the spin-outs involved multi-stakeholder collaboration, they all required the leadership of one key person to initiate as well as lead the spin-out process.

It was primarily these 'social entrepreneurs' who made the decision to pursue spinning-out. At this point the spin-out enters the 'catalyst phase'. In this second phase the social entrepreneur needs to engage thoroughly with all of the relevant stakeholders, but most importantly with the parent authority's senior management team. If the final decision to spin-out is made then they enter the 'spin-out phase' in which the initial structure of the spin-out is adopted and the transfer of assets, staff and the awarding of contracts are agreed. For each of our services this was a complex and lengthy process involving multiple adaptations to the social enterprise structure and collaborative arrangements (corresponding with Cornforth *et al.*'s (2013) adaptation and change phase). Once the service begins to spin-out and achieve independence from the parent authority, this adjustment continues in the adapt/change cycle in which a diversification of income streams, contracts and service-user engagement are essential if the spin-out is to become sustainable. Only at this stage does it become possible for the spin-out to become independent from the parent authority. Three of our case studies had reached the stage where the spin-out was going ahead (although were not yet fully independent). The fourth case study had however, failed to spin-out and as such faced possible service decommissioning, re-absorption into the parent authority or privatisation (see Figure 2). At

the time of interview, the final outcome of this service was unknown (it has since gone out to a traditional open tender).

Figure 2 – Organisational Change in the Spin-Out of Public Services:

Key: SMT = Senior Management Team; LA = Local Authority; SU = Service-users;   [····] Policy window.
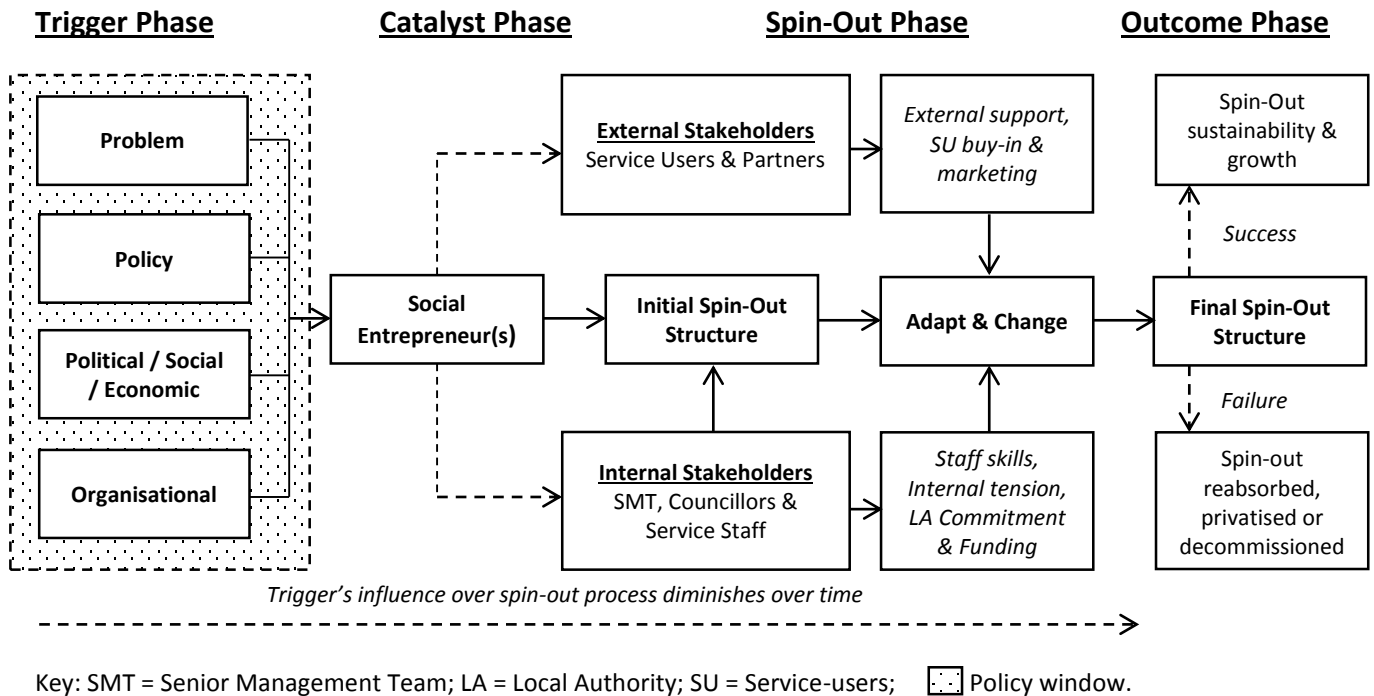
Summary

The research reported in this paper suggests that the prior partnership literature exploring governance development in public and private/third sector partnerships is relevant to public service spin-outs. Indeed, the model put forward by Takahashi and Smutny (2002) and later adapted by Cornforth *et al.* (2013) provides an interesting template for understanding the spin-out process. Nevertheless, the interview data collected and analysed in this paper identifies additions to these models that are specific to the spin-out process; namely the effect that stakeholder engagement (particularly in relation to senior management teams) and the trigger phase streams (policy, political/social/economic and organisational) continue to exert on the spin-out process throughout. Additionally, wider exogenous factors (Gray, 1989) that create and shape Kingdon's (1995) policy windows (e.g. recessions, globalisation, institutions and ideology) also affect the spin-out process as it is these that shape the individual factors within the 'trigger phase' (problem; policy; political/social/economic; and organisational).

The model presented in this paper has important implications for policy-makers, local authority management teams and service delivery staff in allowing them to understand the theoretical basis of the spin-out process. It could also be of potential use to service-users and community groups in allowing them to understand how they can exert their influence over decisions to spin-out public services as well as in the design and delivery of these services. The relatively small number of participants interviewed for this research means that further research is required to validate our proposed model. Additionally, research that is conducted over a longitudinal period would also allow for the final outcomes of spin-outs to be more clearly understood. The relatively early-stage of the spin-outs involved in this research (and indeed of the sector as a whole) makes this difficult. However, over the coming years our understanding of the final destinations for spin-outs will allow this model to be further developed and refined.

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