

# Best of all worlds

How hybrid models of public-service delivery can improve citizen outcomes and stimulate growth

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# 1 Hybrid spinouts: New models for new challenges



# Governments the world over face stark realities that are forcing them to reconsider how they can best deliver public services in the future. Specifically, they must manage three key pressures:

**1. Fiscal fallout:** The need to make significant cost savings and efficiencies. Accenture analysis shows that the affordability gap faced by many economies makes the status quo simply unsustainable. In the United Kingdom and United States, for example, the gap in affordability of delivering public services at existing levels through to 2025 is equal to 5.4 percent and 4.4 percent of GDP, respectively. In emerging economies such as Brazil and India, with their rapidly rising citizen expectations, that shortfall is 1.9 percent and 1.5 percent, respectively.<sup>1</sup>

**2. Delivery deficit:** The need to tailor traditional service models more closely around the citizen. A recent Accenture survey across 10 countries found, on average, that only a third of citizens are satisfied with their public services. Furthermore, only a third are confident that their government is able to provide public services that will meet people's needs and expectations over the next five years.<sup>2</sup>

**3. Productivity push:** The need to do more with less, and improve efficiency while contributing to economic growth. In the United States, for example, if public services achieved 1 percent annual efficiency gains, it would realize US\$995 billion in efficiency savings by 2025. A similar efficiency gain would realize savings of US\$177 billion in France, US\$192 billion in Germany and US\$139 billion in the United Kingdom.<sup>3</sup>

Our analysis argues that the severity and complexity of these pressures are such that managing them successfully must involve innovative models of provision. No single traditional model of delivery will bridge the gap. Governments of all kinds have powerful restraints on fiscal freedom. The private sector can only provide some, but clearly not all, of the services that governments need. The voluntary or nonprofit sector continues to be hampered by a lack of funding as well as a scarcity of the wider capabilities needed to thrive in a competitive environment. The answer to the delivery challenge has to be a collaborative model—harnessing the power of all parts of the economy to drive better outcomes.

# Collaboration, but not as we know it

Cross-sector collaboration to meet government objectives is not a new phenomenon. Across a range of issues, from disaster relief to skills development, business, government and voluntary organizations often collaborate in order to increase the effectiveness of their actions. Public-private partnerships have been in existence for many years, while new performance and financing mechanisms, such as social-impact bonds and payment-by-results contracts, also suggest greater osmosis between the sectors. In a number of ways, policymakers are already trying to manage cost pressures and rising citizen demands through collaborative approaches.

However, our analysis, based in part on a survey of innovators in social provision in Britain, suggests that what is new today is the emergence of hybrid organizations that by their nature combine elements of the private, public and social sectors (see Figure 1). This new class of service delivery model represents a new opportunity to combine business innovation and a vibrant social ethos in the pursuit of public service objectives.

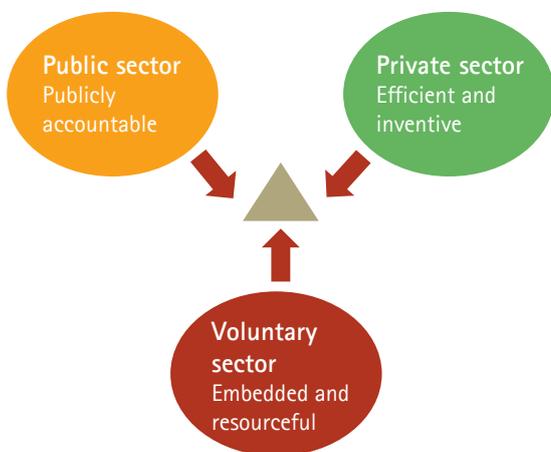
Hybrid models are already changing the dynamics of commissioning, creating new markets for social goods and forcing public, private and voluntary sector organizations to change the way they think about the public-service delivery landscape—and their own strategy.

Many of these new organizations defy definition within traditional frameworks of social provision, but we would argue that their comparative advantage lies precisely in their dynamic nature. If these pockets of innovation are to develop into a more powerful force for change—and help policymakers manage the perfect storm of pressures they are facing—we first need to understand the context in which they might thrive.

This paper navigates and analyzes that potential, setting out the key characteristics of hybrids, their benefits and the capabilities needed for success. It also sets out the challenges that policymakers must overcome if scale is to be achieved.

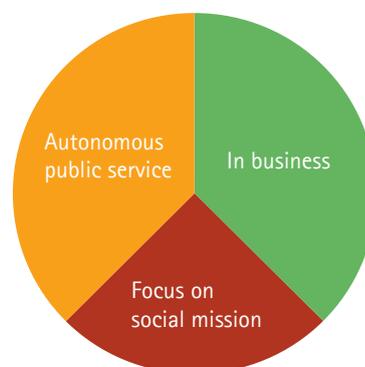
Figure 1: Hybrid models combine the best of all sectors.

## Traditional approach to cross-sector collaboration



The "outside-in" model

## Emergence of hybrid organizations that embody characteristics of each sector



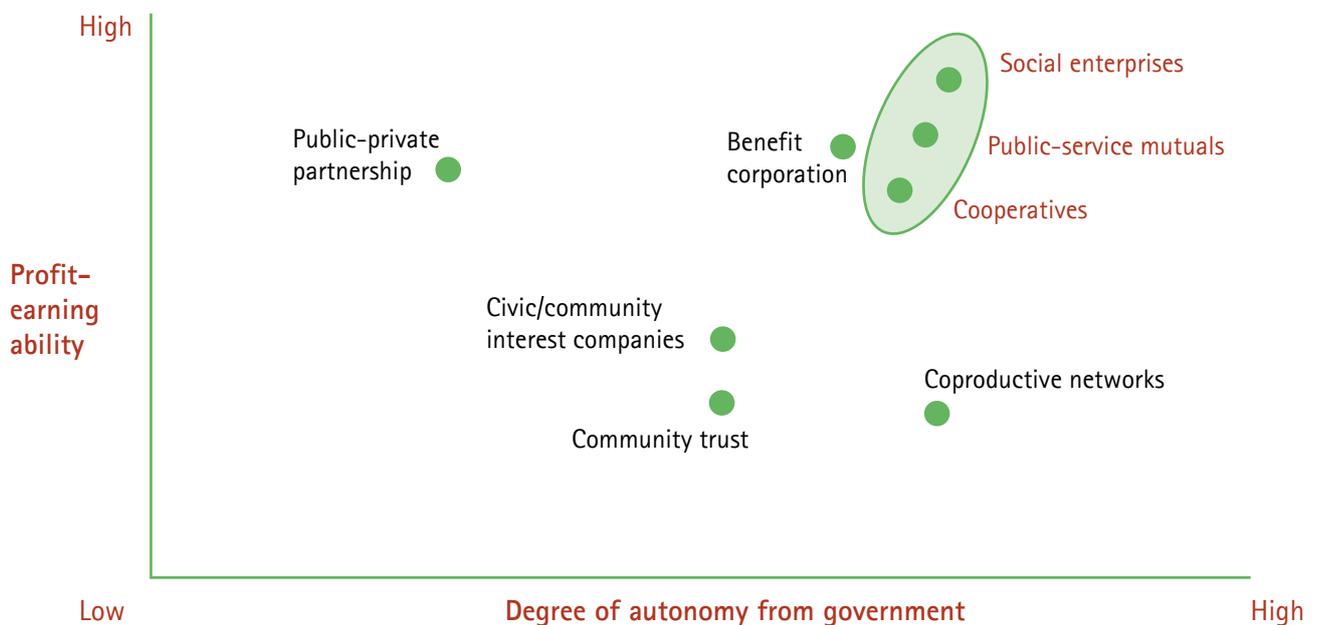
The "inside-out" model

# New public-service delivery models: the hybrid spinout

There are many different kinds of hybrid organization already delivering public services. For the purposes of this paper, we are focusing on those that have their heritage in the public sector (see Figure 2). Mutuals, cooperatives and social enterprises are not new organizational forms in themselves, but what is groundbreaking is the way in which they are being reimagined as a pragmatic way of helping policymakers achieve social objectives at a time of fiscal constraint. There are examples

of these models all over the world—in the United States, Japan and continental Europe—but in particular they are a feature of the new terrain of public service provision in the United Kingdom as a result of specific government efforts to encourage spinouts from the public sector.

Figure 2: New hybrid public-service delivery models.



## Common traits within a diverse picture

While there are many variations among these “hybrid spinouts,” in general our analysis of the most successful examples suggest they share five key characteristics:

### 1. **Autonomy from government:**

Spinouts operate free from government control, even though they may have a public-sector heritage and continue to provide a public service. For example, Greenwich Leisure Limited (GLL), a leading provider of health, leisure and library services in the Greater London region, was created as an employee-owned mutual following severe budget cuts by the local council in the 1990s. Having started its life as part of local government, GLL now competes successfully alongside counterparts from the private sector.

**2. A social mission:** Hybrid spinouts pursue clearly defined social objectives as their primary role. For example, Sunderland Home Care Associates (SHCA) began life in the 1970s as a cooperative aimed at providing opportunities for personal growth and development to young mothers who were not working. Today, it continues to focus on serving marginalized communities through the provision of a wide range of domiciliary care services for the elderly and disabled.

**3. Robust business models:** Successful hybrids provide goods or services in exchange for revenue. Grant-giving foundations, for example, are not within this scope. They are going concerns and are not for loss. For example, GLL has increased its annual turnover from £5 million in 1993 to £120 million in 2011.

**4. Nontraditional enterprise:** Spinouts can be nonprofit, destined-profit or commuted-profit businesses. Most hybrids' constitutions require any surplus or profit to be reinvested into the enterprise or donated to organizations that fulfill their social mission. Within the constraints of a profit cap and a link to individual or overall performance, some hybrids fund shareholder dividends or employee bonuses from profits. In hybrid spinouts, such as SHCA, the employees are often the owners.

**5. Citizen-centricity:** In terms of service provision, hybrid spinouts tend to focus on face-to-face activities that may fill an existing need; they are often focused on vulnerable populations, leading to a concentration in childcare, education, geriatric care, or other citizen services. Our research suggests that their characteristic autonomy and flexibility enables them to strive to maximize social impact as they see fit, adapting and adjusting the service provision depending on “what works.”



# Hybrids rewrite the rules

There is no single blueprint for a hybrid model of public service provision. Fundamental to the spirit of these organizations is a flexibility of approach and an ingrained pragmatism based on intimate frontline experience of what works. This knowledge is constantly evolving in the most successful spinouts.

Our research indicates that the most effective hybrids typically enjoy a long menu of strategic choices. Public managers looking to spin out a service from the public sector, but avoid wholesale privatization, have a unique opportunity to construct the most appropriate blend of attributes to meet a given need. The key foundational questions that such leaders will need to ask themselves include:

## What mix of revenue streams will we pursue?

Hybrid organizations can choose to combine both nonprofit and for-profit business models, giving them access to the donations, grants and favorable tax status of charitable concerns as well as the potential for commercial revenue. For example, UK-based Teens and Toddlers, which runs programs that address vulnerable young people, accesses a variety of income streams, including social investment, venture capital, grants, donations and local government funding.<sup>4</sup>

Conversely, French childcare provider Optimômes is financed solely by its commercial proceeds.<sup>5</sup> The flexibility to incorporate different revenue streams is growing in popularity within the social sector, with nearly 50 percent of social entrepreneurs reporting employing mixed business models in 2010 and 2011, up from 37 percent in 2006.<sup>6</sup> The cross-sector approach also allows for a wider mix of payment methods with upfront grants being accessed alongside more performance-related contracts such as payment-by-results. Being able to combine capabilities that once were seen to be in direct tension with each other clearly offers a powerful route to sustainable finance.

## What ownership structure will best serve our mission?

Spinouts must choose how best to structure their organizations, choosing between privately-owned approaches and more employee-led models that allow for collective decision making and buy-in. SHCA is a highly successful employee-owned provider of domiciliary care services across the northeast of England. SHCA made the decision to transition from a cooperative to a mutual in 1998 for philosophical as well as practical reasons, enabling the easier disbursement of shares to employees.

## How can we use our legal status to achieve competitive advantage?

Spinouts can choose a broad range of legal forms on a spectrum from unincorporated organizations (which allow for flexibility and a cap on dividends) to incorporated models, which may entail a form of asset-lock but also allows for preferential taxation arrangements. These forms cover a spectrum from industrial and provident societies or community benefit societies (in the case of many cooperatives, for example), to companies limited by guarantee and community interest companies (in the case of many mutuals and social enterprises).<sup>7</sup> The imperative is to tailor their legal status in order to optimize funding and reduce overhead expenses including taxes. For example, the Japanese public entrepreneur Harue Ishikawa founded the social welfare organization Ninjin no Kai so that it would become eligible for government contracts and gain tax exemption for its senior centers, moving the organization away from a reliance on fees.<sup>8</sup> Similarly, legal status can be a key instrument to allow the newly established organization to protect its social purpose.

# 2 Unlocking public entrepreneurship: The benefits of hybrid spinouts





# Spinouts drive public-service delivery

As the demand for citizen services rises on the back of aging populations, governments are being forced to seek more cost-effective options of provision. Against this backdrop, there is growing evidence that hybrid spinouts provide more effective and efficient ways of delivering public services (see Figure 3). Our analysis suggests that this value proposition emphasizes three distinct areas:

## 1. Innovation delivers better citizen outcomes

Without the constraints of government control, spinouts are often more flexible in interpreting demand and tailoring service provision to the needs of service users. SHCA relies heavily on service-user surveys as well as constant engagement with its front-line staff to find ways of improving service provision. In this way, employees are empowered to innovate and introduce novel solutions that more unwieldy public agencies or commissioners struggle to identify and implement. Furthermore, the ability to get close to the citizen means that hybrids are better able to work with service users to codefine the outcomes that they most value, ensuring that services are personalized both in their design and

their delivery. In an Accenture survey to identify the priorities of citizens as governments seek to revitalize public services, better understanding the needs of citizens and communities ranked highest. Hybrid organizations are, in this sense, a cause for optimism.<sup>9</sup>

## 2. Employee ownership improves performance

Employee ownership is a common feature among hybrid spinouts. In combination with the social mission of the organization, it is a powerful motivational force. A review of the evidence in the United States found that, on average, employee ownership was linked to a boost in organizational productivity of 4–5 percent.<sup>10</sup> As well as being more productive, engaged employees are also healthier and happier. For example, in the United Kingdom, the Sandwell Community Caring Trust saw its absenteeism rate fall from 22 percent when it was part of the public sector, to less than 1 percent 10 years after spinning out and becoming an employee-owned hybrid.<sup>11</sup> With the direct cost of public-sector absenteeism in the United Kingdom reaching £5.5 billion every year, with an additional £3.8 billion in indirect costs, such a turnaround is eye-catching.<sup>12</sup>

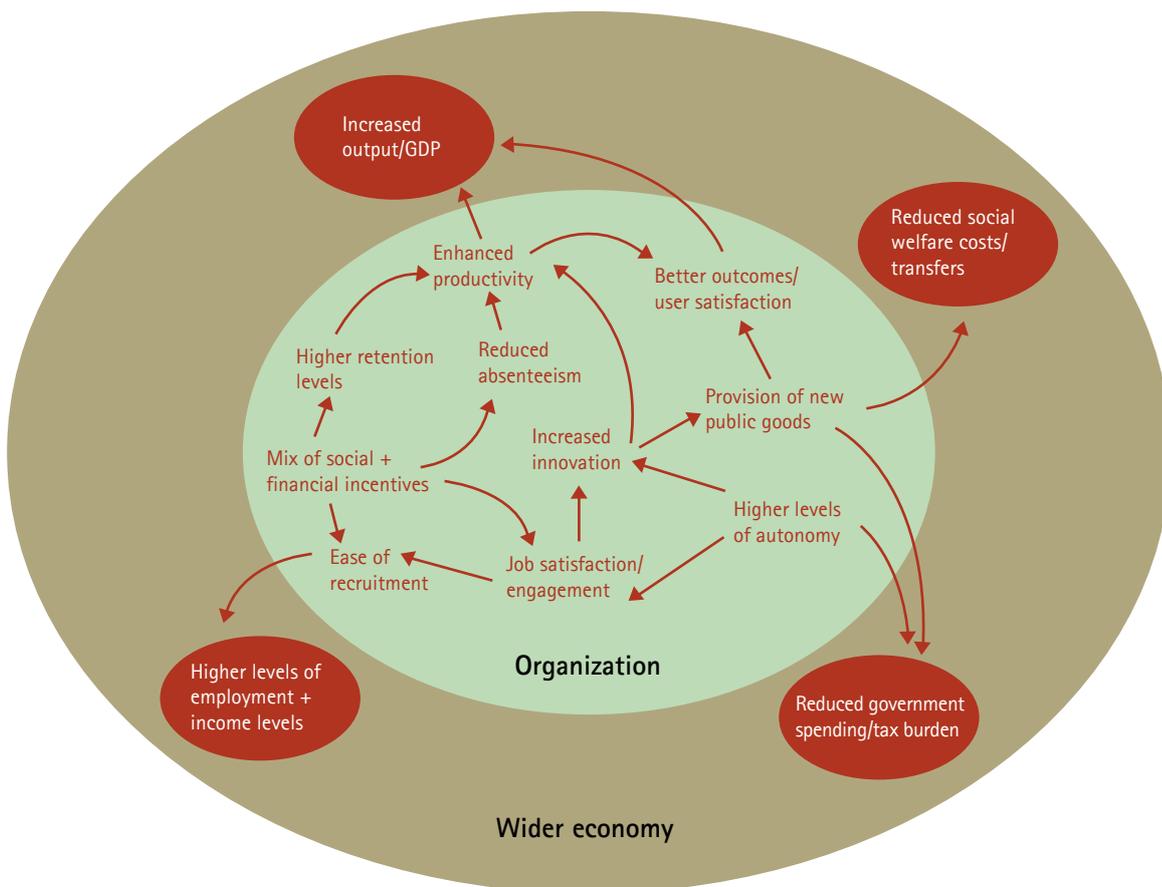
Employee ownership appears to have a similar effect on retention. As employees become more engaged, they are more likely to stay with a specific organization. At SHCA, annual staff turnover is only 3–5 percent, compared with an industry average of more than 20 percent in the United Kingdom<sup>13</sup> and 66 percent in the United States.<sup>14</sup> With continuity of care being paramount in such services, such statistics translate directly into better citizen outcomes.

### 3. Flexible funding is a win-win

By taking advantage of a more market-driven environment, hybrids have an opportunity to access funding to sustain innovation and to engage in mixed payment models. For example, CAN, a social enterprise which provides affordable office space for social sector organizations operating in the United Kingdom, derives only

14 percent of its income from grants, while 86 percent comes from rents and contracts.<sup>15</sup> At a time of fiscal austerity, where efficiency measures and budget cuts are a necessary element of the government reform agenda, the freedom to tap into new sources of funding potentially offers a more sustainable route to delivering some public services.

Figure 3: Hybrid spinouts from the public sector can improve service levels and contribute to wider economic vitality.



# Hybrids stimulate economic growth

Hybrid organizations are not only more responsive to need, they can also potentially deliver a range of wider social, economic and fiscal benefits. As Figure 3 shows, the effects are best understood at the local level. With the scaling up of hybrid models aggregated more broadly across sectors, we can begin to understand the opportunity that presents itself in three vital ways:

## 1. Spinouts reduce government spending

Simply by opening up the service provision market to a variety of actors, policymakers are able to reduce the direct burden on public spending, drive competition and access more advantageous contracting options. In the United Kingdom's National Health Service, public-sector mutuals are estimated to have delivered £886 million worth of public services by the end of 2011 thanks to the introduction of the Right to Request Programme.<sup>16</sup> Furthermore, given their potential to understand and respond to user needs more effectively, hybrids can help reduce the expense to governments of providing some high-cost services. For example, Central Surrey Health, a spinout operating in health care provision in the United Kingdom, contributes to a significant reduction of hospitalizations thanks to the introduction of "district nursing" services, building partnerships with patients and other care providers.<sup>17</sup> Healthy Living Cambridge Kids, an organization operating in the United States, has also cut public health costs by working closely with its local community, driving down the long-term costs of diabetes and obesity among participants by promoting

diet and exercise.<sup>18</sup> For the hybrid, the unit cost of providing a more tailored service may well increase. But at an aggregate level, this may well be more than offset by the reduced cost of providing related "mopping up" services.

## 2. Autonomy improves productivity

Even if hybrid spinouts do not remodel the services they provide, there is evidence to suggest that the combination of greater autonomy, higher levels of employee engagement and the ability to innovate more readily means that they can realize significant improvements in enterprise productivity. For example, a health care center in the Midlands region of England has been run as a mutual since 2008 and reported productivity gains of 20 percent in 2009, with the quality of clinical outcomes improved or sustained. And in the West Midlands of England, Sandwell Community Caring Trust reduced its spending on overheads from 38 percent to 18 percent over the 10 years following its spinout, showing how empowered staff can take a leadership role in bringing down production costs.<sup>19</sup> While examples such as this may still be relatively small scale, it is clear that, replicated more broadly, the potential impact on public-sector productivity would be highly significant.

## 3. Hybrids catalyze job creation

There is strong evidence to suggest that successful hybrids act as important catalysts of job creation, increasing income levels and driving up domestic consumption while improving people's lives. As many developed economies face high levels

of unemployment, these benefits are particularly relevant. One study of mutuals in the United Kingdom found that employee-owned enterprises generated employment growth from 2005 to 2008 at 7.5 percent per year, nearly twice the rate of non-employee-owned enterprises at 3.9 percent. The same organizations also proved particularly resilient during the recent global recession, when they were able to generate employment levels of 12.9 percent per year compared with 2.7 percent.<sup>20</sup> This does not take into account the wider job creation that may take place in adjacent industries, who will benefit from the increase in overall levels of economic activity. Not only does this attest to the attractiveness of the value proposition for employees, but it also underscores the ability of hybrids to turn social challenges into business opportunities.

In all of these ways, then, the value proposition offered by hybrid spinouts is attractive for public entrepreneurs and policymakers alike. By offering better organizational outcomes as well as benefits for the broader economy, spinouts can help square the circle between fiscal pressures, rising citizen demands and the need for economic growth. While the models are beginning to attract the attention of policymakers around the world, there is still a long way to go before they become part of the mainstream approach to public-service delivery. Understanding the options available to public managers, as well as the potential barriers that need to be overcome in spinning out a successful hybrid, can help accelerate that necessary journey.



# 3 Charting success: Creating the virtuous circle



Hybrids are, by their nature, often unconventional in their approach to service provision and funding. However, our study of the most successful operators clearly identified factors that were common to all.

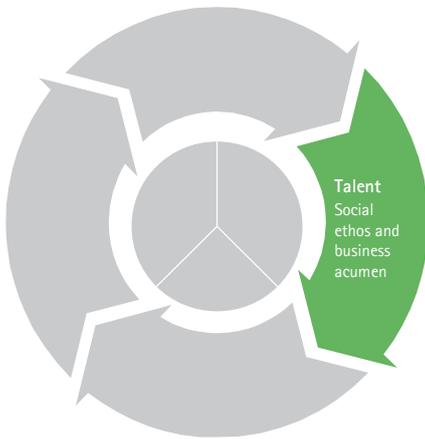
Each one shared a fundamental belief in four particular virtues: talent, innovation, leadership and organizational growth (see Figure 4). Focus on these four elements allowed the most effective spinouts to harness the best of all worlds –public, private, nonprofit—and hold them in creative tension.

By concentrating on these core values, leading hybrid spinouts seem to be able to create a virtuous circle from apparently competing imperatives. How do they do this? Highlights from our case studies help to explain the significance of each of the four shared imperatives.

Figure 4: The capabilities of a successful hybrid spinout.



# Talent: combining social ethos and business acumen



Talent strategies in successful hybrids combine a clear focus on specific "must-have" skills with a more flexible approach to reward and recognition. While devising strategies to spin out, public managers need to respond to a pair of competing pressures:

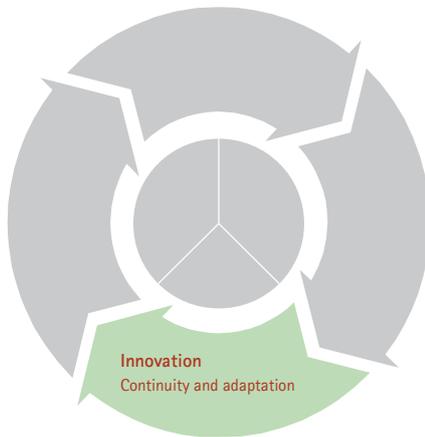
## The skill sets needed are hard to find

A combination of entrepreneurial mind-sets and public service ethos must be constantly reinforced. In a successful spinout, employees are encouraged to be at the forefront of the innovation process, identifying opportunities to improve service provision. At the same time, a sense of responsibility toward service users is promoted through shared ownership and a sense of purpose deriving from the organization's mission. Our interviews with social and public entrepreneurs highlighted the difficulty in recruiting people capable of combining the right mix of managerial skills and entrepreneurial appetite. Indeed, the unique nature of hybrids requires a constant drive toward reinvention and innovation, and operational execution is often insufficient. As a result, hybrids often have to take responsibility for developing the skills they need by themselves. For example, GLL has responded to this difficulty in attracting the right type of talent by introducing its own graduate program. The program, which has been running for the past 10 years and has an annual intake of 10-12 graduates, lasts two years and nearly all branch managers come from this scheme.

## A range of incentives are needed to motivate talent

Research shows that public sector employees place a lower value on financial rewards and a higher value on public service than their private sector counterparts.<sup>21</sup> This focus on mission is clear in hybrid spinouts as well, offering them a powerful source of competitive advantage through more engaged, productive employees. Nevertheless, understanding that the mission is only a part of a more diversified incentives package represents a key component of successful talent strategies. Remuneration in successful hybrids is usually in line with industry averages and career progression is a transparent option for high performers. Monetary incentives are often based on group performance—an approach that fosters greater respect among group members, enhanced self-esteem and perceptions of control, lower anxiety, and more task enjoyment.<sup>22</sup> Employee ownership is also often used as a key component of the hybrid incentives strategy, acting as a catalyst of employee engagement that enables greater involvement in shaping the organization's strategy and a means to build a stake in the business. Successful spinout strategies have to set a clear direction to best leverage talent, build a responsive management team, and adopt the most effective incentive schemes.

# Innovation: marrying continuity and adaptation



Successful hybrids are highly innovative. Processes and structures are constantly modified to better navigate complexity and find areas of competitive advantage. Leaders of effective hybrids strive to find the right balance between continuity with original ways of doing business on one hand and new approaches on the other. Our research identified three key components in this strategy:

## Coproduction between employees and service users

The first driver of innovation has to be the employees themselves. The importance that successful hybrids place on employees' entrepreneurial appetite is substantiated by their role in leading change to the way services are delivered and relationships cultivated. The second driver is service users. Flat organizational structures allow suggestions coming from daily interactions with service users to surface, while more standardized mechanisms to gather feedback (such as surveys) remain critical. For example, SHCA uses "social impact scorecards" to capture metrics such as staff turnover, training levels, user satisfaction, or outcomes quality.

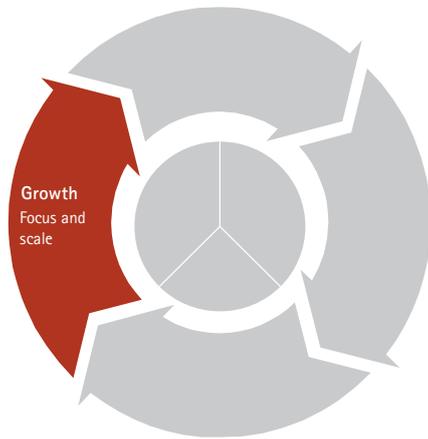
## The ability to turn challenges into opportunities

Successful hybrids need to be alive to the ways in which changes in the broader public service reform agenda could present opportunities for business growth. How will policy reform impact on new opportunities? How does remote health care create opportunities for new support services? Monitoring changes in the policy environment will allow hybrids to ensure they are making the most of their potential, both in their formation phase but also as they adapt their operating model to changing circumstances. For example, many SVVs demonstrate acute awareness of the benefits that might be available to them (e.g., capital allowances and grants) as governments strive to attract investment into under-served areas of the social economy.

## A determination to incorporate core values within innovation

While hybrids are highly innovative, the guiding principles of the organization must act as a fundamental influence to ensure that any change is consistent with the original mission. Diversification and process restructuring have to reflect the core purpose of putting service users and communities at the heart of change. Only in this way can the drive toward organizational excellence coexist with customer-centricity.

# Growth: balancing focus and scale



Our analysis suggests that successful hybrids are geared for growth based on the understanding that the unmet local needs they are addressing are often universal. With this in mind, they can be seen to pursue three distinct approaches to expansion that marry a focus on their core offering with wider application:

## Organic growth that drives economies of scale

Scale is critical in order to become competitive. According to a survey, social enterprises with a turnover exceeding £1 million reap the benefits of scale, with 68 percent of them showing a profit. Conversely, the group most likely to make a loss is comprised of organizations with turnovers below £10,000.<sup>23</sup> GLL embarked on a steady expansion process that made it the United Kingdom's leading inclusive sports and leisure provider. In 1993 GLL employed 100 contracted staff and had an annual turnover of £5 million; in 2011 it employed 1,800 full-time staff and 3,000 part-time and seasonal staff, and had an annual turnover of £120 million.<sup>24</sup>

## Inorganic growth that centers on replicating best practice

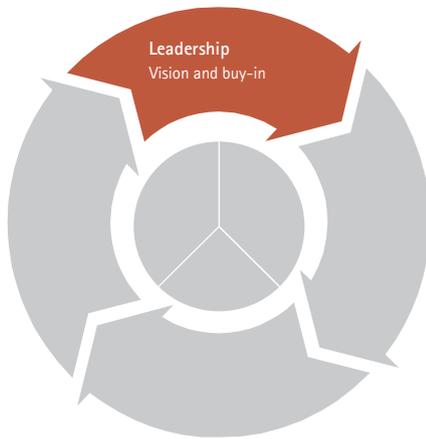
Hybrid spinouts often deploy a franchising model to increase their overall reach and impact while remaining true to their original values and mission. Geographic spread is critical to horizontal growth, since it allows organizations to expand without having to develop skills, experience and expertise in new service areas.<sup>25</sup> Care and

Share Associates (CASA), a hybrid supporting the replication of the model pioneered by Sunderland Home Care Associates, operates as a catalyst throughout England by helping social entrepreneurs establish new ventures providing domiciliary care.<sup>26</sup> Building on the success of the model in Sunderland, CASA now supports the operation of franchises in Halifax, Knowsley, Leeds, Manchester, Newcastle and North Tyneside.

## Diversification that mitigates the risk of losing tenders

The risk associated with losing a tender can be particularly severe for organizations operating in the social sector. Tenders are a steady source of revenues but draw a large amount of resources from smaller hybrids, particularly during the bid process. Losing a big contract often threatens disaster for smaller organizations. For this reason, successful hybrids diversify their operations as a hedging strategy. For example, San Patrignano, an Italian hybrid helping rehabilitate substance abusers, has developed into much a larger venture incorporating a food and wine business, a restaurant, a home design store, horse breeding and a graphic design agency. And while SHCA generates the majority of its income through contracts with Sunderland City Council, it has diversified its operations through engagement with South Tyneside Council, private contracts, and partnerships with universities, providing support for students with disabilities.

# Leadership: institutionalizing individual vision



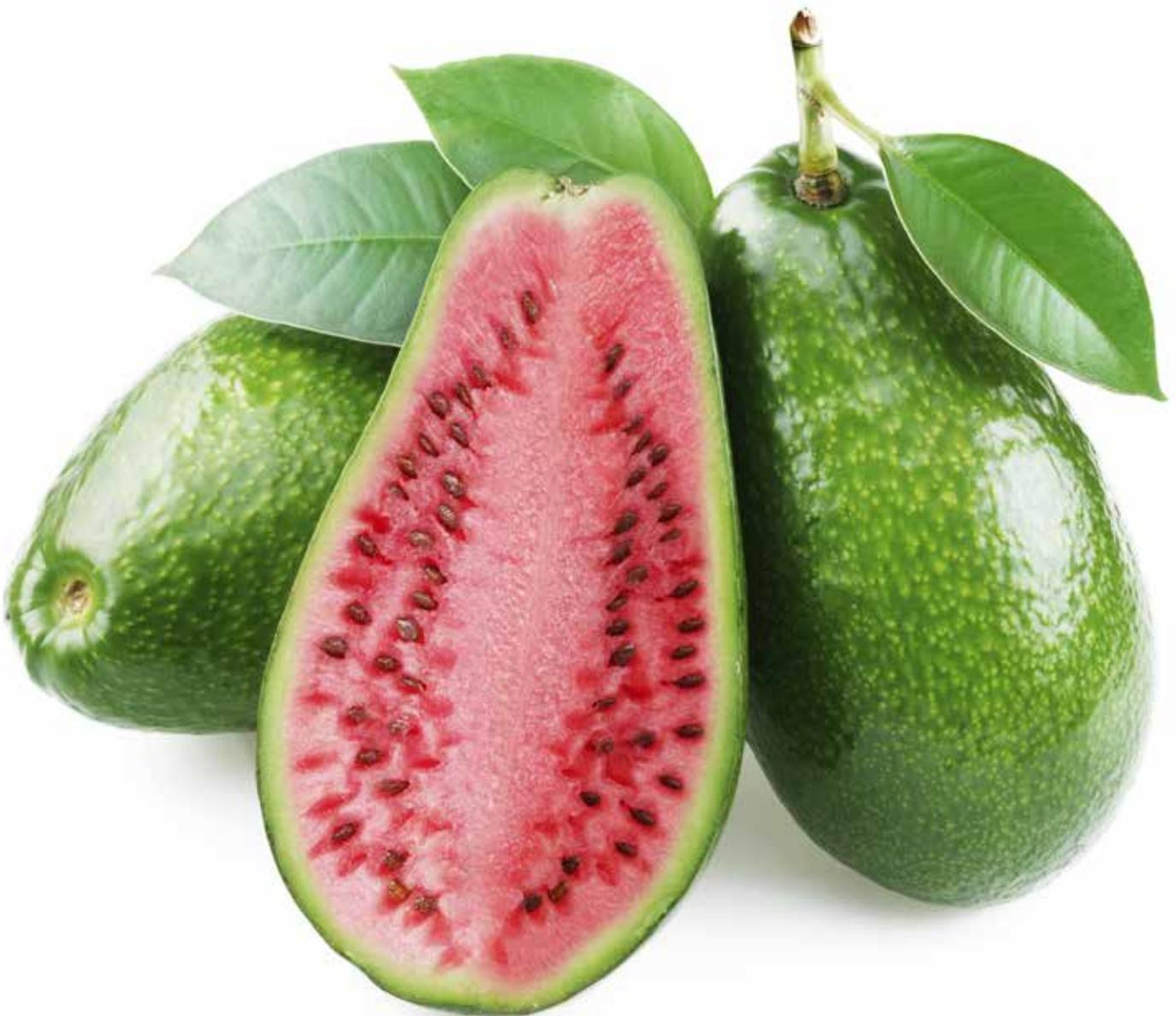
## Leadership stability is vital

The successful hybrids we studied tended to have long-established leadership teams, often centered on an individual who has been with the organization since inception. These figures combine a commitment to core values with practicality and a drive to do "what works" to keep the organization growing and bettering its business' value proposition. This solid core leadership is essential for the organization to effectively navigate the transition—be it the establishment of the organization or the spinout process.

## Succession strategies start from employee engagement

Most hybrid leaders have been in their role for a long time, often being the founders of the organization. This creates a clear challenge in transferring their enthusiasm and vision onto the organization's management team through succession strategies. Employee ownership acts as a positive force in this sense, allowing employees to take a more active role in the organization's governance and reducing the distance between the top and the bottom of the ladder. Despite this, creating channels to enact an effective succession strategy and develop the future senior management of these organizations remains essential.

# 4 Going mainstream: The future of hybrid spinouts



Spinning out hybrids appears to be attractive in the interests of both improved organizational performance and wider benefits to the economy. But if the business case is so compelling, why are there not more of them? Clearly, despite the advantages of spinouts delivering public services, there are significant barriers preventing them from realizing greater scale (see Figure 5).

Figure 5: Barriers and enablers for increased take-up of spinouts.



## Investment inertia

The financial challenges facing hybrid spinouts are manifold. Their nontraditional business model and nascent stage of development mean that they may struggle to attract finance from traditional investors, particularly when there are very few mechanisms in place to match private capital with social ventures. This challenge is compounded by the fact that hybrids may simply not have the capabilities in place to present a compelling investment case. For example, a task force co-led by the United Kingdom's Department for Work and Pensions and the charity ACEVO found that third-sector organizations are often ill-equipped to present a robust case for investment or are not "investment-ready."<sup>27</sup> Overall, these constraints limit the pool of prospective investors available to hybrids as they try to establish a foothold in their respective markets.<sup>28</sup>

## Competency threshold

As we have argued, operating as a successful spinout requires skills and capabilities that are often rare within public-sector organizations. Entrepreneurialism and the ability to thrive within a fully commercial environment, for example, are critical to the success of hybrid spinouts—but also, often, the skills that are hardest to find. For employees, the transition out of the public sector has considerable implications in terms of the skills they need, as well as their future terms and conditions. Furthermore, aspiring spinouts will find that there are simply some business capabilities that they are unable to generate in-house. As a result, they may be left seeking out business support from external providers, either through a mentoring or a more commercial arrangement.

## Barriers to entry

Government procurement and commissioning policies are often structured to favor incumbent, usually larger public service providers. This default setting can make it difficult for smaller and newer spinouts to survive. The United Kingdom's Big Society audit found that an implicit bias toward the private sector during the tendering process has made it difficult for third-sector organizations to compete, despite the social value they generate.<sup>29</sup> As a result, social enterprises whose main source of income is from the public sector anticipate that they will account for half of all redundancies among all social enterprises in the next 12 months. These cuts will generate knock-on social harm as the most disadvantaged communities are affected most.<sup>30</sup>

## Political concern

Any effort to transition services out of the public service will inevitably be politically charged. The perception that spinning out hybrids effectively constitutes "privatization by the backdoor" is one that many across the political spectrum will hold. While asset guarantees can be put in place to ensure that hybrids cannot be swallowed up by larger, private sector players, there will remain concerns about the appropriate mix of diversity in the provision of public services.

## Employee resistance

The implications for public employees of spinning out are profound. Many will have joined the public sector to remain as traditional public servants—commercializing services and the pursuit of profit may well not sit easily with deep-seated employee values. Furthermore, there is a risk that senior management may play a disproportionately significant role in pursuing spinouts without first ensuring broader buy-in among all employees. In such a scenario, the perception of a "top-down management buyout" could prove difficult to recover from. With higher levels of innovation and improved service delivery relying on a cadre of engaged employees, ignoring these concerns could prove damaging.

# Accelerating the pace of change

In order to harness fully the potential of hybrids, it is clear that achieving organizational excellence on its own will not be sufficient. Enablers must be put in place within the wider economy that promote greater uptake of hybrids and facilitate the spinout process that public managers will need to lead. Our analysis suggests four areas to best engender change:

## Adopt common standards to create a social capital market

Rethinking reporting and accounting parameters to allow hybrids to attract investment will be an important first step on the path toward creating a sustainable social capital market. Doing so would allow public entrepreneurs to access much needed resources from two different sources. First, by mainstreaming common "social returns on investment" definitions and frameworks, public entrepreneurs would be able to build a stronger case for public funding. And second, developing a private market would allow both individual and institutional investors to get involved in the financing of hybrid social ventures. For example, Big Society Capital invests in social investment finance intermediaries in the United Kingdom to develop a sustainable and independent social investment market.<sup>31</sup> The development of independent and transparent social capital markets could be supported by guarantee mechanisms for investors, particularly at an initial stage of market development. Investment guarantee organizations, analogous to the Multilateral Investment Guarantee Agency system used by the World Bank, could offer the necessary certainty to leverage greater private investment in the social sector.

## Make careers in hybrid organizations more attractive

Social entrepreneurship is still considered a relatively niche area and certainly less secure than a career in the public sector. Policies to create an environment geared toward social entrepreneurship should start from early-on interventions in schools, weaving in social entrepreneurship curricula in education systems and designing vocational programs for prospective employees. For example, following a model similar to that of Teach for America, young entrepreneurs could access support and further employment opportunities upon completion of a period dedicated to working in a social enterprise. Similarly, policymakers can target experienced public managers with "social sabbaticals," using simulation exercises and gaming techniques to prepare them for a period of absence to test and launch their own social enterprises. Local governments should take the lead in these efforts, as social entrepreneurship typically spurs at the community level.

## Incentivize smarter commissioning

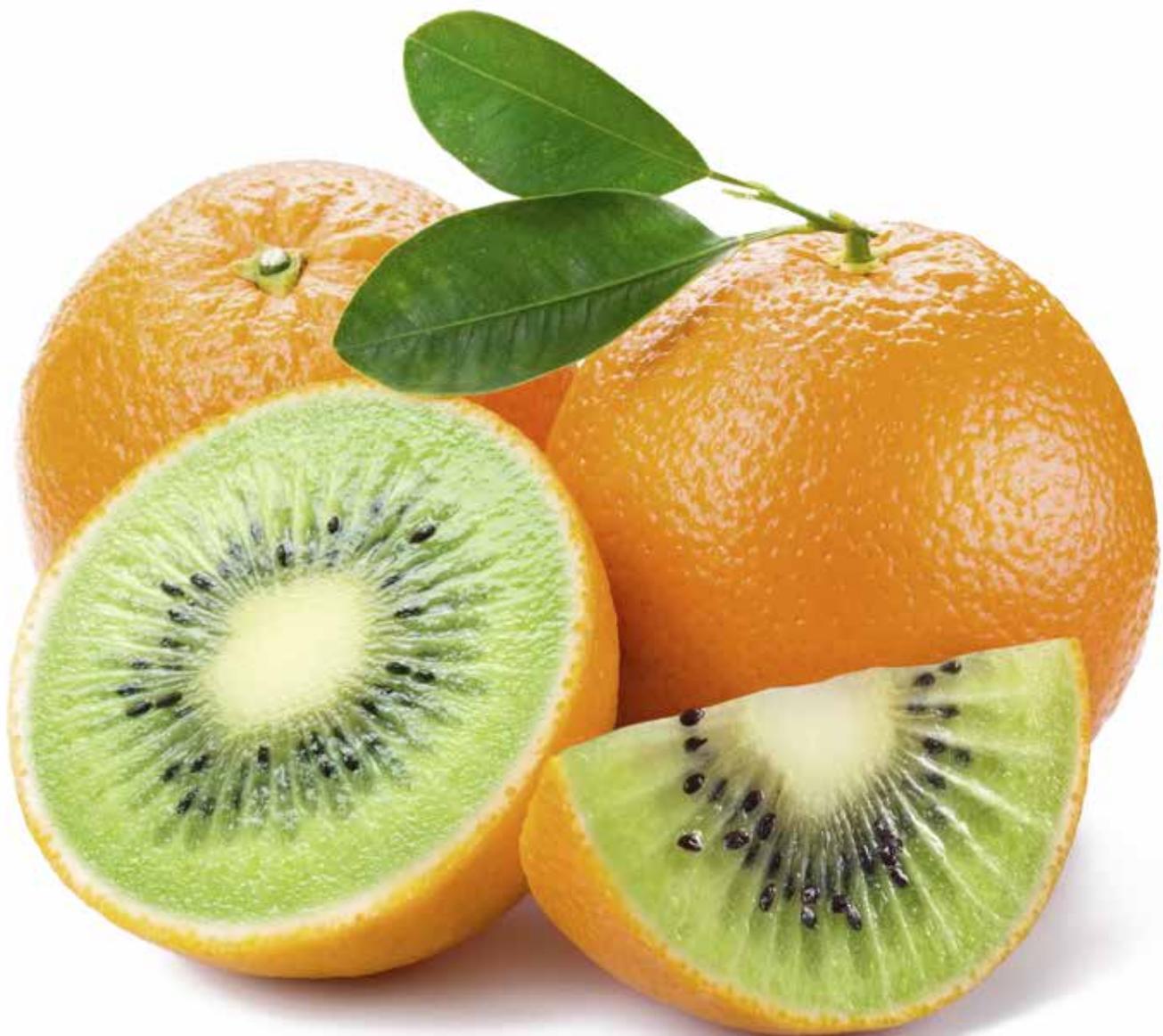
For hybrid spinouts to flourish, traditional approaches to commissioning will need to be updated to reflect the unique role and set of relationships that hybrids can engender within communities. This will require commissioners to embrace a broader set of considerations when awarding contracts—the United Kingdom's Public Services (Social Value) Act 2012 attempts to address this very need. But beyond this, local councils in the United Kingdom need to be prepared to embark upon a more symbiotic relationship with hybrids, whereby they provide support in the

form of secondments, management expertise or even infrastructure, both physical and technological. For example, some municipalities in the north of England are offering their cloud-based back-office facilities to local start-up enterprises. Innovations such as this—as well as the increasing prevalence of open data—mean that many councils can play a catalytic role in developing hybrids, bringing them together to develop common social value metrics at low cost.

## Embed innovation in cross-sector "social value chains"

The end game is the creation of a more dynamic public service ecosystem, facilitating the sharing of information and best practices across the public, private and social sectors. Creating innovation hubs that bring together public managers, social entrepreneurs and private sector entrepreneurs operating in the same space can offer significant opportunities to start conversations, create synergies, and share best practices and innovation across the board. This interplay can be embedded in contracting and tendering mechanisms, introducing diversity of delivery provision in the rules of the tendering process. For example, requiring large-scale service providers to partner with third-sector organizations in service design and delivery can be a useful tool to foster the uptake of spinouts. Subcontracting—but perhaps more effectively co-creation—can enable the establishment of "social value chains" spanning across sectors. These social value chains would cement hybrids' rightful place in the economy as drivers of economic growth and social benefits—the best of all worlds.

# 5 Conclusion: Sowing the seeds of social value creation





For example, in the United Kingdom the nonprofit organization BeOnsite began as the corporate social responsibility arm of Lend Lease, a property company. BeOnsite was designed to take marginalized groups and support them into work through on-the-job training. Although BeOnsite was able to cobble together small grants, the organization leaned overwhelmingly on Lend Lease for funding. As a result, BeOnsite is spinning out of the private and into the voluntary sector in order to improve its ability to access a wider range of funding streams that will enable further scaling.<sup>32</sup>

From the voluntary sector, the American organization Seniors Helping Seniors (SHS) originated as a charity where senior citizens provided in-home, nonmedical care services for other elderly people. After years of operating at the local level, founder Kiran Yocom sought to expand SHS' reach. Yocom subsequently began franchising SHS as a private-sector entity to attract social entrepreneurs who wanted to combine personal satisfaction with financial gain. SHS now operates more than 100 franchises across the United States, with further expansion ongoing.<sup>33</sup>

While these examples from the business and voluntary sectors are the exception rather than the norm, like their analogues from the public sector they reflect a growing willingness to break out of traditional organizational forms in order to advance a social mission. Leaders of these organizations found that they were constrained from achieving their ultimate mission of growing their impact and realizing scale. Hybridity has provided them with the solution they were looking for.

### Introducing "social-value hybrids"

As businesses coalesce around a doctrine of "shared value"—or the pursuit of economic value in a way that addresses societal needs and challenges—we may well see more hybrid organizations emerge from the private sector.<sup>34</sup> Similarly, as charities seek a more sustainable route to growth, they too may increasingly turn to the hybrid model. We would term these organizations "social-value hybrids." These organizations may equally have a heritage in the private, public or social sectors but their activities will primarily be focused on a social mission, however they choose to pursue that goal. Indeed, it may well be that hybrid spinouts from the public sector come to be seen as the being at the vanguard of a wave of enterprises that defy easy classification but whose primary objective is to meet a social need. Leaders from business and charity would do well to study the examples provided here—and the many more that are appearing from around the world—in order to understand better the drivers of change but, perhaps more importantly, the ingredients for success.

### Delivering public services for the future

This paper has argued that a triple whammy of fiscal, productivity and delivery pressures is creating a burning platform for change in public services. As Accenture's Public Service for the Future research has shown, these are fundamental and long-term challenges. They are already testing the operational boundaries of today's welfare systems. Increasingly, they will also challenge the assumptions upon which systems of government around the world are based.

Such a context demands a radical response. There is no simple formula, and no easy way to deliver more with less from public services. We know that governments must navigate a mix of incentives, interests and needs. They must begin to catalyze new ways of working while at the same time providing the services upon which large numbers of their populations continue to rely. So their efforts must start somewhere—at a level at which new models of service delivery can make a tangible and visible difference to the lives of citizens, and an improvement to the balance sheets of public leaders.

It is axiomatic that the challenges of the future will be felt, and must therefore be addressed, across the spectrum of the economy. The public sector cannot solve public problems without reference to a wider political and economic context. The private sector needs a renewed sense of social purpose and a committed workforce to drive growth. And civil society—so often the glue that binds these sectors together—needs both the opportunity and the means to improve public services and build social capital. It is important to recognize this since the public services of the future must not only acknowledge this interdependence, they must actively catalyze and nurture it.

Cross-sector partnerships are already facilitating new infrastructure development and underpinning the next generation of intelligent cities and spaces. It is clear that they will also be required to foster more productive and efficient public service delivery, using the cutting-edge technologies and analytical tools that have driven value in the private sector. These partnerships can provide new impetus to the way citizens relate to services, and improve the ability of public servants to relate to citizens in personalized and insightful ways.

Hybrid spinouts are crucial to this realization, and it is vital that public leaders make informed policy decisions on the basis of practical lessons from the local front line. Hybrid models are already changing the landscape of public service delivery where the conditions are right. They now offer the potential to change the way public services are commissioned, developing

more collaborative approaches that are adaptive to the needs of citizens, and the dynamics of local economies. They have the potential to change the meaning of public service—creating new career models and opportunities for entrepreneurship, ownership and employment within organizations that previously were risk averse. In doing so, they could drive a new wave of what Accenture calls "public entrepreneurship," embodying a role for public services that is not only one of social provision, but also of catalyzing economic growth and prosperity.

We argued at the outset of this paper that, for public leaders to realize the capacity of new delivery models, they must first work with the lodestars of today. Yet, in this nascent sector, there are few frameworks to begin doing this, and little systematic analysis of the new landscape that is emerging. This paper has provided one starting point for that analysis, interrogating the prerequisites of success for a new generation of public entrepreneurs, and assessing the barriers they must hurdle to achieve them. The lessons we present will hopefully be of use to others in the sector looking to spin out, and to public managers looking to better understand the dynamics of change happening around them. For others—perhaps those public leaders looking to navigate the crisis and begin building the public services of the future—we present a snapshot of the future that is already happening today.

## Annex 1: Spinout examples, service provision

Name	Service	How did the spinout happen?	What is the organization now?
Anglian Community Enterprise (ACE)	The organization spun out from NHS North East Essex.	ACE was created as an independent organization from NHS North East Essex under the Department of Health's Right to Request framework.	ACE was launched on January 1, 2011, as a new social enterprise. ACE is a Community Interest Company, limited by shares and employee owned. It provides more than 40 NHS community health care services to the 990,000 residents of north Essex.
Bristol Community Health CIC	Bristol Community Health provides a panoply of health care services that focus on the adult population, with a particular emphasis on tuberculosis treatment and care for the prison population.	Bristol Community Health spun out from Bristol Primary Care Trust. Despite its independence Bristol Community Health still uses the standards set by the NHS as benchmarks for evaluating service provision and performance.	Bristol Community Health is a Community Interest Company and social enterprise. It is employee owned, with surplus profit reinvested into the business. There are 1,100 employees currently working for Bristol Community Health, many of which are front-line clinicians.
Buy for Good	Buy for Good provides back-office shared services for public service providers by buying in bulk to lower costs, a function which was undertaken on an ad hoc and individual basis by Birmingham City Council.	Buy for Good was conceived by Birmingham City Council in 2011 as a means for public service institutions such as schools, social landlords, councils, etc. to take advantage of Birmingham City Council's purchasing power and to drive down prices.	Buy for Good is established as a Community Interest Company independent of constituent members. This encouraged collaboration among members by ensuring equal treatment of all participants in Buy for Good.
Canal & River Trust	The Canal & River Trust is the caretaker for the 2,000 miles of canals and rivers in England and Wales.	In 2012 the government transferred control from the government-run British Waterways to a charitable trust that could better incorporate public input and support.	The Canal & River Trust is a charitable trust that receives nearly a quarter of its £164 million annual income from the government as part of a 15-year secure funding agreement. The bulk of the remaining income comes from investment property (22 percent), fees for boating and mooring along its waterways (19 percent), and utilities payments (15 percent).
Central Surrey Health	Central Surrey Health provides community nursing and health care services previously run exclusively by East Elmbridge and Mid-Surrey Primary Care Trust (financed by the NHS) in the region.	Due to NHS restructuring in 2005 the Primary Care Trust needed to separate its provider and commissioning arms, and so Central Surrey Health was formed.	Central Surrey Health is entirely owned by its 750 employees and is financed through government grants. Its form enabled a greater scope for innovation around service provision.
Circle Health	Circle undertakes surgical treatments and consultations to provide innovative health care for private and NHS patients.	Circle spun out of the NHS after policymakers were successfully lobbied by clinicians about the innovative potential of clinician-run care.	Circle is an employee co-owned partnership that is designed to put the needs of patients first. The word "circle" in its name is derived from the business model. Circle hospitals are divided into separate business units (clinical circles) with a lead doctor, nurse and administrator. Each unit has the freedom and authority to make all decisions that impact upon patient care in its unit, and is responsible for its own balance sheet.

Name	Service	How did the spinout happen?	What is the organization now?
City Health Care Partnership (CHCP)	CHCP provides health care services in Hull City independent from NHS Hull, with a focus on early interventions, community-based treatment and promotion of healthy lifestyles.	Leaders of the Hull primary care trust provided extensive advice and support to CHCP during the spinning-out process. CHCP continues to work in partnership with local and regional NHS.	CHCP is a Community Interest Company and social enterprise that competes to provide health services. CHCP is employee owned, with employees eligible to participate in decision making upon purchase of a £1 share.
Greenwich Leisure Limited (GLL)	Local leisure services were provided by Greenwich Council.	Greenwich Council experienced severe budgetary constraints, and proposed a 30 percent cut to leisure funding. A review instigated by Bob Harris, chair of the Leisure Services Committee (in London Borough of Greenwich), recommended a nonprofit organization to manage the council's leisure facilities with continued influence rather than control from the council.	The existing seven leisure centers were transferred to the new organization—Greenwich Leisure Limited in July 1993. Run as a social enterprise that reinvests profits, GLL now manages more than 90 leisure centers in partnership with 27 local authorities.
Horizon Health CIC	Horizon Health provides primary and long-term care for Norfolk's inmate populations.	Horizon Health's origins can be traced back to a project started by the nurse-led NHS Walk-in Centre at a Norfolk prison. The immense success of this initiative warranted creating an entity which focused exclusively on prisoner care, leading to the creation of Horizon Health.	Horizon Health is a Community Interest Company with a core team of four nurse practitioners supported by a number of nonexecutive directors.
MyCSP Ltd	MyCSP Ltd administers pension services for the Principal Civil Service Pension Scheme, which was previously conducted by the Cabinet Office.	MyCSP changed its business model in 2010 to provide a cross-government shared service to streamline pension services. However, the Cabinet Office and MyCSP executives knew that this was only a temporary solution, so after extensive consultation with the Cabinet Office, MyCSP spun out in 2011.	MyCSP is the first central government mutual joint venture. An Employee Partnership Council was formed, with members elected by employees and representing their interests in all aspects of the business.
NAViGO	NAViGO provides mental health and social care services previously provided by the National Health Service for northeast Lincolnshire.	NAViGO spun out from the NHS in 2011 through the Right to Request after two years of consultation with staff, service users and NHS commissioners.	NAViGO is now a nonprofit social enterprise (Community Interest Company). Employee ownership and direction from users guide NAViGO's practices, with both staff membership and community membership inscribed into NAViGO's charter with equal rights.
Oldham Community Leisure (OCL)	OCL is a community leisure organization that develops, manages and operates leisure facilities across the city.	Oldham City Council negotiated a contract with OCL (that gets renewed on a yearly rolling basis) about the stipulations for spinning out. In addition, representatives from Oldham City Council serve on the board of trustees.	OCL is a community benefit society that now runs 15 leisure facilities. OCL is owned by shareholders, many of whom are staff members. Three of the 17 members on OCL's board are employees, which also includes city officials, users and other key stakeholders.

Name	Service	How did the spinout happen?	What is the organization now?
Play, Education, Arts, Reusables and Lending Service (PEARLS)	PEARLS is a community leisure and education organization that provides arts and crafts and child development services previously provided by Rochdale Borough Council.	The local council provided funding during PEARLS' transition into a cooperative.	PEARLS has become a small workers' cooperative that has expanded its operations since spinning out. A change in business model led to greater focus on income generation from the trading of recyclable materials, freeing up staff to increase the time they spent providing public services.
Six Degrees Social Enterprise	Six Degrees provides primary care for mental health services, with an emphasis on well-being and community resilience.	Six Degrees formed in the wake of the Department of Health's Right to Request Programme. The Salford NHS helped Six Degrees throughout the spinout process to convert an idea into a viable entity.	Six Degrees is a Community Interest Company and social enterprise tailored to handle the bespoke needs of people in Salford.
Spiral Health CIC	Spiral Health provides bed-based care such as rehabilitation and assisted living formerly provided by Blackpool, Fylde and Wyre Hospitals NHS Foundation Trust.	Because no legislative framework existed for Spiral to follow when spinning out in 2010, the Foundation Trust stepped in to support the transition to employee control of the contract to run Bispham Hospital's therapy unit.	Spiral became the first NHS Foundation Trust bed-based service to spin out and become a social enterprise, with incorporation as a Community Interest Company. Staffers variously work within Spiral's Strategy Working Groups, as nonexecutive directors and as company members with voting rights at the annual general meeting.
Sunderland Home Care Associates	Home care services (support for disabled people) were run by Sunderland Borough Council.	In 1994 Sunderland Borough Council contracted out service provision and Sunderland Home Care Associates, then a cooperative, won the tender.	The employee-owned organization generates the majority of its income through contracts with Sunderland City Council, South Tyneside Council and some private contracts.
Your Healthcare Community Interest Company	Your Healthcare offers services originally provided by NHS Kingston.	Your Healthcare began trading on August 1, 2010, as a nonprofit social enterprise organization in Kingston upon Thames after separating from NHS Kingston as part of the first wave of the Department of Health's Right to Request projects.	Your Healthcare provides 24 distinct services—from school health and health visiting to rehabilitation community and specialist nursing; therapies such as speech and language; physiotherapy and podiatry and learning disability services. These are offered to the 187,000 people in the Kingston area who are registered with their local doctor, as well as people in nearby Richmond with learning disabilities.

Name	Service	How did the spinout happen?	What is the organization now?
Italy: social cooperatives	After the Second World War, Italian local authorities provided health and education services but not social care, and over time the traditional role of families providing support started to diminish.	As needs and expectations rose, the social cooperative model grew as a way of providing better care. The cooperatives were also seen as a way of improving service efficiency. In 1991 a new law created a specific legal framework for social cooperatives in Italy. As their purpose they have "to pursue the general interest of the community in promoting human concerns and in the social integration of citizens."	Today there are more than 7,000 cooperatives and they have become a core element in the delivery of social care for many local authorities. Social cooperatives are permitted to distribute profits, subject to the following conditions: Distributed profits are restricted to 80 percent of total profits and the profit per share is no higher than 2 percent of the rate on bonds issued by the Italian post office.
Spain: cooperatives schools	Education was run entirely by the Spanish government, but progressively the landscape has become more diverse.	The main driver of the transition was a rise in unemployment among teachers in the 1980s. This resulted in a move to create new schools run by teachers as worker or employee-led cooperatives. The motivations were to secure stable employment of the teachers involved but, above all, to be able to develop pedagogic methods and ways of running the schools, which motivated the teachers and met local needs.	There are currently around 550 cooperatives schools in Spain. The majority of them (96 percent) provide free state-funded education and, in total, they represent about 15 percent of privately delivered but publicly funded education.
Sweden: children's day care cooperatives	Cooperative provision of children's day care developed in Sweden in the 1980s as a response to the growing demand for services and the inability of local authorities to provide sufficient capacity.	The Swedish government made a decision to finance specialist cooperative development agencies. These agencies grew up in different ways in different parts of Sweden, and then federated into a national support body, which in 2006 decided to work under the name of Coompanion. The Coompanion network of support agencies is funded centrally by the Swedish Agency for Economic and Regional Growth. The specialist advisers have played an important role in the development of new cooperatives and the continuing success of existing ones.	In Sweden there are around 1,200 cooperatives providing preschool day care for about 30,000 children, representing about 7 percent of total provision.
United States: Knowledge Is Power Program (KIPP)	KIPP is a national chain of public charter schools providing college preparation in school districts across the United States.	The federal government awarded KIPP with a federal Investing in Innovation Fund grant in 2010 to train more leaders and accelerate growth.	KIPP is a nonprofit with 125 schools located in 20 states and the District of Columbia, with a growth strategy built around opening new schools and turning around poor performers.
United States: Green Dot Public Schools	Green Dot is a chain of turnaround charter schools spun out from the Los Angeles Unified School District.	Green Dot receives authorization from Los Angeles Unified School District to operate its charter schools, operates on traditional public school facilities and receives state financing.	Green Dot currently operates 18 schools in its capacity as an independent nonprofit. These schools are a mixture of turnaround schools and independent charter schools.
United States: Explore Schools	Explore Schools is a chain of turnaround charter schools spun out from the New York City Department of Education (NYC DOE).	NYC DOE authorizes Explore to co-locate charter schools on facilities shared by failing schools as well as approves the reopening of schools closed due to poor performance.	Explore is a nonprofit operating three schools, with a new school opening every year.

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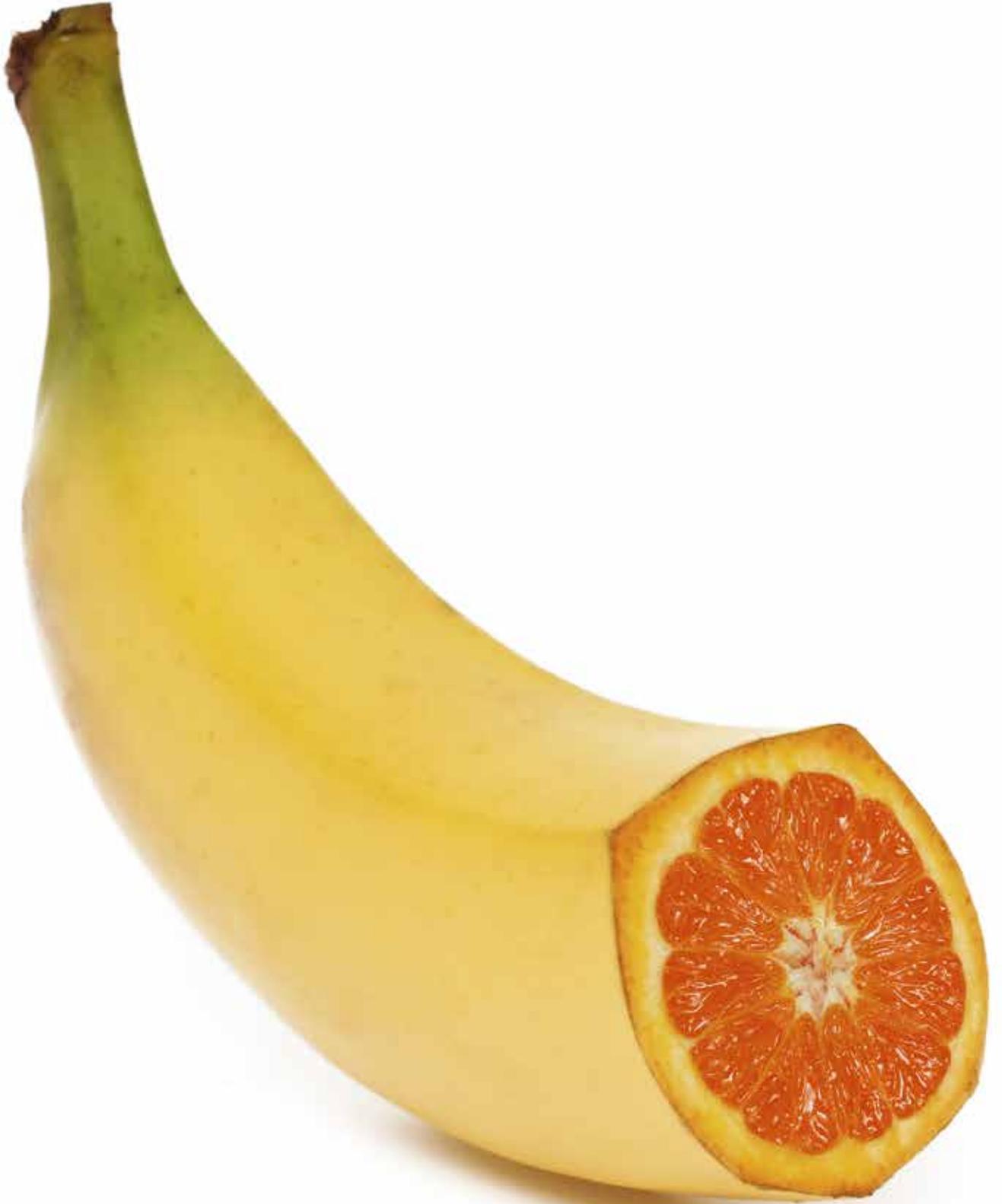
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