SUBMISSION FROM COMPUTER APPLICATION SERVICES LTD

Introduction:

CAS dates back to 1969, emerging as a technology transfer unit of Heriot-Watt University and reportedly Scotland’s first software house. It became a standalone business in 1997 and worked well as a lifestyle "SME" paying salaries, pension contributions, dividends, taxes, rent, rates, suppliers, et al. Though small, CAS was a reliable supplier and good corporate citizen.

A trade sale was planned in 2012/13 to facilitate the exit of long-standing leadership and the continuity of the company. This fell through at the 11th hour, leaving CAS with no succession plan. PESTLE analysis showed pressure on multiple fronts. (Political, Economic, Social, Technological, Legal, Environmental) Emerging technology and austerity’s arrival converged, forcing change.

Employee ownership became an option when the chairman introduced the new CEO who had an interest in such a structure, and the board recognised that it was an entirely appropriate proposition to give the people who would need to re-invent the business a stake in the business. Clients relied on CAS and the team was keen, if still uncertain at that stage, but there was an appetite for change and growth. Shareholders achieved a very fair sale value in the process.

At a recent presentation, one of CAS’s employee-owners described the new set-up as being akin to now owning, not renting a property. "You are responsible for the place you live in, motivated and incentivised to care for it and improve it. If something is wrong, you want to fix it. Someday it may increase in value. Right now, it’s your home. That’s how I see employee ownership."

59% of CAS shares are held in an Employee Benefit Trust (EBT). Employees have share options. The chairman and CAS's CEO hold the remaining 15% and 26% respectively.

Responding in order to the event’s requested inputs:

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

   There are around 25 employee owned businesses in Scotland but the number is expected to begin to rise more quickly, with activities around “EO” supporting this view. UK-wide, £30bn of GDP comes from employee owned businesses and is predicted to more than double in the short-to-medium future as the number of employee owned organisations increase and the organisations themselves, grow.

   A Scottish example, CAS currently has 18 employees based in Edinburgh. From a base of £1m and working to quickly double sales, the plan is to double again by 2020, by then showing sales of c£4m per annum and employing +/- 35 people.

   New ways of working (shared below) now make overseas sales more achievable too.

2. Hearing examples of innovation from businesses, for example employee involvement in developing new products, services or processes and innovative partnerships within communities;
New agile ways of working have been embraced, improving speed of deployment and ultimate quality. "The Cloud" has been harnessed as a delivery option. Lower cost of entry with recurring licence fees has been adopted as a commercial model, replacing the former bespoke way of software supply, which involved high upfront costs.

Teaming with other organisations with "reach" and presence in new markets has opened doors. Initial moves to secure Finance and Insurance complaint management opportunities and introduce a new configuration for Employee Relations case management, have been successful. These early new wins represent significant additions to government casework in regulatory and ombudsman environments. These are new foundations on which to build.

The changes have also facilitated the securing of established as well as significant new clients in government. A major UK government department has chosen Workpro for a high profile application. Once deployed, the company hopes that permission will be given to use this as a reference.

Cross-over value is being extracted; businesses are achieving compliance as regulatory expertise is applied (for example to complaints management) and product extensions for commercial use are being made available to the traditional, government client base.

Capabilities have also been transferred to the new HR configuration of the software to manage Employee Relations cases, a logical yet creative way to extend product offerings. Again, early adopters include commercial and government HR professionals, including a shared service organisation tasked to improve support services for less cost.

3. Assessing the sources of funding and support available;

Initial "fixes" and new developments were self-funded. Employees agreed to salary sacrifices from 5% to 20% to remain viable while re-invention was in progress.

Some £500k was re-invested over the first 2 years in employee ownership to re-position the business for growth.

Phase 2, funding for growth was secured by CAS on 18th January 2016 via Capital for Colleagues (C4C), an investment organisation specialising in employee owned businesses. £250k comprising £150k equity and access to £100k loan funds, if needed, gives C4C the equivalent of 15% of CAS by way of a new class of parallel shares.

C4C seeks entirely commercial returns - and CAS promises to be a good investment - but this investor offers "patient money" not driving for the often-times sought after 3 to 5 year exit that can accompany private equity.

C4C are also sympathetic to the value of potential, backed by evidence, a good plan and demonstrable commitment. Human capital, if you like, is truly taken into account as "the greatest asset" - regularly claimed by organisations but seldom demonstrated in this way.

CAS’s Scottish Enterprise account manager alerted Scottish Investment Bank to the need and opportunity but SIB did not follow through.
Without more traditional asset comfort, our own business bank could help only with bridging cash, potentially available between investment being contracted and funds being deposited. You could say that bank support may have materialised if it wasn't needed, but not, if it was...

To be fair, timing gap cover may have been helpful. While the bank`s potential offer was not taken up, no "bridges" have been burned.

Two reasons for not progressing the above;

1) There was no timing gap. As soon as paperwork was signed, C4C`'s funds lodged.

2) Had there been, CAS had access to private funds that could have been called on. Indeed this source offered a plan B had C4C`'s entire proposal not completed.

Having funds available and not needed, versus funds being needed and not available, is a privileged position not shared by all. The team appreciates this. There is an element of good fortune - but the team`s attitude and actions in recent times are hugely contributing factors to securing the confidence of the right investors and funds for growth.

It was through Scottish Enterprise`'s Co-operative Development Scotland that CAS and C4C were connected. Appetite and fit were soon established. Diligence etc. took 3 months.

Other sources of funding CAS was aware of and may have been worth trying included Baxi / Baxendale or the Eaga Trust.

Scottish Enterprise support to fund agile consultancy, market analysis and digital marketing was secured along with support for job creation and technology-related initiatives.

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

Scottish Enterprise and Co-operative Development Scotland have been entirely supportive from an initial feasibility study showing Employee Ownership`'s potential and possible pitfalls, to assisting with e.g. digital marketing strategy and selective grant support.

Associated consultancy services introduced via SE and CDS e.g. Ownership Associates and 4-Consulting, were able to exchange valuable knowledge and experience.

What more could public bodies do?

Making easy access to advice, especially when enquiries are speculative and not yet funded, is a valuable service. Sharing information and signposting to expertise on what structures exist and how one (or more) might fit an organisation`'s specific circumstances, is to provide essential pump-priming and guidance.

Liaising with professionals to make sure that employee ownership is considered at the point of business sales, especially as more examples emerge where less of a
charitable act is involved - the misconception that sellers achieve less of a return, needs to be dispelled.

Employee Owned organisations need to be established and operated on entirely commercial terms to be able to sustain themselves beyond any honeymoon period.

Government could promote the training and development of managers ahead of, in readiness for potential employee-owners making a bid when exit-time for owners comes.

Helping local teams to compete with trade sales that potentially take control and jobs out of the area would be a justifiable local government aim. Care required though, not to be an Aunt Sally, used to raise the stakes.

Continuity - the actual transfer of a business, maintaining it as a going concern, is a more fundamental role for employee ownership. In particular, this applies to businesses that provide value to its regular customers and the people making a living within the business, but possibly having little or no attraction to a buyer. This would be less contentious support.

In the above circumstances, a network and atmosphere of "helping people to help themselves" could extend from training and feasibility support to potentially offering accessible seed or "leverage-able" primer funding.

The fiscal advantages, tax advantages for EO-related structures, are valuable. Continuing and developing such schemes would be an appropriate government lever.

Availability of skills in the marketplace

For CAS, the single biggest issue for local support will next be availability of qualified workforce. It is documented that there are 11,000 more IT vacancies in Edinburgh than there are skilled people to fill them.

Joining an employee-owned business adds an attraction to some prospective new employees. The key factor is that employee owned businesses are less likely to up sticks and move to a new location where there is a less expensive or more available workforce. This could ultimately damage the business if local availability is poor/costs higher.

CAS is involved in initiatives from CodeClan to the voluntary work of individuals, seeking to encourage young people into technology as a great way to make a great living.

Everything that government can do to prime and/or support skills availability, adds value.

Submission by Ken Naismith, Chief Executive of Computer Application Services Ltd (CAS)
Edinburgh-based, CAS has been employee owned since January 2014

COMPANY WEBSITE: www.casltd.com    PRODUCT WEBSITE: www.workpro.com