

**GOVERNANCE: THE LOMBARDY WAY**  
**Assessing an experience, designing new perspectives**

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***Social enterprise and regional development: models and best practices***

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*Testo non rivisto dall'autrice*

Thank you very much for the introduction. Before I make my presentation, I want to thank you very much for inviting me here to join you in this very interesting series of seminars, looking at innovation in governance. My invitation arose from discussions I had with Alessandro in Cambridge. As has already mentioned I run a programme of Community Enterprise in Cambridge which is particularly helping chief executives of community enterprises to achieve financial sustainability; one of the main ways that they can achieve it is by working in close link with the public sector to deliver services on behalf of it. Therefore it is this notion of working in partnership through contracts to deliver services that were formerly delivered by the public sector that has enabled them to achieve financial sustainability. Alessandro and I discussed about what we are doing in England, however there might be some share of experiences and knowledge that we could share with you, and equally we could learn from what is happening in Lombardy to try and improve the performance of organisations in our social economy.

Through the discussions we had, I learnt more about the Lombardy model, and I think that there is certainly a great deal we can look at and try and analyse and improve by the understanding of what you have been doing and what we are doing back in England. What I thought would be interesting to talk about would be several things linked to this whole theme of innovation in governance. I want to say a little bit about the framework that I would use to analyse what is happening, what you have been doing, then I am going to say a little bit about my understanding of the Lombardy model. From that, I have identified what I would say are some critical issues or tensions that I am sure you have faced or are facing through the innovations in governance that are taking place. Finally, I thought it would be useful to draw on some of the experiences that we have had, particularly in the area of health and the role of social enterprises in delivering health services in England. So I thought I would say a little bit about that and then link back to the innovations in governance.

To begin with, having read the various papers that have described and given an account of the changes in Italy and particularly in Lombardy, my understanding is that what we are really looking at is that change in the way that governance is managed, since we are moving from a very hierarchical structure through to one where we are introducing aspects of the market. The previous speaker mentioned the quasi-markets. That has been very prominent in the restructuring of the health service in England. So we are looking really at a shift in governance away from hierarchical structures; their advantages in terms of liability, equality, and also cost control have been challenged as we moved to a market-based structure, where you can overcome some of the disadvantages of hierarchies in terms of the rigidity and the flexibility, and, in some cases, lack of transparency and incentives for people working in the systems. We can look at the advantages of hierarchies and try to mould those into new ways of working in market-based structures; I also think the shift into markets itself is also moving further along into a shift into more network-based governance structures. This system of shifting from hierarchies to markets and networks is something that is very prominent in the economic literature, and I think is also manifested clearly in the experience of the NHS in England post-1990.

The NHS was set up in 1948 on a very strict hierarchical structure, it was very centrally controlled and centrally funded, and had very strict hierarchical structures and mechanisms of accountability. However, in 1990 when we had the change in Government, a whole new system was brought in, initially very slowly – in the first few years of the Conservative Government changes were very slow, and it was not until the late 1980s that we saw the introduction of the quasi-markets. So, looking at that just general introduction, if we then move on to looking at the governance reforms in Italy, from the literature that I have read, I can see that the changes are much more governmental focused (a traditionally very centralised structure which was very hierarchical); however, the reforms that have been described that took place in the 1970s led to this structure reforms and the introduction of subsidiarity. As well as having the structural reforms, there were the policy reforms as well, and here I think you can see the links. In England it was mainly through attempts of policy reform that we have introduced the notions of “devolved delivery of services”. However the policy reforms that have been described look at the separation of the purchaser and the provider - and again this is something that is very critical to what happened in the NHS in England - and the “devolved service delivery”. Now, my understanding of the Lombardy experience really hinges on this notion of subsidiarity and the separation of the provision of services from the purchasing of those services, and I think it is those key aspects that are really giving us lots to think about.

The notion of subsidiarity which has already been mentioned (in principle, it is about shifting decision making back to the lowest possible level, to the level of the citizens) has been put forward as a way of empowering those citizens, and then give them greater say in the types of services they would be delivered, and also how those services would be delivered. This was part of the thinking behind the changes in the NHS. However, there are lots of issues that are raised when we look at this whole mechanism of shifting responsibility and decision making away

from the centre. And it was these six critical tensions that I have discussed with Alessandro that might be relevant to the changes in governance in Lombardy.

Looking at what has taken place here, and also reflecting on the changes that have taken place within the NHS, the tensions that I had identified are as follows. The first one relates to this devolution of authority and responsibility away from the centre, nearer to the people who are affected by those decisions, and it is often put forward as a way of empowering local people, giving them greater say and choice in the types of services they want. However, in that empowerment there is a question as to whose responsibility is it for designing and delivering services. And I do not think it is any great secret that the NHS has faced real problems in terms of financing its services. And if you devolve service delivery away from the centre, you are also devolving some of that responsibility and where these critical financial decisions go to be made. If you read some of the accounts of the NHS prior to 1990, the decisions that were made were really made by the doctors themselves, and it was the doctors that were doing the rationing. Setting up a system away or devolving responsibility away from the centre does not actually bring in more money into the system: the financial constraints are still there. Therefore, where is the responsibility going to land in terms of who is going to make these critical choices as to which services are going to be delivered and which ones are not? Therefore, I think by devolving services away one needs to think about whether he is just abandoning these very difficult decisions away from the centre and leaving it to the region to make these decisions (which can be very unpopular in terms of the services that are available to the citizens). That is the first critical tension that needs to be faced. And I would be interested to hear how this particular tension is being managed in Lombardy.

The second tension that I think arises from the movement for subsidiarity is that when you have got central control you have control over the types of services that are delivered, the way they are delivered. I think this was one of the critical issues in arguing for greater autonomy of the regions. Well, most regions will have differences in terms of their ability to design services and some will be more effective at embracing subsidiarity; I believe this has been the situation in Lombardy. However, if you look at the situation from a national perspective, those regions that are able to take advantage of the devolution of autonomy are going to be able to be more successful than those that are not as able. And so by having some regions that are more successful, you are going to challenge some of the issues of equality throughout the country. I think this is another tension that needs to be faced and addressed when you are managing governance reform. If you look at the English experience, there are differences and there are variations in services: what we have is what is referred to as a “post-code lottery” in that there some areas that are much more effective at designing and delivering health services and there are some that are less effective. It is not just about the efficiency of service delivery, it is also about the basis of need, in that some areas have much greater need and therefore will have a greater impact on the budgets. But, if you devolve responsibility away from the centre, then these are some of the issues that need to be faced.

The third critical issue that comes to mind from looking at the experience in Lombardy is that in decentralising service delivery away from the centre, I have already mentioned the variation in need, and if the principle is to try and design services so that they meet customer needs, then there is the possibility of increasing frequentation of service delivery and the types of services that are demanded. If the aim is to make services as responsive as possible to client needs, then there is the danger of fragmentation, in that you need to try and be as responsive to as many different types of needs. Now, this increases the transaction cost in designing services that are responsive to sometimes small groups, who have a legitimate claim on the public purse.

The fourth tension that I think might arise from analysing the governance reforms is how can you both stimulate innovation and conform to what are centrally determined targets? One of the great themes for the marginalisation of the NHS was that by loosening the purse strings and devolving power to primary care trusts, one would stimulate innovation at the level of service delivery. However, it is all very well giving authority, or the capacity to innovate, to local service deliveries, but they still have to accommodate to centralistic targets. Just recently in the media in England we have had great discussions about how can you innovate when you have still got to meet centrally determined targets. I believe that this is one of the challenges that continues to face the NHS, in that we need innovation, but we also need to conform to central targets not just in terms of governance, but also in terms of clinical targets.

The next and fifth issue I think it is interesting to look at is that of efficiency and what we would expect in terms of service delivery. What appears to be the case is that there is just an [...] rise in the types of demands that are made for services. Particularly within the NHS, there seems to be an unlimited demand for different services. But there is a budget restraint, so services have to be delivered in line with budgetary constraints and this has an impact on the types of services that can be delivered. As a consequence there is this constant tension between trying to meet the needs of users, but doing that with the economic constraints that I have said by centrally determined budgets.

The final issue is how we actually evaluate performance. When we have a system of centrally determined targets that need to be met, the tendency is just to operate to meet those targets. The majority of those targets are set in terms of outputs, whereas particularly in health, where interest is also in the outcomes, the concentration on outputs has led to serious and perverse incentives as to how to manage the delivery of health care which meets output targets, but does not necessarily meet some of the longer-term outcomes, which – as I am sure everyone is familiar with - is one of the most difficult measures.

Those are some of the critical issues I think are relevant to the changes in governance that have taken place in Lombardy. For the second part of my presentation here today, I thought you might be interested to hear about some of the changes within the NHS and how, in order to tackle some of the issues that are raised by governance reform, the government is working very strenuously to try and include more social enterprises in the delivery of health care services. I have

already mentioned just very briefly about the NHS reforms and about health devolved service delivery initially led to the introduction of quasi-markets. Through that it led to greater interest in working in partnership with different service deliveries (because our service delivery was changed from being very centrally controlled), and to the introduction of new agencies involved in the delivery of health care. Those had to work together in order to ensure that health care was delivered. Now, it is just in the last five to six years that there has been an increasing interest in social enterprises in England. However six years ago, the government set up a social enterprise unit to try and encourage the creation of social enterprises, not just for health care, but for a whole range of other services that might be delivered by them. One of the great difficulties with working with organisations in the non-profit sector is the different definitions that are used to describe the types of organisations. I believe this is something you will be very familiar with. Therefore, the first challenge was to actually establish a definition that everyone would agree to work by. When referring to social enterprises I am particularly talking about organisations that aim to achieve social outcomes through a financial sustainable business model. They have a more commercial end than the non-profit sector. Because they have social objectives as their primary focus, I think this makes particularly appropriate for involvement in delivery services like health care. They tackled the issue of efficiency and effectiveness, because they aim to achieve social outcomes, but they do this through a financially sustainable business model. Therefore I think they do begin to address some of the issues that I have mentioned about efficiency and service. Because they work very closely with the communities they represent, most of them have stakeholder-based governance structures where they consult with their local stakeholders in setting their objectives, and also report back to them. They have accountability mechanisms where they can report back to their clients and their stakeholders. They overcome some of the information [...] that you tend to get when you have a small customer dealing with a large organisation. The close relationship that they have also enable them to develop services that more closely match the needs of the clients. I previously mentioned about trying to meet and understand what the consumer wants, well, social enterprises, thanks to that close link can tailor their services to match the needs of the local users. Because they work closer to their accountability structures, this often leads to greater trust-based relationships, having the added benefits of the creation of social capital through the establishment of social enterprises. However it is not just about establishing them, it is about managing and running them, and about reporting back to customers and different stakeholders.

Their accountability is embedded in their governance structures, and a vast majority of them have several ways of working with their clients through meetings, community meetings, community newsletters, consultation forums, but also through the structures of their trustees. The level of community participation and community representation depends on the individual social enterprise, but the cases I am going to mention have a majority of consumer membership to ensure that the consumers' interests always are given great attention than those of the professionals that sit on the board. Their governance structures, again, give them

greater legitimacy in terms of representing what the consumers want. The vast majority are very small organisations: just looking at the statistics, the majority have a turnover of about 50,000 pounds. This smallness does make it hard for them to achieve financial sustainability, but it does give them flexibility and adapting services for their clients and customers. Just to reiterate the earlier comments I said, about building social capital and linking it back to the rationale for subsidiarity in terms of empowerment by involving local people in establishing social enterprises, deciding the types of services they want and then delivering those services is a root to empowerment. So, those are some of the features of social enterprises that I think link back to the issues in terms of governance and also to the principles of subsidiarity that are particularly illustrated in the Lombardy experience.

I thought I would finish just by giving you very short examples of three social enterprises in England that have been set up to deliver health and social care services. Now, there is a catalogue of social enterprises which you can access; I have just picked three that I think illustrate some of the points I have been making. The first one is an organisation called [...] Homecare Associates. This particular social enterprise was set up in 1994 as a women's cooperative to deliver home care and domiciliary services to local people in the North of England, so it really pre-dates a lot of the interest in social enterprises in England and was initially set up under a cooperative model. By 2006 it had been so successful in terms of delivering health services and home care services that it had 200 employees and now has a turnover of nearly 2,000,000 pounds. And it has 500 clients on its database: it is managed by a board of aids, and all the employees own shares in the company. Because of its successful model of having a very democratic structure, there are many other organisations which wanted to learn from [...] Homecare Associates; therefore they set up a subsidiary organisation to share their expertise across the North of England. Now, the subsidiary organisation has almost overtaken [...] Homecare Associates in terms of its turnover, and its democratic model is now being adopted in three of the regions in the North of England. That is an example of an organisation that has now shifted from being a cooperative to a company owned by employee-owned shares. But it is successfully delivering health and social care services throughout the North of England, and doing this in a financial sustainable manner and because of its democratic governance structures, it is very closely linked to the communities that it serves. My second example, the [...] Health Organisation, comes from the South of England. This particular organisation was set up as a direct result of the NHS reforms, in that it was actually set up to provide services to the primary care trust, in particular nursing and therapy services. It was only set up in 2006, but because it was spun out from a primary care trust, it already has 650 employees and a turnover of more 20,000,000 pounds. Again, it has adopted a not-for-profit structure where all the shares in the organisation are owned by its employees. The final example is an even bigger social enterprise, and that is [...]. This again was just set up in 2006 but has come up from the governance reforms within the NHS and was established with a 3-years contract to deliver community nursing and rehabilitation services to the value of 110,000,000 pounds. Again, its structure is a

company limited by guarantee, and this is the one where the members of the community on the board outnumber the professionals, giving the community the opportunity to make the deciding vote in terms of the types of services that are delivered. I think this illustrates some of the points I was making earlier on about ensuring that the citizens' voice is heard in decisions about service delivery.

Just to finish, I hope that I have shared with you my understanding of the structural governance reforms in England. Related to the reforms that took place within the NHS, I have identified some of the tensions that I see as arising through those governance reforms. I would just like to say that I think you are tackling some of the issues that are raised by governance reform. We have the same issues and we do not have only answers, we are facing those tensions as well. Therefore, I think that if we can share through the knowledge about how you are handling those tensions and share some of the knowledge we have got, eventually we will find a path where we might find some of the answers. Thank you.

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*Answering to questions:*

Thank you. There is certainly a lot to think about in the responses from the floor. I will take just a few of the points made. First of all, I would like to respond to the question from the chair about the attention between outputs and outcomes. I think this is something that has to be faced when you have got change at the level that we have been discussing this morning. In fact, the traditional way of drawing up the relationship between the provider and the commissioner has been through a contract, and those contracts are generally expressed in terms of outputs, whereas I think everybody in this room would agree that one of the great benefits of having a thriving civil society is from the outcomes that are generated from the associations that are part of such an active group of third sector organisations. I think it is then incumbent on third sector organisations to address this issue of how we measure outcomes. There is certainly a great deal of academic work that is trying to look at ways of capturing the unintentional, longer-term outcomes from third sector organisations. I think it is something that the sector has to accept, something that it must do if it is going to use that as a leverage, a bargaining factor when it is trying to compete for contracts. On the other hand, I think it is also incumbent on the commissioning organisations to ensure that outcomes are included in the factors that they consider when giving a contract. The chair earlier on said that they have to make the decision on the most competitive bid. What we have in England is the notion of best value (I am not sure if you have this notion here in Italy). That best value allows a commissioning authority or organisation to consider a range of factors other than the economic value. I think that if you could bring together the third sector organisations, that can measure their outcomes together, with the contracting authorities and have a dialogue, then they can work together to establish contracts and invitations to tender that actually meets the requirements of both parties.

I also believe it is worth referring to some of the work within the NHS. I mentioned about the social enterprise unit being set up by the government about six years ago. Well, in 2005 the NHS set up its own social enterprise unit to try and encourage more third sector organisations to come forward and bid for contracts; in fact the contracts were available but they were not getting sufficient competitive bids. And that is not surprising, because third sector organisations were not ready. This was a game they did not know the rules of, that they had never played before, therefore they needed to have a learning process whereby the NHS could say what is needed in the contracts, what is the best it is going to get in that. The third sector organisations needed to have a way of learning, so by setting up that unit they put in place a structure to try to bring the two parties together. So I think the economic answer is that it is a contracting problem, the answer we can give is that it is a problem that can be solved by working together. Hopefully that responded to your question.

Another question from the floor about innovation: how can social enterprises innovate? Well, the title of my presentation was about innovations in governance, and I really think this is one of the key features that social enterprises bring. The innovation is not from the perspective I was talking about, the innovations in governance structures, in being more community based, and in having much better relationships with the communities and the stakeholders they serve. But that is not to say that they are not able to innovate in practice as well, and I think if you just look at some of the innovations in the finance sector, particularly in terms of creating vehicles for bringing access to financial services to those that normally fall outside mainstream institutions, there has been an enormous amount of innovation in credit unions and community development finance. There is also examples of innovation in housing, and I am aware that access to housing for people on low incomes has the same difficulties in this region as you do in the U.K. (in that increasing numbers of people have not a hope of actually owning housing). If we can set aside any discussion about whether it is a good or a bad thing, in fact there is a lot of people with no sufficient income who would like to own a house. As a result, we have major innovations in terms of creating access to housing through housing associations. That has been going on for some time, but it is true [...] ownership schemes, a whole range of schemes for access [...] trust access schemes that are trying to open up roots to enable people to acquire housing stock, or at least to share in a housing stock [...] by giving them access to those property rights, and help them on this road to developments and essentially housing ownership, but then the benefits that then spring from owning an asset of that sort.

But I have got a couple of other points I would like to respond to from the audience. The first question was about the IPOD generation. And I took from your question: How do you get people to become more involved, more engaged when they are perhaps not interested or they have never done it before? Institutionalised representation works for those people that are part of institutions but what about those who fall out with that? Now, I think it is reassuring – I am just thinking of the English context again – that the issue of young people not being engaged, not participating has been recognized centrally and I am sure you would agree with

that. And so, some steps that have been made to try and engage people: if we think about the voting system, they have not really been very successful, probably because that was trying to get them engaged in formal institutionalized projects. However, what is more interesting is about getting people involved in things like third sector organisations: how do you get them interested in volunteering? I have never have engaged in that sort of activity before. I think it is helpful to know these problems have been recognized and there are moves to try and bring an increased awareness of the third sector onto the secondary school curricula. I think Professor Zamagni would also be reassured by this question as well, because your commentary earlier on was: why do we teach people about public/private sector dichotomy despite to the fact that it is a system with also the third sector? If we just look at some of the figures from the third sector in the U.K. there is a massive amount of activity and of benefits from having an active third sector. The social enterprise unit within the department now has been working closely with the department for education to try and get things like third sector organisations and civil society volunteering onto the curriculum. So if young people do not know about these things at home, they are just being part of the society they are mixing, they will actually learn about it within the schools. I think it also links to what you were saying about human capital. You have got to give the qualifications, but you have also got to give more than that. There is some reassurance that these things have been tackled. Earlier on it was mentioned that things happen at the centre in England, and if it is happening at the centre, there is some encouragement that it will happen further away from the centre, in the regions.

But just to finish off, I would also like to go back to some of the suggestions as to what is needed to help grow this third sector. Professor Zamagni mentioned that you need much greater autonomy for third sector organisations, but how do you give them that autonomy? If you are helping social enterprises to grow by giving them contracts, [...] outputs like you specify in those contracts. Or one of the suggestions was to create a capital market for social enterprises. What has happening in England is that there are number of financial institutions that have been created to try and ease the flow of financial capital to third sector organisations. We have had a charity bank for quite some time, and they were always willing to give loans to third sector organisations. The problem was that there was not sufficient deal flow: the third sector organisations were not able to put together loan applications that would satisfy the criteria for the charity bank, so they then had to put in place an advisory system to ensure the preparedness of the third sector organisations to actually take on loans. But we have also got things like the capital fund, which is a government-funded scheme for third sector organisations to bid for capital to help them establish and grow their enterprises. I think there are some lessons that we can share with you in terms of what we have done, but I think there is still a great deal to be done, particularly in this whole area, trying to place the value that third sector organisations bring into society. However I think that the fact that we are all meeting today shows that we are all aware of this, and we all need to work together to try and ensure that we

can create measurable systems, the burden of which is not greater than the benefit they will bring.