PROFITING FROM VALUES?

What can housing associations learn from independent, values led businesses? Mark Lupton & Angela Lomax, September 2013

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FOREWORD

In the context of minimal economic growth in the UK and changes to the external landscape, this research is timely in presenting a wider perspective on how housing associations define and promote themselves.

Affinity Sutton traces its roots back over 100 years. We take pride in being a business for social purpose and we consider our values to be embedded deep within our corporate psyche. We are first and foremost a landlord providing good quality affordable homes for our residents and building new homes to cater for the large number of households who find it difficult to meet their needs in the housing market. As a large national landlord we have a positive economic impact in the neighbourhoods and communities where we work.

One of the crucial challenges highlighted in this report is how we can measure the wider social value of our business so that we can get the best possible impact for the investment we make. At a time of reduced public funding and when our residents face unprecedented pressures in the face of government cuts and welfare reforms, we need to ensure that every penny counts. Value for money in purely financial terms is of course only part of the story. The ability to meaningfully demonstrate the social value of our business – in holistic terms, not merely according to specific activities – will help those we work with recognise housing associations as independent, values-led businesses.

Clare Miller
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Affinity Sutton

PROFITING FROM VALUES?

WHAT CAN HOUSING ASSOCIATIONS LEARN FROM INDEPENDENT, VALUES LED BUSINESSES?

SYNOPSIS

This research looks at a range of values led organisations that do not distribute profits to external shareholders and operate successfully in competition with the private sector to identify potential lessons which may be of value to housing associations. This is a summary of the research, the full report is available at www.affinitysutton.com.

The businesses which we have considered in this study and form the basis for the discussion in this paper are: **ARUP, Bupa, Central Surrey Health, Cooperative Group, John Lewis, Nationwide, Scott Bader, Suma, Triodos Bank and Welsh Water**

KEY DRIVERS

Key factors which our research shows appear to drive these businesses and make them respected by their stakeholders are:

- Being good at what they do
- Seeing their emphasis on values as a major motivator for staff
- Business focus is vital, but should not be perceived as the key aim by stakeholders
- Values motivate and tell a story both internally and to the outside world
- Being seen as open and trustworthy
- The "owners" or active shareholders hold management to account for results and values

INDEPENDENT AND SUSTAINABLE

At the heart of the organisations we have looked at (referred to as values led businesses - the VLBs) are:

Independence – ownership arrangements that are autonomous from government or external private shareholders (even if subject to regulation)

Sustainability – an emphasis on long-term stability rather than short term gain. The current people running the business being there as custodians of the long-term interests of the business

Distinctiveness – they are seen to be unique

VALUING VALUES

The VLBs' values:

- Underpin the purpose, culture and structure of the business.
- Are a significant factor in the way the organisation presents itself to the outside world, as being one which is worth doing business with "beyond a mere financial transaction".

This gives them some clear perceived advantages, particularly that their focus on the long term and acting ethically means they are less likely to run the reputational risk of unethical corporate behaviour.

Of particular importance is their emphasis on values being a major motivator for staff:

- The VLBs have clear mechanisms in place which ensure that the values are the basis of a shared purpose which is understood and transmitted throughout their business.
- The values place clear expectations on staff in terms of the way they relate to each other and with their suppliers and customers. At the same time the values give staff certain rights to be heard and their views to be taken into account.

This appears to produce a virtuous circle. The focus on motivating staff is linked to a strong emphasis on them in turn developing good customer and supplier relationships which in turn produces profits.

ARE HOUSING ASSOCIATIONS SEEN TO BE CLEARLY INDEPENDENT AND VALUES LED?

Housing associations have in the past been heavily influenced by regulation and government funding requirements. Indeed it is arguable that many associations have defined themselves in terms of these requirements, rather than being clear about their values and what independence means for them.

In a changing economic and regulatory environment associations have more freedom to redefine themselves in terms of their distinctive focus and operational emphasis. Individual associations may need to be much clearer in demonstrating that they are a different type of business and distinct from public bodies by reinforcing in the public mind their value-based nature and – crucially – their independent, individual identity.

The VLBs also put a high priority on their values clearly needing to influence all aspects of the business. This lesson is important for associations. It is not about having a mission understood at the top, but one that shapes the culture of the organisation, motivating and challenging staff and shaping what is done.

A key part of being independent, and being seen to be independent, is the ability to say "no" to opportunities which may have long-term negative consequences for their business or are not in line with their values. This includes saying "no" to government.

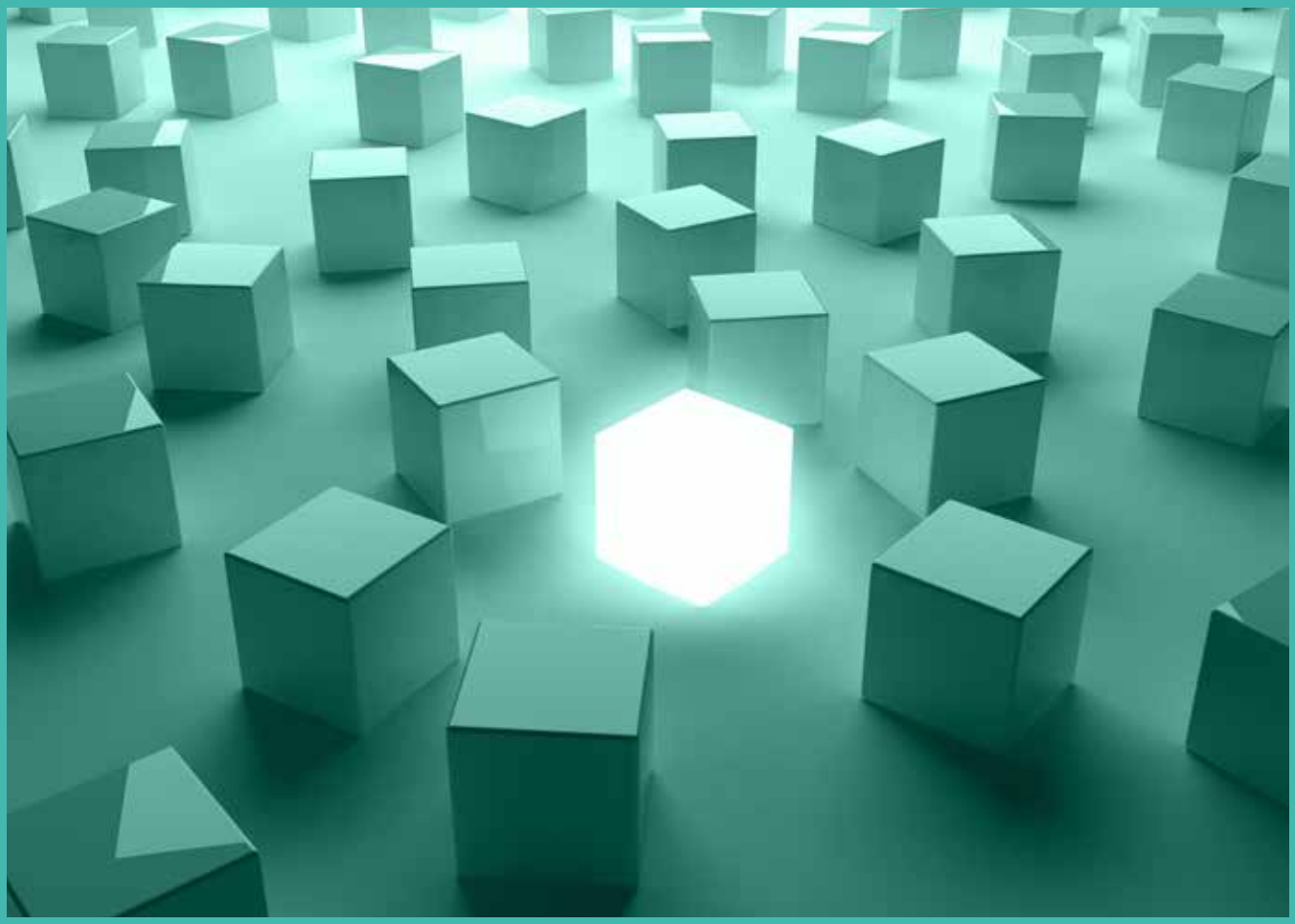
Establishing a clearer, independent, values led profile might involve associations looking at the following three lessons from the VLBs.

Profits for a purpose

Values provide a strategic underpinning for the VLBs' businesses which acts as a focus for policy direction, effective performance and long-term sustainability. It is also however essential to reinforce the importance of a strong commercial ethos as being central to the success of the VLBs.

The VLBs are not primarily focused on maximising profits but they do actively seek to make profits. They are able to use profits in a flexible way and it is how these are used and distributed in accordance with their purposes and values that are at the heart of their work. For these organisations, values and a commercial approach are clearly intertwined.

Associations now are in a better position to think through their own independent approach to the services they provide. As part of this, taking a strong commercial approach which focuses on driving efficiency and effectiveness throughout the organisation to produce finance for services, stock investment and development will be important.



The evidence from the VLBs is that there is nothing wrong with making and being seen to make profits. Indeed actively pursuing profit helps drive efficiency. It is however vital to demonstrate how the organisation will utilise those surpluses to further its aims in line with its values, either by reinvesting or distributing in clearly visible ways.

The key issue will be defining what a commercial approach means in practice for individual associations, and how that can be based on their values and consistently understood and owned throughout the organisation and by its residents and other stakeholders.

"Associations now are in a better position to think through their own independent approach to the services they provide."

The social dividend

The VLBs generally take the opportunity to "tell their story" to both their staff and customers about their approach, emphasising how their values are a very clear focus for the business and focussing on what matters to customers.

Associations should consider focussing on reporting a "social dividend" by being:

- Clear and unapologetic about reporting the surpluses which they make to internal and external stakeholders, but equally clear and accountable about how they use these to invest in more and better homes and services in line with their values.
- Better at explaining how their business creates social value. However this needs to be presented simply in a way that a range of stakeholders can readily understand.
- Wary of ambiguity and differing messages going to different stakeholders, although these may need to be framed in the appropriate language to suit the different audiences.

Clearly defining who you are and demonstrating that the services provided are both commercially effective and meet the organisation's values is a strong message.

AN ACTIVE SHAREHOLDER?

Whilst there are very different approaches to the way the individual VLBs are governed, for most of them there are three key aspects to this:

- The operational arm has the freedom to manage the business.
- There are clear accountability mechanisms to the "owners".
- Both the board and the owners have responsibility for the values of the company.

All of the VLBs have an ownership structure which is vested in a way that is designed to support its values based principles:

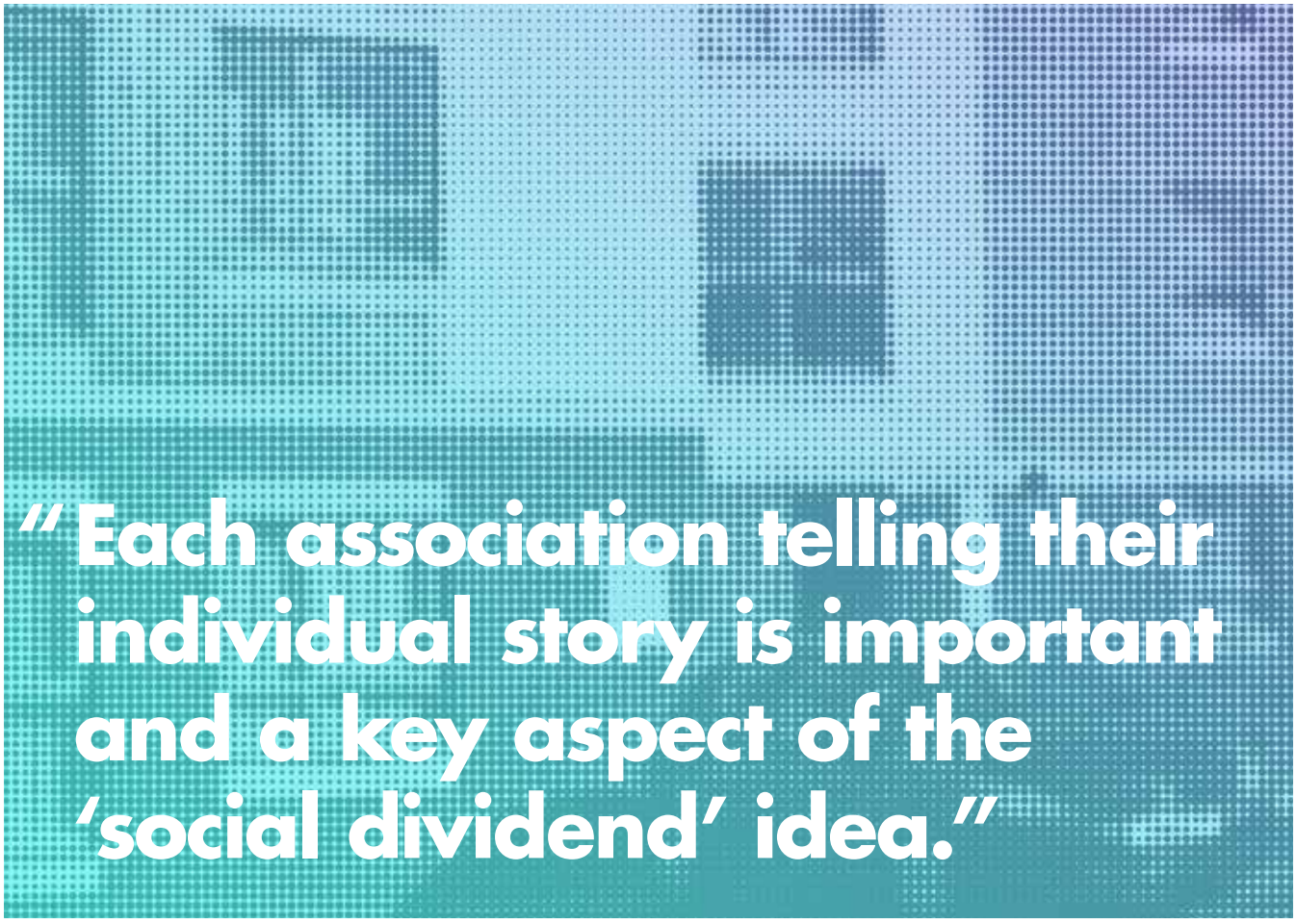
- Selected shareholder model (Bupa and Welsh Water)
- Consumer cooperative (Cooperative and Cooperative Bank)
- Worker cooperative (SUMA)
- Democratic mutual (Nationwide)
- Supervisory board model (John Lewis, Triodos Bank)
- Owning trust (Scott Bader, ARUP, Central Surrey Health)

This has the advantage of a very clear focus on the "owners" or active shareholders holding management to account for results and values.

This focus on boards and ownership contrasts with associations where much of the debate around governance focuses rather narrowly on the role, size and composition of boards and the role of the executives. Moreover, compliance with the regulatory standards has often been given more weight than proper accountability to stakeholders and communities.

Many associations' boards might be characterised as being half way between a "private sector" board and a sounding board for the executives. Yet the new situation which associations face requires clarity. This is leading to a new set of questions for associations:

- Most associations have executive teams and non executive boards, but who else has significant influence?
- They have shareholders, but are they really actively engaged? Does this matter or is there a better form of ownership and accountability?
- In the past associations were responsive to the government regulator. Instead of a top down regulator's influence how can associations develop mechanisms that help guarantee their independence?



- Might the way the VLBs' independence is underpinned (by having a clear reporting mechanism which gives them accountability and legitimacy) be an option for associations?
- Are associations transparent enough about their priorities and performance?

AN ASSOCIATION "SECTOR"?

The National Housing Federation's latest perceptions audit showed that MPs and councillors didn't know if housing associations were private business, social enterprises, public sector or charities.

Yet most associations have been effective in carrying out their role. This can be seen in 2012 when McKinsey's Organisational Health Index analysis showed that Affinity Sutton compared favourably against a range of global benchmarks from over 600 organisations across the public, private, and social sectors.

Associations increasingly form a very diverse set of organisations in terms of what they are doing, how they are structured and what they are achieving and each association telling their individual story is important and a key aspect of the "social dividend" idea above.

A key issue is therefore how much do associations also need a collective story on their commonalities as well as individual stories of success? Is it possible to develop a clearer narrative that ensures that the wider public has a better understanding of what housing associations do and the impact they make?

In being clear about their independence, associations should also be clear about not adopting terms applied to them by others. The term Registered Provider is both a poor description of the diverse businesses that most associations are and gives the impression of them being an agency of government.

A NEW GOVERNANCE MODEL?

Most associations are still Industrial and Provident societies, which were not designed to deal with the complexities of running the large businesses that many housing associations now are and the challenges which they face.

Might it therefore be the right time for creative thinking about moving to a different form of legal status, particularly for larger housing associations?

Might such new thinking help replace a top-down regulator's influence and develop mechanisms that help guarantee their independence, clarify accountability and demonstrating that they are a different type of business?

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