Scotland’s Economic Performance

Computer Application Services Ltd

Q: What are the different models of business ownership in Scotland and what is their importance to Scotland’s economy?

The above question is likely to be answered by many with experience of the usual; Limited Company / Family Business / Partnership / LLP etc.

My evidence relates to a growing sector, that of employee ownership or “EO”.

Our company, Computer Application Services Ltd (CAS) is 100% owned by people who work in the business, although we do now have external investment that will slightly dilute employee holdings. However the investment is essential - initially to the company’s survival – for the company to develop and grow as planned.

Securing funding for an employee owned business was not an easy task and had it not been for specialist investors, Capital for Colleagues plc (C4C) we may have hit a wall.

The Model at CAS
59% held in Employee Benefit Trust for the benefit of all present and future employees
26% held by the CEO
15% held by the long term chairman

*£400k investment recently taken into the business can be repaid within a pre-agreed period or may convert to ordinary shares which would dilute the above shareholdings by 15% to 30% depending on performance outcomes.

Importance to Scotland’s Economy
Beyond the original necessity for survival, the new model is ensuring that jobs are retained in Scotland. It is easy for IT professionals to find work outside Scotland or for them to be “consumed” by large organisations based here which may at a later date move or opt for outsourcing but EO keeps people working where they live. Just about all monies earned are spent in Scotland. Increasingly income comes from outside Scotland – circa 60% from the rest of the UK and 30% from overseas as things stand.

Succession is less likely to involve selling to a PLC based outside of Scotland. To this end, employee-owners are being developed to see business skills as well as technical skills, as part of their working life. This makes more people capable of “making things happen” in the business and in the community.

Background
CAS dates back to 1969 when the team offered computer application services as a department in Heriot-Watt University. In those days, personal computers were in their infancy as business and personal aides. These applications
ranged from controlling furnaces at the crematorium to scheduling training and classes for student midwife nurses… so “applications from cradle to grave” could have been claimed as a strapline.

CAS later became a standalone company and traded profitably from through “the nineties” and “Y2K” and for a decade into the 21st Century. The business was modest at £1.4m annual sales however it provided typically 24 good quality jobs, paid regular taxes, paid rent and local rates, pension contributions et al … CAS was a small but decent local business – a lifestyle business.

While threats had been circling – closing on the business for some years, the effects materialised “suddenly” in 2012 when a number of disruptive elements converged. These factors ranged from severe budget cuts within the UK government customer base to emerging technology which made “anyone” an expert and potential competitor. There was also what looked like complacency within the business but it may well have been uncertainty and fear of not knowing how to deal with the emerging threats? There was also a retirement clock ticking.

In short, a move to EO in CAS’s case was not just a succession plan, it was a survival strategy. The team shared initial pain in the form of taking increased responsibility for less pay – salary cuts of up to 20%. And more work with fewer people, as headcount had to be reduced.

In parallel the team has addressed legacy issues while developing a new approach, one that is leading to a recurring revenue model which in turn promotes sustainability and growth.

High levels of engagement have been measured via a number of team surveys and engagements, from training initiatives sponsored by Scottish Enterprise to Investors in People (Silver) activities.

The technology has been developed to product status – Workpro Case Management Software – and will now be able to be capitalised. Workpro has entered new markets; business in the private sector, modest overseas sales on which we can build and additional UK government sales on more sustainable terms (sustainable for both client and vendor).

What EO businesses need in Scotland

- Sympathetic, patient funders. EO businesses have a responsibility to prove that they are good businesses, worth backing. But too many funding options involve a planned exit and fairly rapid return on such an exit, hence Venture Capital is not usually an option for EO who seek to keep the business local. Had CDS not introduced CAS to C4C we may have struggled to find patient, sympathetic funding.
- Training and Development. CAS has piloted with SE a development course. EO businesses need managers and employees to be as equipped as any in the harsh world of reality. In some ways there is a
need for more management skill to maintain collaboration as a virtue, not let it slip into committee mode. Strong business skills training, including preparedness to step up to leadership/ownership/directorship roles.

- Examples of successful models with a business canvas to follow and adapt to suit their aims.
- Incentive environment – as many EO businesses may involve initial sacrifice, keep incentives fresh and available for employee owners, as well as funders, to see returns for their own patience and commitment.