SUBMISSION FROM CAPITAL FOR COLLEAGUES

Summary

This paper is in response to the Economy, Energy and Tourism Committee which states that

“We’re hoping to hear from businesses, membership organisations and academics on the extent to which social enterprises and employee owned businesses, by their very nature, encourage cultures of innovation.

The four main aims of evidence-taking will be:

1. Understanding the scale and growth of social enterprises and employee-owned businesses in Scotland;

2. Hearing examples of innovation from businesses, for example employee involvement in developing new products, services or processes and innovative partnerships within communities;

3. Assessing the sources of funding and support available;

4. What public bodies are doing and should be doing to encourage these business models.

1.1 Capital for Colleagues

This response is on behalf of Capital for Colleagues (C4C) (www.capitalforcolleagues.com) which is a business that focuses exclusively on Employee Owned Businesses (EOBs). In particular C4C:

- Advises businesses on how to become employee owned, or helps businesses already in employee ownership how to grow their business and employee ownership culture

- Helps find funding for businesses to convert to employee ownership, or to grow their businesses. Typically C4C will invest its own money as part of the process, be that equity or debt.

- Help businesses grow into exemplary EOBs by supporting the board with its operations and growing its employee ownership culture.

Capital for Colleagues is one of a very few businesses in the UK that provides this complete service.

1.2 Understanding the scale and growth of social enterprises and employee-owned businesses in Scotland

Scotland, through Scottish Enterprise and Cooperative Development Scotland, is particularly well organised to support employee owned businesses. C4C has a good working relationship with both these bodies and always gets excellent support from them.
As of January 2016, C4C is actively talking to five different Scottish businesses about becoming employee owned or growing their EO businesses. In each case, the company is particularly interested in finding capital to enable them to move to the next step. We see Scotland as a fertile country for employee ownership and will continue to support.

1.3 Hearing examples of innovation from businesses, for example employee involvement in developing new products, services or processes and innovative partnerships within communities

There is an increasing body of evidence, derived from scientific sources, that shows how Employee Owned Businesses are more successful on many levels than conventionally owned businesses. The Employee Ownership Association (EOA), www.employeeownership.co.uk has collated a lot of this on their website.

However, if you recognize the fundamental principles that a) giving people a meaningful stake in their business through share ownership and b) engaging and involving people as employee-owners, this will result in greater entrepreneurial and innovative behaviour. After all, people are working for their business. C4C’s evidence from businesses it has invested in supports this.

1.4 Assessing the sources of funding and support available

Finding capital to make the move to employee ownership or to grow an existing employee owned business is not easy. The EO model is not well known nor well supported amongst normal lenders of finance like the high street banks. By definition the model does not sit well with Private Equity or Venture Capital and other sources are hard to come by. In addition there are very few businesses that are willing to provide both debt and equity finance.

In addition the professional advisory community (accountants and lawyers) are typically unaware of the EO model and do not tell their clients about it.

Capital for Colleagues is one of a very few businesses that actively looks to invest in EOBs. Further, we provide “patient capital” that is invested for as long as investees want to use our money. Should the company decide they’d like to buyout C4C’s equity interest, we structure deals so that the price is fair and that the shares are retained in the employee owned business. As we get to know the businesses well, we often become the providers of additional working capital to help them grow. Our philosophy is based on us being longer term investors and not short term speculators in businesses.

We are happy to talk to interested companies about possible investments at any time and have also created an investment ready reckoner on our website to help companies assess their investment readiness; http://www.capitalforcolleagues.com/funding.html

1.5 What public bodies are doing and should be doing to encourage these business models

As mentioned earlier, Scotland is well served by the support that Scottish Enterprise and Cooperative Development Scotland provides to aspiring and existing employee owned businesses. In our view this should continue and their focus should not be diluted in any way.