

Expanding the scope of the review

In the context of outsourcing public services, the scope of the review doesn't explicitly recognise the full range of organisations that deliver public services and create social value for Australians.

The Tomorrow's Agenda Research Institute (TARI) proposes that the range of organisations explicitly recognised in the review be expanded from "the private sector, the not-for-profit sector, the States, or local government" to "the private sector, the not-for-profit sector, **co-operatives and mutuals, social enterprises**, the States, or local government". TARI in collaboration with the Business Council for Co-operative and Mutuals and bankmecu have prepared a paper which sets out the comparative advantage of co-operatives and mutuals delivering public services. This paper recognises the significant growth of public service mutuals in the United Kingdom. A synthesis of the paper is presented below and a full copy is available from [REDACTED] .

TARI also proposes that the review explicitly recognises the role of businesses beyond traditional outsourcing to include the co-creation of commercial and social value. In 2011 Harvard professors Porter and Kramer in response to the crisis of capitalism post the Global Finance Crisis challenged businesses to "create shared value".

International examples of CSV include Nestle, CISCO and IBM. A range of leading Australian businesses have responded positively to this challenge and are now developing products and services that genuinely create both commercial and social value – which by definition means that the delivery of this social value is sustainable. Through CSV strategies Australian businesses are helping people on low incomes to maximise the value of the superannuation funds, build social capital in communities, develop better policy and program implementation in indigenous communities, address financial exclusion, create sustainable communities, encourage responsible consumption of alcohol, and promote resilience in agriculture.

There is therefore an opportunity for this review to assess the potential of shared value in Australia. TARI has prepared a paper on this topic.

The roles for co-operatives and mutuals in delivering Australian public services

In the context of Australian's persistent wicked social problems and commitment to public sector reform, the Tomorrow's Agenda Research Institute (TARI) has prepared a paper that considers the potential for Australian co-operatives and mutuals to play a larger and more significant role in delivering public services, specifically that co-operatives and mutuals have the potential for comparative advantage over other organising models. This paper has been prepared with the support of the Business Council for Co-operatives and Mutuals and bankmecu. The paper is available by emailing [REDACTED].

This comparative advantage can generate greater value for money, greater return on investments, better social outcomes for Australia citizens, greater economic and social resilience, and higher levels of employee wellbeing. However, despite its considerable economic scale, the Australian co-operative and mutuals sector is largely unknown. Australia has over 1600 co-operatives and mutuals many are commercially focused, of which a significant number also create social value, and there are a smaller number of co-operatives and mutuals that are focused on sustainable delivering of public services and social value.

With the establishment of the Business Council for Co-operatives and Mutuals there is now an opportunity for Australian co-operatives and mutuals to come out of the shadows especially by focusing on the increasing number of examples of innovative and excellent public service delivery by co-operatives and mutuals.

Comparative advantage of co-operatives and mutuals

The TARI paper sets out the theory behind this comparative advantage and illustrates the value that is created. The paper recognises the value created for producers, consumers and other stakeholders such as the broader community. The value of this comparative advantage manifests itself in a number of ways which are particularly relevant in relation to the delivery of public services in Australia.

Consumer co-operatives identify problems and facilitate a collective response. Australia has an excellent example of this in terms of providing low income communities with access to affordable health care – the National Health Co-op Ltd. Consumer co-operatives can also address information asymmetry problems – where the customer is not able to make informed decisions as to what service is the most appropriate and offers the best value for money. Consumers can group together to purchase services which not only achieves better value for money but facilitates access to expert advice. Consumer co-operatives can also provide a platform for social innovation and ensure clients receive appropriate and affordable services.

Producer co-operatives and mutuals, employee ownership leads to high levels of engagement and low level of absenteeism which can result in increased productivity. Long term strategies can lead to high levels of staff retention and talent recruitment which can result in economic resilience. The United Kingdom has an excellent example – the Sunderland Home Care Associates. A comparable Australian co-operative has recently registered – the Australian Independent Living Enterprises (AILE).

More generally the sovereignty of membership as a fundamental co-operative principle means that surpluses are perpetually recycled for the benefit of members / users which can result in accessible, affordable and high quality services and a greater level of value for money and return on investment for purchasers and funders such as government. The involvement of members, including employees, in democratic decision-making; transparency and accountability leads to empowered employees which can result in high levels of individual wellbeing. The high levels of stakeholder engagement can lead to strong customer relationships which can result in consumer confidence and high levels of trust.

These comparative advantages are particularly relevant for disability services as Australia embarks on the transformational National Disability Insurance Scheme (NDIS). Many organisations delivering public services are small and embedded in communities. Whilst this means that they are able to deliver services which respond to local need, they are not able to achieve the economies of scale or market power of larger providers. However, these problems can be addressed by service providers working together as a collective which means that they can buy resources in bulk and position themselves in the market as one larger entity.

The launch of NDIS will create volatility in the market place with increasing activities and potentially new entrants including businesses. This volatility may increase the risk of smaller organisations becoming unviable and potentially clients losing their trusted local service provider. A producer co-operative could reduce these risks by facilitating the development of joint strategies, unified marketing of services, co-ordinated service delivery, bulk-purchasing, and resource sharing.

[Learning from public policy in the United Kingdom](#)

The TARI paper also looks at public policies in other jurisdictions, such as the United Kingdom, that promote and facilitate the role of public service delivery by co-operatives and mutuals. The incoming UK Coalition government explicitly recognised the roles for co-operatives and mutuals in their Programme for Government, which was restated in the 2011 Open Public Services White Paper and specifically identified the spinning out of parts of the government to employee-owned mutuals – Public Service Mutuals (PSMs) - as one option for ensuring that there was a diversity of service provision. The fundamental premise of the White Paper was that every public service has the potential to be delivered outside of

government. This premise was the basis for a series of policies which have led to a rapid expansion of PSMs.

In July 2013 there were 71 PSMs employing 35,000 people and delivering over \$2 billion of public services. Public Service Mutuals are being established across a wide range of policy areas in the UK including: health, human services, disability, emergency Services, education – schools, adult education, vocational skills, justice, leisure, and housing. A recent report “found clear evidence that mutuals are improving service quality and driving innovation” and that three thousand new jobs have been created.

Case studies of comparative advantage

The TARI paper also utilises a number of case studies to illustrate the potential for Australian co-operatives and mutuals. These case studies consider the problem they are seeking to address, their legal and organising structure, membership involvement and comparative advantage. Further in-depth case studies are required if Australian co-operatives and mutuals are to come out of the shadows and to increase their role in public service delivery.

Strategies for expanding the public service role of co-operatives and mutuals

In terms of future scenarios, we consider that the potential of Australian co-operatives and mutuals can be achieved through the following strategies:

- Expanding the scale and scope of public service delivery by existing Australian co-operatives and mutuals.
- The establishment of new co-operatives and mutuals including, but not limited to, UK style public service mutuals that are spun out from government
- Shared value creation by commercial co-operatives and mutuals

These strategies will require action by not only co-operatives and mutuals but other stakeholders including government and communities.

Next steps

The evidence from the United Kingdom and existing public service provision by Australian co-operatives and mutuals suggests that there is considerable potential to make a significant contribution to the delivery of accessible, appropriate, high quality and affordable public services in Australia. This is particularly relevant to the delivery of disability services and the upcoming implementation of the National Disability Insurance Scheme (NDIS).

The growth of public service mutuals in the United Kingdom was supported by a Mutuals Taskforce, the development of a body of robust evidence to underpin the work of the taskforce, and a dedicated resource to transfer knowledge including the development of living case studies.

It is therefore proposed that a Public Services Mutuals Taskforce is established and a Green Paper prepared to:

- systematically assess the potential for co-operatives and mutuals to deliver public services including but not limited to the establishment of public service mutuals,
- identify and address all the challenges
- develop a pathway to implementation in the Australian context

It is also proposed that the staged implementation of the NDIS be used to provide a “system case study”, where the potential for co-operatives and mutuals and the role for market facilitation can be fully explored.

The potential for Australian businesses to Create Shared Value

In 2011, Michael Porter and Mark Kramer's paper 'Creating Shared Value: How to re-invent capitalism – and unleash a wave of innovation and growth' presented a new framework to assist businesses globally to increase their competitive advantage and long-term viability by addressing social needs that would in turn create commercial and social value. Porter and Kramer's paper encouraged businesses to create shared value by reconceiving products and markets, increasing productivity in the value chain, and enabling the development of clusters of stakeholders.

Creating shared value constitutes a new strategy that complements existing strategies of corporate philanthropy, corporate social responsibility and sustainability. Indeed shared value propositions may emerge from existing activities currently categorised as philanthropic or community investment or from new business initiatives.

Globally, business and philanthropic organisations such as Nestlé and the Rockefeller Foundation have embraced Creating Shared Value (CSV). Business literature and the Shared Value Initiative present numerous examples of shared value in practice, with momentum building to better understand how companies operationalise shared value across different industries, contexts and geographies into everyday business. The recent paper by Pfitzer et al (2013), *Innovating for Shared Value*, is adding to this knowledge base by providing valuable insights into how 30 leading global companies are creating shared value opportunities and implementing them in practice.

Australian research on creating shared value

Our research demonstrates that Australian companies are helping to lead the advancement of shared value in practice. In Australia, shared value has created much discussion and debate amongst sustainability and business practitioners and leaders from the non-for-profit sector. There have been four areas of discussion:

1. Practical application

The first area of discussion is the practical application of shared value in mature markets such as Australia, given many of the examples presented in the literature to date have focused on bottom-of-the-pyramid initiatives in developing countries. Questions have also been raised about how shared value can be applied beyond developing new products to how it can inform creating new services. This is particularly important given 66% of the Australian economy by GDP is services based (ABS, 2013). CSV Green Paper: Draft Insights 2

2. The definition of CSV

The second area of discussion has been definitional, recognising that CSV complements corporate philanthropy, social responsibility and sustainability. The criteria for defining CSV to date has centred on four key questions: 1. Does the initiative create commercial value? 2. Does the initiative create social value? 3. Is the initiative scalable? 4. Was there strategic intent to co-create commercial and social value?

3. Measuring social value

The third area of discussion is the practicality of measuring the social and commercial value created from shared value initiatives, and hence the ability to convince the C-suite of the

benefits of shared value. Tied to this has been some reluctance to disclose the commercial value generated from shared value initiatives, and the potential reputational repercussions of making money from social problems.

4. Role of government and not-for-profits

The fourth area of discussion has focused on the role of governments and the not-for-profit sector in helping to stimulate and facilitate shared value initiatives and the delivery of social outcomes.

Case studies of Australian businesses creating shared value

To contribute to the literature on creating shared value, Net Balance's Tomorrow's Agenda Research Institute is studying eight Australian companies to identify common elements and insights into how companies are creating commercial and social value in practice in a mature market. The companies represent different types of shared value and industries, including financial services, food and beverages, property development, professional services and manufacturing.

The research will also consider some of the points of discussion raised above by sustainability and business practitioners and not-for-profit sector leaders, with the aim of inspiring organisations to initiate shared value thinking and pilot shared value initiatives.

The paper presents the initial insights from our research and is available from [REDACTED]

Key finding

We propose that at the core of a company's ability to create shared value are its people; their sense of purpose, learning and creativity are the foundations for a culture of innovation. The pace at which a company can identify social issues and produce innovative solutions will provide true competitive advantage.

We are seeking feedback on our research and these initial insights. This feedback will help us finalise a Green Paper – *The potential for Creating Shared Value in Australia: How Australian companies co-create long-term commercial and social value* – which will be released in early 2014.