

NHS MUTUAL

ENGAGING STAFF AND ALIGNING INCENTIVES TO ACHIEVE HIGHER LEVELS OF PERFORMANCE

JO ELLINS AND CHRIS HAM

INTRODUCTION

The Government's modernisation agenda for the NHS intends to create a 'self-improving system' in which the drivers for improvement come from within the health service rather than being imposed from outside. As Lord Darzi's NHS Next Stage Review (Secretary of State for Health, 2008) set out, such a locally led approach to reform depends on the full engagement of NHS staff, especially clinicians. Engaging staff in the NHS and fostering partnership working at a local and national level has been an explicit priority in government for over a decade. However, experience in the NHS is variable and policy aspirations have yet to be translated into practice on a consistent basis. Surveys of NHS staff show that poor communication and a lack of involvement in decision-making appear to leave many staff feeling disempowered and demoralised. This raises questions about whether the current approach to staff engagement, important as this is, is sufficient to deliver the goal of a self-improving NHS. Rather, a rethinking of the relationship between the NHS and its staff may now be necessary. One option is to explore the potential of employee ownership models and how these might be adapted within the NHS.

About this project

This project, funded by The Nuffield Trust, has examined the relevance and applicability of employee ownership and staff partnership models to the NHS. The work involved:

- summarising the international literature on employee ownership and staff partnership models
- identifying and describing examples of employee ownership and partnership models outside the NHS, including the independent sector and other countries
- organising a number of high-level seminars to discuss the literature review and to understand current examples of successful employee ownership, like the John Lewis Partnership and Central Surrey Health
- bringing together the results of this work and indicating how the NHS might adapt the learning from employee ownership and staff partnership models.

OVERVIEW

This briefing paper provides an overview of the project and summarises the key findings. The evidence gathered shows that employee ownership – when combined with opportunities for workplace participation – can deliver a range of benefits in terms of improved productivity and innovation, reduced absences and staff turnover, and higher levels of employee commitment and well-being. It achieves these outcomes by more closely aligning employee interests and goals with those of the broader organisation. The evidence suggests that employee ownership may help the NHS to engage staff and unlock their potential to drive service improvements. There are at least five ways in which employee ownership in the NHS might be fostered:

- **Option 1: Greater voice and participation.** At a minimum, local NHS organisations can increase the extent and ways in which staff can play a role in shaping the services they deliver. This should be informed by evidence about the factors that promote effective staff participation, in particular the importance of leadership styles and managerial commitment.
- **Option 2: Employee-owned community health services.** New models for community health services are being sought and appraised, and could include employee-owned social enterprises. Given the opportunity, participation structures could be built into the governance framework of an employee-owned social enterprise from the outset.
- **Option 3: Multi-professional partnerships in general practice.** Employee ownership is well established in general practice and the new primary care contract made multi-professional partnerships possible for the first time. Ownership of GP services could be extended to other primary care professionals, non-clinical staff such as practice managers, and medical specialists whose work is increasingly community-oriented.
- **Option 4: A social enterprise model for primary care and community health services.** A further possibility is for primary care and community health services to combine elements of options 2 and 3 above. General practices would continue to be run as partnerships but would collaborate with a wider range of community and stakeholder interests through a social enterprise approach.
- **Option 5: Multi-professional chambers within NHS foundation trusts.** In NHS foundation trusts, a multi-professional ‘chambers’-type arrangement in which clinical staff within the same directorate or service unit take greater ownership would be possible. This is consistent with the development of service line management in these organisations.

These options are not mutually exclusive and the time is now right for government to support the testing out of different approaches to support the engagement of staff and to achieve a better alignment of incentives.

STAFF ENGAGEMENT AND STAFF SURVEYS IN THE NHS

- Many policy initiatives have been launched since 1998 to increase staff involvement and foster partnership working at a national and local level. These include the NHS Taskforce on Staff Involvement, the NHS Social Partnership Forum and the first comprehensive human resources strategy for the NHS.
- These initiatives have identified engaging and motivating staff as critical to the delivery of the NHS reform programme, and to achieving the goals of high-quality, responsive and efficient patient care. For example, in 2005 the Department of Health proposed ten changes in human resource practices that evidence indicated would have the greatest benefit in terms of service delivery and improvement, one of which focused on staff involvement, participation and employee relations (see Box 1).
- The NHS Next Stage Review (The 'Darzi Review'; Secretary of State for Health, 2008) reiterated the need for NHS reforms to be locally led and clinically driven, and for there to be greater freedoms for front-line staff. The NHS Constitution (Department of Health, 2009) pledged that staff will be engaged in decisions that affect them and empowered to put forward ways of delivering better and safer services.
- Notwithstanding the emphasis placed on staff engagement, experience in the NHS is variable and policy aspirations have yet to be translated into practice on a consistent basis. This suggests that more than exhortation and guidance are needed to convert policy into practice.
- The strongest driver of staff engagement in the NHS is a sense of being valued and involved. Annual surveys show that NHS staff are highly satisfied with the support they receive from colleagues, the amount of responsibility they are given and the opportunity they have to use their skills.
- However, relatively few staff report that they are involved in important decisions, consulted about changes that affect them, encouraged to suggest ideas for improving services or feel that their organisation values their work.
- NHS staff are motivated by the opportunity to deliver high-quality services that make a difference to patients. But they feel that their ability to do this is being threatened by the adoption of a more business-oriented approach within the health service.
- Awareness among NHS staff of involvement initiatives is much higher than actual levels of participation. Staff involvement is associated with a wide range of performance benefits including lower levels of sickness absence, patient mortality and complaints, and higher levels of innovation, job satisfaction and cooperation with co-workers.
- Comparisons of the findings from recent NHS surveys have found that there is a correlation between staff and patient experience. Patients are more satisfied with their care when this is provided by organisations that have satisfied staff.

Box 1. NHS Ten High Impact HR Changes

1. Support and lead effective change management
2. Effective recruitment, good induction and supportive management
3. Develop shared service models and effective use of IT
4. Manage temporary staffing costs as a major source of efficiency
5. Promote staff health and manage sickness absence
6. Promote job and service re-design
7. Develop and implement staff appraisal
8. Involve staff and work in partnership to develop good employee relations
9. Champion good people management practices
10. Provide effective training and development

Source: Department of Health, 2005

THE EMPLOYEE-OWNED SECTOR

- Employee financial participation occurs along a continuum from full employee ownership, through employee share ownership, to incentive schemes in which employees do not have a long-term financial stake, such as profit-related pay. Key definitions are set out in Box 2.
- Employees can personally have a financial stake in their organisation (direct ownership), or this can be held on their behalf in an employee benefit trust (indirect ownership). Employee ownership can take many different organisational forms including cooperatives, mutuals and partnership arrangements. Cooperatives operate according to the seven principles outlined in Box 3.
- Within the health sector, the government is promoting new forms of ownership through the establishment of social enterprises and NHS foundation trusts.
- Evidence suggests that more needs to be done to promote the development of social enterprises and help them enter the market. Social enterprises may face particular barriers in competing for public sector contracts.
- In the United States, an estimated one fifth of the workforce is engaged in some form of financial participation. The employee-owned sector in the United Kingdom has grown steadily since the 1990s, and is estimated to have an annual turnover of £20–25 billion.
- In the UK, employee ownership is most established in areas such as manufacturing, professional services and retail (see Table 1). There are currently only a handful of employee-owned organisations delivering public services. These include Central Surrey Health, which provides community nursing and therapy services and is owned by its 780 staff.
- Employee ownership of public services may be expected to grow as the government challenges monopoly provision and encourages greater plurality of service provision. While there is political sensitivity around an increased role for commercial

companies in public service provision, employee-owned organisations may be seen as a more acceptable alternative.

- Within the NHS, PCTs are being asked to develop plans for the future of their directly provided services and establish themselves as commissioning organisations. A number of options for provider services have been proposed, including the social enterprise model.

Box 2. Key definitions

- ‘Employee ownership’ and ‘employee-owned company’ – companies where employees own a controlling stake in the business, i.e. more than 51 per cent. An employee-owned company may involve employees owning shares, but may instead or as well involve ownership via one or more trusts – for example, no employees own shares in the UK’s largest employee-owned company: the John Lewis Partnership.
- ‘Co-ownership’ and ‘co-owned company’ – a wider definition which includes employee-owned companies but also companies where employees own a substantial but minority stake in the business, say more than 25 per cent. Here again, the employee ownership element may be based on direct share ownership by staff, or indirect ownership via one or more trusts, or a combination of both shares and trust(s).
- ‘Employee share ownership’ (ESO) – a narrower definition, referring to companies where although many employees may own a share in the equity, their combined holding is a very small proportion of the total. Naturally, the term ESO can also simply be a factual description of the act of employees owning any share(s) at all.

Source: Employee Ownership Association, 2007

Box 3. The seven principles of cooperation

1. Voluntary and open membership:

cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination

2. Democratic member control: cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions

3. Member economic participation: members contribute equitably to, and democratically control, the capital of their cooperative

4. Autonomy and independence: cooperatives are autonomous, self-help organisations controlled by their members

5. Training and information: cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives

6. Cooperation among cooperatives: cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures

7. Concern for the community: cooperatives work for the sustainable development of their communities through policies approved by their members

Source: International Co-operative Alliance (www.ica.coop)

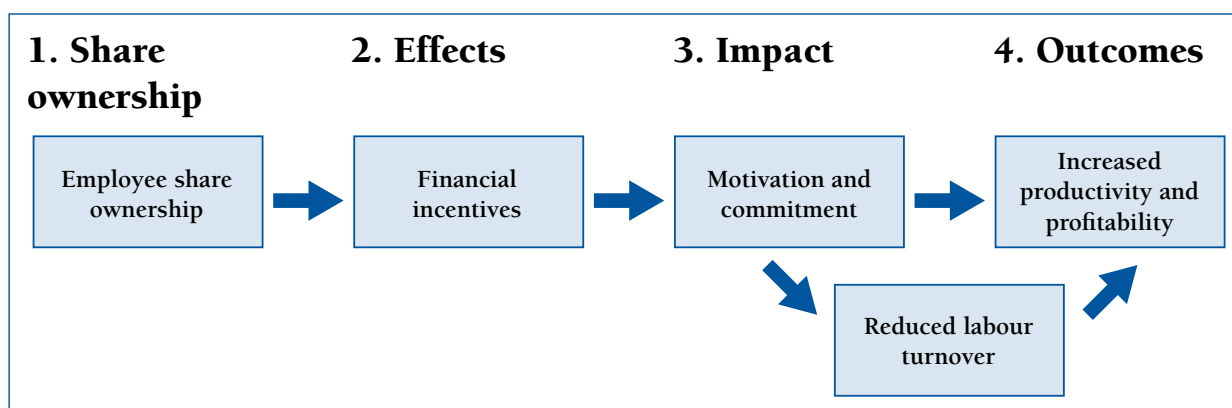
Table 1. Examples of employee-owned companies in the UK (not public services)

Company	Activity
Arup Group	Engineering and design consultancy, with headquarters in England and offices in 37 countries
The Baxi Partnership	Financing for employee buyouts
Circle	Private health care provider and hospital developer
Childbase	Nursery provider
Loch Fyne Oysters	Seafood producers and wholesalers
Make	Architecture and design company
Savant	Specialist software developer for the health care sector
Scott Bader	Polymer manufacturer operating in nine countries including the UK
St Lukes	Advertising and communications agency
Tullis Russell	Paper manufacturer

EVIDENCE OF IMPACT

- In theory, employee ownership provides employees with financial incentives that make them more committed to their organisation and more motivated at work. The benefits of employee ownership are likely to occur both directly by increasing productivity and indirectly by encouraging staff retention (see Figure 1).
- On average, companies experience a productivity boost of four to five per cent when employee ownership is introduced, which is sustained over subsequent years. There is also evidence that employee ownership can lead to lower levels of staff turnover and absenteeism, and to higher levels of innovation.
- Research has also shown that staff in employee-owned companies are more likely to confront a non-performing colleague. This finding is especially important in health care, given the importance of peer pressure as a driver of performance and the difficulty facing non-clinicians in challenging under-performance.
- Few studies have assessed the impact of employee ownership on customer/service user outcomes. The best evidence is for mutuals, whose accountability to their customers (rather than external shareholders) has resulted in higher levels of customer trust and loyalty.
- Research consistently demonstrates that employee ownership only produces (or only sustains) benefits when two further factors are present: human resource management practices that foster staff participation; and a culture of ownership that is associated with staff having a collective voice in the organisation.
- This raises questions about whether staff participation and collective voice (in the absence of employee ownership) would achieve similar outcomes. Research shows that initiatives to increase staff participation in the workplace can improve financial performance, employee turnover and satisfaction. But these schemes are generally only effective when they grant staff higher levels of influence and autonomy, are introduced in bundles rather than as one-off initiatives and are actively supported by managers.
- Neither employee ownership nor staff participation schemes by themselves produce the same level and sustainability of impact as they do in combination. The evidence suggests that employee ownership underpins and enhances the positive effect of staff participation schemes and increases employees' faith that such schemes are genuine and long-term.

Figure 1. Links from employee ownership to organisational effects



Source: Michie et al, 2002

CASE STUDIES OF EMPLOYEE OWNERSHIP

- Four case studies of employee-owned organisations are described in the full monograph: John Lewis Partnership, Kaiser Permanente, Circle and Central Surrey Health.
- These four organisations have developed different organisational models for employee ownership: Circle and Kaiser are professional partnerships, while Central Surrey Health is a limited liability company in which each staff member has a 1p share.
- A characteristic common to all is the strong emphasis that is placed on communicating with employees and involving them in decision-making. At the John Lewis Partnership, managers can be held to account by staff through democratic mechanisms at every level of the organisation.
- The case study examples provide further evidence of the impact of employee ownership on performance. These organisations are among the most innovative and successful in their sectors.

CHALLENGES FOR THE NHS

- There are a number of challenges in developing employee ownership in the NHS. These include whether there is sufficient political will and practical and financial support available to make this happen. The establishment of any new type of organisation within the NHS also requires support from leaders at a regional and local level, including strategic health authorities who will have a major role to play in approving local plans and business cases.
- Trade unions are concerned about moves to introduce new types of provider organisation and create a mixed economy in health. However, employee-owned organisations may be seen as more closely aligned to core NHS values, and an acceptable alternative to commercial providers.
- Employee-owned organisations in the NHS will be operating in an increasingly competitive market environment. While this poses a risk in terms of their long-term sustainability, choice and competition may prevent employee ownership leading to provider capture.
- Access to NHS pensions remains a major barrier to primary care trust (PCT) provider arms becoming social enterprises. Unless the rules on new staff employed by social enterprises not being entitled to join the NHS pension scheme are changed, then the number of provider arms choosing to go down this route is likely to be extremely limited.
- Clarity about the migration path to employee ownership is also needed before this is seen as a viable option. Organisations will need to access business and legal support and other practical advice on organisational options, the transfer of staff and related issues.

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For more information contact:

The Nuffield Trust
59 New Cavendish Street
London W1G 7LP

Tel: 020 7631 8450
Email: info@nuffieldtrust.org.uk

www.nuffieldtrust.org.uk

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