INTRODUCTION

Scottish Enterprise (SE) welcomes the opportunity to provide evidence to this important and timely inquiry. Scotland’s Economic Strategy seeks to foster a culture of innovation which is receptive to new ways of doing business. This is reflected in the ‘Scotland CAN DO’ framework, which identifies the potential of social enterprise, employee ownership and co-operatives to help create an entrepreneurial and innovative nation. Whilst improving economic competitiveness these models also address inequality; enabling fair and inclusive job opportunities and regional cohesion. They therefore deliver on the Government’s desire for both increased competitiveness and inclusive growth.

Since models differ in their purpose and form it is helpful to start by setting out definitions:

- **Social Enterprises** are ‘innovative, independent businesses that exist to deliver a specific social and/or environmental mission’. They form a subset of the Third Sector. Social enterprise is a way of doing business rather than a ‘sector’. Profits/surpluses are reinvested back into the social/environmental purpose and capital is held subject to an ‘asset lock’.

- **Employee owned businesses** are those in which the employees hold the majority of shares, either directly or through an employee share trust. In ownership succession situations the owner’s shares are purchased by the company in an arrangement carefully structured to suit both company and owner. Businesses can also be started up on an employee-owned basis.

- **Consortium co-operatives** are enterprises that are jointly owned and run by their members for an agreed collaborative purpose – for example purchasing, selling, marketing, contracting or sharing facilities or services. Members may be companies, partnerships or individuals (or a combination).

- **Community co-operatives** are enterprises run by a community for its own benefit. Typically they provide community facilities (shop, pub, nursery, broadband etc.) or generate income for community purposes (e.g. from investment in a renewable energy project). Capital can be raised by a ‘community share issue’ and management is usually by a committee elected from within the community.

Our response is structured in two parts; addressing firstly social enterprise and then co-operative models, including employee ownership.

1 SOCIAL ENTERPRISE

1.1 Scale and growth of social enterprises in Scotland

The Social Enterprise Census 2015 demonstrates the scale, reach, contribution and potential of this model. There are currently over 5,000 social enterprises in Scotland, with more than 200 being formed each year. They generate an annual income of £3.63 billion, £1.68 billion gross value add (GVA) and have a net worth of £3.86 billion. 68% expect income to increase over the next year. 112,400 people are employed by social enterprises. The research identified the prominence of inclusive working practices with 68% paying at, or above, the national living wage, average pay differential of 1:2.5 and 60% led by women.

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1 Social Enterprise Scotland, 2014; What is a Social Enterprise?
2 SocialValueLab; 'Social Enterprise in Scotland: Census 2015'
48% of Board members are women. They operate in greatest number in 4 sectors; arts/creative industries, community amenities, childcare and health/social care.

1.2 **Examples of innovation from businesses, for example employee involvement in developing new products, services or processes and innovative partnerships within communities**

SE provides account management and specialist support to social enterprises with growth ambitions. The following are examples of innovation within such businesses.

**Cornerstone** is one of Scotland’s largest social care organisations, providing high quality care and support to individuals with learning disabilities and other support needs across 20 Local Authorities. ‘Cornerstone Connects’ is a unique model of service delivery to better serve the trend towards self-directed support. It is a non-building based service which makes use of all community facilities, activities and volunteers. The Connects model is one of a number of innovative services developed following participation in a SE programme designed to help unleash the creative potential of employees. A ‘Business Model Canvas’ session has helped identify the appropriate business model and resources.

**Aberlour** is a charity that seeks to transform the lives of vulnerable children across Scotland. It has been developing its innovation approach for the last couple of years, with support from SE. This has led to the creation of The Lens, a unique partnership specifically designed to create an enterprising culture within Scottish Charities. Individuals and teams from voluntary organisations pitch for financial support for innovative projects.

**Scottish Seabird Centre** (North Berwick) is undertaking a transformational project to become ‘Scotland’s National Marine and Seabird Centre’. This ambitious project, which has the support of the Heritage Lottery Fund, will also involve innovation in building design and exhibition content. It is currently in its development phase, with potential partners and wider community involvement planned. The company is benefiting from both SE’s strategic and operational support.

**Bookdonors** (Selkirk) is a social enterprise trading in used books to help people, charities and the environment. Support from SE’s Scottish Manufacturing Advisory Service was instrumental in empowering the workforce to achieve process improvements that have increased efficiency. Encouragingly these changes have proven sustainable and more projects are being developed throughout the business.

1.3 **Assessing the sources of funding and support available**

The ‘Enterprising Third Sector Action Plan’ seeks to achieve a step-change in capability and capacity. Key actions include opening markets; investing in skills, learning and leadership; and providing support for business growth.

The ‘Just Enterprise’ (JE) programme is a specialist advisory service for social entrepreneurs and third sector organisations, funded by the Scottish Government and complements the business support services provided by Scottish Enterprise (e.g. SMAS, innovation, or SDI), Highlands and Islands Enterprise (HIE), and Business Gateway. This would include Account Management for those social enterprises with significant growth potential.

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3 A facilitated approach, using a focused methodology, for a business to consider their existing and alternative business models.
Public-funded support is complemented by specialist networks and support organisations including Social Enterprise Scotland, Social Firms Scotland, Senscot and Social Enterprise Academy. In addition to mainstream funding, a number of Community Development Finance Institutions (CDFIs) operate in Scotland e.g. Social Investment Scotland. Also, organisations like The Big Lottery, The Robertson Trust, Foundation Scotland, Plunkett Foundation, Big Issue Invest, Triodos Bank, Unity Trust Bank provide vehicles for social investment.

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

SE will be contributing to the forthcoming refresh of SG’s strategy for social enterprise. We also sit on strategic forums, informing and influencing the contribution that the social enterprise model makes to economic development. E.g. Supported Businesses Advisory Group. SE is currently working with key partners in order to enhance alignment of services, focusing initially on provision of support to ‘Supported Businesses’ (enterprises where >50% staff have a disability). Enhanced approaches are also being explored for high growth potential social enterprises.

2 CO-OPERATIVE MODELS

2.1 Understanding the scale and growth of co-operatives and employee-owned businesses in Scotland

Co-operative models are collaborative vehicles that enable employees, businesses and communities to work together to fulfil shared interests. There is growing evidence\(^4\) that they increase productivity, innovation and growth whilst achieving wider societal benefits. It is this combination of benefits which is increasingly placing them in the spotlight. SE recognises the importance of business model innovation to the wider innovation agenda.

Co-operatives UK\(^5\) reports that co-operatives turnover more than £37 billion per annum and the sector has grown by over 15% since 2010. In Scotland, they account for £4.2bn turnover. The large retail/consumer co-operatives account for almost three-quarters of the total turnover whilst sport and social clubs, agricultural co-operatives, credit unions and housing co-operatives account for the majority of the total number of co-operative organisations. Looking to the future, there is significant potential for wider adoption of these models within mainstream economic development. This is considered below, in relation to the three main co-operative models;

**Employee Ownership**

Employee Ownership Association’s analysis of the Top 50\(^6\) UK employee owned businesses shows that in 2015 there was a 4.6% increase in sales, 3.4% increase in operating profits, and 2.4% increase in productivity. Employment rose by 4.3% and 69% of companies had no net debt. In Scotland, 74 employee-owned businesses collectively generate £900m turnover and employ approximately 6500 staff. This number is expected to continue to increase, given unprecedented interest from both the public and private sectors fuelled by the desire for progressive forms of ownership.

Insights can be drawn from the USA where the number of businesses with Employee Share Option Plans (ESOPs) has risen from 200 to 11,500 in the last 30 years. Many became

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\(^4\) Cass Business School (2014) identified employee owned businesses (EOBs) out-performed non-EOBs during the recent financial crisis. EOBs were better able to maintain both top line performance and employment levels.

\(^5\) Co-operatives UK (2015), ‘The Co-operative Economy’

\(^6\) Employee Ownership Association, in assn w ith RM2 Partnership; ‘The Employee Ownership Top 50 2015’
employee owned as a result of ownership succession, an issue that is growing in prominence in developed countries, with aging populations and ‘babyboom’ owners nearing retirement. Research commissioned by SE estimates that there are 16,000 businesses whose owners will be looking to exit within five years. As such, the potential for greater uptake of this model is strong. SE recently introduced a Succession Expert Support service in address this issue.

Further research, commissioned by SE, identified that the performance of Scottish employee owned businesses is generally superior to their peers. The model is particularly attractive to exporters (anchoring businesses in Scotland). They are more resilient and create jobs faster. Productivity is boosted by 5-10% and sustained at a higher level. Over the last ten years, the Employee Ownership index has out-performed the FTSE All Share by on average 7.7% pa. Recognising these attributes, HMRC introduced tax incentives in 2014 to increase take-up both as a start-up and succession solution.

Consortium Co-operatives

Evidence from across Europe highlights that the more connected and collaborative businesses are, the more innovative and productive they become. Evidence also shows that those regions with a collaborative culture achieve high levels of economic performance. The key challenge is embedding collaboration in Scotland’s business culture; promoting business model innovation and recognising ‘collaborative advantage’ as a competitive strength.

There are approximately 414 consortium co-operatives in the UK and Scotland is a leading force in the application of this model, with Co-operative Development Scotland (CDS) having supported the set-up of over 130 consortia. Given that collaboration is relevant to all businesses, there is significant scope for greater adoption of the model. The model is particularly relevant to sectors with large numbers of small and medium sized enterprises (e.g. tourism, food & drink and creative industries).

Community Co-operatives

Community co-operatives are set up to provide services to communities using co-operative principles to guide their governance and activities. They help secure investment from within a community. SE works with Community Shares Scotland (CSS), Local Energy Scotland and Community Broadband Scotland supporting the take-up of this model. The potential is recognised as significant, which was the reason for the establishment of CSS in May 2014 to catalyse demand. To date it has responded to over 250 enquiries and supported 55 groups of which, to date, 7 have successfully raised £3.27m from share offers.

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

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7 University of Stirling & University of St Andrews (2014), ‘Employee Owned Businesses – Access to Funding’
9 Case Business School (2010), ‘Model Growth’
10 The Nuffield Trust (2009), NHS Mutual.
11 FTSE International (2014), ‘The Employee Ownership Index’
12 European Commission (2012), ‘Community Innovation Survey’
13 John Restakis (2010), ‘Humanising the Economy: Co-operatives in the Age of Capital’
Co-operative models, by their nature, promote commitment, creativity and innovative approaches. This unlocks capability and capacity from people (employees and partner businesses) and stimulates innovative business practices. In addition, the co-operative ethos delivers wider societal benefits e.g. resilience, well-being, equality.

**Employee Ownership**

**Scott & Fyfe** is a Tayport-based manufacturer and exporter of technical textiles employing 100 people. The family wanted to secure the future of the company as a local employer, ensure a legacy for the community of Tayport and provide financial security for the family. An employee buyout was completed in 2013. This transition complemented an innovation-led strategy to transform the business from a commodity producer to a specialist niche producer. Through collaboration with the Glasgow School of Art innovation in a meaningful and sustainable way was embedded in the company ethos and strategy. With SE’s support a 3 year product development roadmap was created. A more collaborative working environment, with enhanced individual autonomy and influence on operational decision making has resulted in increased productivity.

A series of video case studies designed to highlight the benefits of employee ownership are included in Annex 1.

**Consortium co-operatives**

**Screen Facilities Scotland** was formed in October 2012 as a consortium of businesses with the shared aim of strengthening the film and TV services sector in Scotland. Specifically it aims to secure more work for member businesses, to provide a stronger voice for the sector, and to attract funding from public bodies such as Creative Scotland. Efficient procurement was also a driver for collaboration – e.g. for staff and contractor training, equipment updating and in response to reducing production budgets. The consortium started with a core of five members and has now widened to around 20 and has won new business in China and the US, as well as the UK. SFS was a winner of the CDS’ ‘Collaboration Prize’ in 2012 which led to an SE strategy development workshop followed by ICT specialist engagement.

A series of video case studies highlighting the benefits of consortium cooperatives are included in Annex 1.

**Community co-operatives**

**Harlaw Hydro Ltd** was formed in 2012 as a community co-operative to install a 65KW turbine in the Water of Leith at Balerno. The turbine was installed in 2013, and now generates sufficient funds (from sale of electricity to the national grid) to cover costs and pay for community projects in Balerno - an expected community contribution of £600k over 15 years. Community funds are passed to the Balermo Village Trust for decisions on use. Of the £313k capital funding required for the hydro project, £150k was raised by community share issue, and ongoing management is through a board of directors elected by the community.

A series of video case studies highlighting the benefits of community cooperatives are included in Annex 1.

2.3 **Assessing the sources of funding and support available**
Co-operative Development Scotland (CDS) is the arm of SE working in partnership with HIE that supports company growth through collaborative and employee ownership business models. This specialist support is delivered alongside wider support available from SE/HIE/BG. Up to three days of specialist consultancy is provided to appraise the opportunity and undertake a feasibility study (in the case of employee ownership) or advice on the structure, constitution and members’ agreement (in the case of a co-operative). Grant support is available for employee ownership implementation and the associated organisation development.

SE commissioned research\textsuperscript{15} found that the majority of firms required capital to undertake the transition to employee ownership. Vendor finance through retained earnings was most prominent, complemented by specialist (rather than bank) finance. For those firms interviewed, there was not a significant funding gap in raising the required capital. It concludes ‘given the complex forces which shape these decision processes policy makers will need to be imaginative with policy responses to effectively help promote greater employee ownership.’

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

Raising awareness of cooperative models among businesses and professional advisors, who are important multipliers in raising awareness among the business base, is one of the most critical roles for public agencies. CDS is doing this through an extensive programme of promotional activity and advice, together with upskilling of professional advisers. As an integral part of SE/HIE operations, CDS works closely with account managers, sector teams and Scottish Development International (SDI) to support growing enterprises. Business Gateway is an important partner, particularly in Edinburgh and Glasgow with both cities being ‘co-operative councils’.

Co-operatives UK, Employee Ownership Association, SAOS and CSS are key partners given their significant involvement in cooperative models. Other industry partners (e.g. Scottish Tourism Alliance and Scotland Food and Drink) are important channels to raise awareness and understanding among businesses. Ambassadors/Champions, all leaders of employee owned and co-operative businesses, provide support CDS in an advisory and advocacy capacity.

Two campaigns are at the heart of our promotional activity; Successful Succession (employee ownership) and the Collaboration Prize (consortium model). A recent independent evaluation\textsuperscript{16} concluded that ‘CDS is engaged in the right activities to address the market failures although more needs to be done with each [stakeholder] group to raise understanding’. Return on investment based on 2009-15 spend was forecasted at £6.4 to 1 which is a ‘good impact, particularly given that a significant part of CDS expenditure is for its external awareness-raising and strategic engagement role’.

Recent operational developments include ‘Succession Expert Support’, a new SE/HIE service designed to promote succession planning. This is available to all Scottish companies and employee ownership is one of the options explored. In terms of business collaboration, SE/HIE are seeking to identify strategically significant collaborative projects in key sectors and, where appropriate, assistance is provided in forming a consortium co-operative.

\textsuperscript{15} University of Stirling & University of St Andrews (2014), ‘Employee Owned Businesses – Access to Funding’

Scottish Development International (SDI) is introducing ‘Collaborate to Export’ to ScotExporter, with the consortium co-operative model being promoted as an option. SE is piloting account management support to collaborative ventures and a ‘best practice in collaboration’ offer is under development. Consideration of business model innovation is also being integrated into our organisational development and innovation support.

Given the evidence that co-operative and employee ownership models boost productivity, innovation and growth, there is a strong case for greater prominence being given to them at all levels within the education system and professional training. Consideration could also be given to other policy measures that might incentivise a culture of collaboration, e.g. in public sector procurement policies and practices.

3 CONCLUSION

We trust that this submission will be of interest to the Committee as they consider this topic and we look forward to discussing co-operative models in more detail at the roundtable session on 3 February.
ANNEX 1– VIDEO CASE STUDIES

A series of short video case studies have been prepared to showcase a variety of alternative business models. These are listed below;

**Employee Ownership:**  Aquascot;  Galloway and MacLeod;  Page\'s Park;  Scott and Fyfe;  Stewart-Buchanan Gauges;  Stewartry Care;  West Highland Free Press;  Woollard and Henry

**Consortium Cooperatives:**  Adventures in Light;  Scottish Mountain Bike Consortium;  Screen Facilities Scotland;  The Wee Agency

**Community Cooperatives:**  Cultybraggan Camp;  Harlaw Hydro;  Portpatrick Harbour