



**A study of the contribution of cooperative models to
Scotland's Economic Strategy and evaluation of
Cooperative Development Scotland
for
Scottish Enterprise**

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Executive Summary

Introduction and Approach

- I. The report presents the findings of the study into the contribution of cooperative models to Scotland's Economic Strategy (ES) and an evaluation of Cooperative Development Scotland (CDS) over the period 2009-2015. The report was commissioned by Scottish Enterprise (SE), on behalf of SE, Highlands and Islands Enterprise (HIE) and the Scottish Government in June 2015.
- II. The review draws on the views of 40 stakeholders, 61 CDS-supported client businesses (41% of the total) and four focus groups with Employee-Owned (EO) businesses. CDS supports three types of cooperatives (EO businesses, consortium cooperatives, and community cooperatives) to become established and works internally and externally to raise the profile of the sector and its benefits.

Market Failure and Rationale for CDS Support

- III. The review concludes that the original market failure rationale for establishing CDS remains. There continue to be considerable information deficiencies in the sector. This market failure is quite severe, with information deficiencies amongst existing businesses, potential business beneficiaries of alternative models and advisors, both public sector and private sector intermediaries, including Business Gateway. The market failure also extends to other stakeholders. CDS is engaged in the right activities to address the market failures although more continues to need to be done with each group to raise understanding.

Impacts of CDS to date

- IV. CDS has supported nearly 150 lasting cooperatives over the review period from 2009, and these have generated considerable impacts for the Scottish economy. There are some very positive returns and net impacts generated by CDS supported clients.
- V. Net additional turnover of £54.2m and GVA of £27.9m has been generated as a result of CDS support from 2009, if all the forecast impacts are realised. Most of these impacts have already occurred. The impacts will be higher given that not all consortia leads surveyed were able to comment on the full economic benefits accruing to member businesses.
- VI. EO businesses generate greater impacts per business, although three quarters of overall impacts are from consortia given the higher number supported. There are fewer direct economic impacts from community cooperatives, although these impacts are important in a local context.
- VII. The return on investment (RoI), based on total actual spend of over the 2009/10 to 2014/15 period of £4.4m, is £4.4 to 1 for impacts to date, rising to £6.4m to 1 if future forecast impacts are realised. These are good impacts, particularly given that a significant part of CDS expenditure is for its external awareness-raising and strategic engagement role and for front-line delivery.
- VIII. The impacts reflect good levels of additionality – for more than half those supported, all the economic impacts are attributable to CDS support and the formation of the cooperative. These are in addition to the range of wider benefits derived by those supported by CDS.

IX. CDS support has also generated a wide range of further economic and social benefits. For EO businesses:

- 88% businesses have, or will, implemented more flexible working practices;
- Seven in 10 EO businesses report increased employer engagement;
- Seven in 10 report input to decision-making;
- 56% have seen better employee performance to date and the remainder expect to see this in future; and
- Half already improved productivity.

X. Two thirds of consortia and EO businesses have improved knowledge-sharing wholly as a result of consortium working/EO, and half have increased skills / knowledge partly or wholly as a result in the change of business operation. Almost two-fifths had also seen new innovations.

Sector Potential

XI. The review concludes there is the potential to grow the sector significantly above the current modest base. A wide range of stakeholders wish to see more businesses adopting the three alternative business models CDS supports. With EO in particular, but also the other models, there is a widespread belief that the sector can deliver fairer, more inclusive growth, with greater employee and/or community engagement, retaining more wealth in Scotland and in local areas.

XII. It is difficult to quantify the scale of the opportunity, yet two thirds of Scottish businesses are family owned and an increasing number of post-war “baby boomer” business owners are reaching retirement age. Just 5% of these equate to 6,000 businesses. The current CDS target of 150 CDS supported transitions to EO over 10 years (less than 2.5% of this 6,000) is achievable, although it will still take robust action by CDS, SE/HIE and by partners to achieve this.

XIII. Whilst the potential proportionate increase in EO businesses is large, the sector would still be quite a small part of the Scotland’s overall business base. Longer-term, the potential continues to be much greater, if a cultural change can be achieved. The potential amongst consortium and community cooperatives is also hard to quantify, but the base could be quite a lot larger than is currently the case for both models.

XIV. The potential across the EO, consortia, and community cooperatives relates to the economic and social advantages of the models. Businesses adopting alternative businesses models generate high levels of employee engagement and commitment which can translate into strong economic performance.

Contribution to Scotland’s Economic Strategy

XV. Cooperatives are making a contribution to the four ‘Is’ of the Economic Strategy and this can increase further. Cooperatives support **internationalisation**, with both EO and consortia demonstrating a strong export focus. Two thirds of cooperatives have few competitors in Scotland, reflected in low levels of displacement. The ability of cooperative models to bring scale to export activity is good, as is the desire to compete in international rather than more local markets.

XVI. There are also good levels of in-firm **investment**, and all three cooperative types demonstrate commitment to future investment, including investment for the longer-term (EO businesses) and community investment. There are considerable levels of **innovation** being delivered through EO businesses. Three in four EO businesses are or will deliver workplace innovation, including leadership). Consortia bring knowledge-sharing and new ways of working.

XVII. Cooperatives also deliver **inclusive growth** via employee engagement and empowerment. More than 90% of EOs have or will increase employee engagement and employee strategic decision-making. Consortia involve joint working with SMEs. Community empowerment is enabled via community cooperative growth. Staff morale is high in EO businesses and higher post-transition.

Strategic Direction and Focus

XVIII. Whilst there is a strong case for a separate and distinct entity in CDS, there is a stronger case for greater integration with SE, and for CDS to be more firmly part of the family of products and services available from SE and HIE. This is about improving the working relationships, understanding and knowledge between CDS, sector teams, account managers and other specialist teams, such as Organisational Development and Innovation.

XIX. There are many advantages of CDS working more closely with other SE/HIE specialist teams, for example in championing employer engagement and innovation, or innovation, collaboration and consortium working. This will help CDS be part of joint planning and activity, and has the potential to drive a far greater level of referrals for CDS support (and vice versa). CDS can be positioned as helping to support innovation collaboration – where progressive people and employer engagement are a driver for innovation, which for customers can be a step change in the business.

XX. In being part of SE and HIE strategies explicitly, CDS can and should be more integrated and joined up from the client perspective (SE alone have a 1,000 staff and 100 account managers). Greater integration – if achieved – should smooth handover between CDS and other parts of SE/HIE and enable more seamless support to growth companies adopting alternative business models.

Rebalancing Growth, Inclusive Growth

XXI. The review concludes the general strategic direction of CDS is appropriate, given its focus on alternative business models and its stated intention to focus on growth. This includes the focus on the three model types. However, this must strike the balance between focus on economic growth and rebalancing growth (and inclusive and sustainable growth).

XXII. Whilst we recommend closer CDS integration with SE, there is a strong sense that CDS should not be overly *constrained* by being part of SE, although closer alignment and integration with SE would also be beneficial. CDS should have sufficient freedom to “do what it needs to do” in developing a more cooperative culture. There is a desire for a more engaged workforce, fairer workplaces (the inclusive) and for growth. There is a need to embrace “can do” around alternative business models, including use them to drive and foster innovation.

CDS Product Range

- XXIII. A greater focus on outcomes and impact, as distinct from the focus up till now on the activity of setting up cooperatives, means helping businesses and community enterprises to grow. This requires some follow through, post set-up, to ensure growth, and/or the sustainability of the cooperative, or to achieve faster transition and growth.
- XXIV. Further emphasising the commercial returns to businesses may help sell and promote positive messages about the impact of its activities to a wider audience. Part of this is about more intensive support provided to those with alternative business models (in the form of aftercare given the post set-up or transition challenges for cooperatives) which can also be better facilitated by being more closely part of SE.
- XXV. Evidence suggests that the collaboration prize – where CDS and SE specialist teams and others provide a package of support to winners – is effective in helping the winning consortium to grow and develop.

Professional Services

- XXVI. Whilst some inroads have been made by CDS in raising awareness of the practicalities, and benefits, of alternative business models to the professional services of lawyers, accountants and advisors, this understanding remains partial. Referrals from the sector are low and the sector does not remain fully convinced of the benefits. CDS should therefore continue to work with this sector to increase understanding and the flow of referrals.

More consortium builders

- XXVII. There is a need for CDS to be a champion of collaboration, even if this is not directly part of its product offering. Building collaborative activity into a consortium is resource intensive and then there may be a need for more consortium builders. By being more closely integrated with HIE and SE (and to BG/local authorities), CDS will be closer to those also supporting formal or informal collaboration

Community Cooperative Capacity and Support

- XXVIII. At the community level, there is an ongoing need to build capacity in communities. This means empowerment (now supported by legislation) and the capacity of communities to respond to opportunities. CDS could provide more support to community cooperatives, the demand is there, although this is not part of the core SE strategy. It is also resource intensive for CDS. HIE is different, given its remit for strengthening communities. The Community Shares Scotland programme, of which CDS is partner, is a very good mechanism for community investment providing economic opportunities, yet it is a three-year time limited discretionary programme which may leave a gap in provision when it comes to an end.

Education in Schools, FE and HE

- XXIX. There remains a market failure in terms of awareness of cooperatives and their benefits, and this applies at a number of different levels. Certainly, more can and should be done in schools, FE colleges and HE if there is to be a step change in the number of businesses adopting alternative business models in the future. This has worked for entrepreneurship, where there are a number of dedicated and well established support structures specifically

designed to help FE and HE students to start a business (notably the Scottish Institute for Enterprise). For alternative building models in FE/HE, there is a clear role for the Scottish Funding Council.

Supporting one to many account management

XXX. The one to many account management is still at the pilot stage within SE, however a number of the groups of 'many' could be consortia. Until the results of the pilot it is not appropriate for CDS to in any way duplicate activities, yet there should be ways in which CDS expertise in understanding the dynamics between potential consortia members may help the account manager responsible for managing a group of companies, albeit through a single contact. The consortium-builder facilitator links being developed through CDS could be applied here.

Measuring Outcomes and Impact

XXXI. The measurement of impact must follow the natural focus on outcomes and impact. This needs a mechanism and framework for regular monitoring of impact (via CRM2). Impact measures must also relate to stable and sustainable inclusive growth. Going forward, across the range of CDS activities, it would be useful to have a clear reporting mechanism in place (with a number of set outcomes to be reported). It would also be useful to record all contact details, details and outcomes in the new CRM2 system being rolled out across SE that can be easily updated and monitored in support of this.

Governance

XXXII. The Advisory Board no longer operates, partly in response to the different models that CDS support and the different target audiences and partners involved in supporting the different cooperative types. EO Ambassadors and Consortium Champions provide a valuable advisory role for CDS. At the same time, there may be a need for a broader oversight of CDS activity than being part of SE would allow, or than is the case under the current arrangements.

Conclusion

XXXIII. CDS supports a wide range of activity, and this is appropriate given the potential in the sector and the number of cooperative/ alternative business models. The sea-change has not yet occurred in the understanding of the benefits alternative business models can bring in retaining wealth in Scotland and securing inclusive growth. They contribute to national economic strategy objectives through promoting collaboration and ownership succession. Given the appetite to see alternative business models operating on a much greater scale, and in more locations, and the need to continue to educate and raise awareness across the public, education and business sectors, there is a role for others beyond CDS is ensuing that the potential of alternative business models are maximised.

Recommendations

XXXIV. The report makes a number of recommendations:

Recommendation 1a: that CDS is more closely integrated with SE, that it sits firmly within the SE infrastructure and is part of the “family” of support, similar to other SE specialist teams.

Recommendation 1b: that mechanisms/approaches for the continuous improvement of (SE/HIE) enterprise agency staff understanding of cooperatives and CDS, to allow SE and HIE to know when and how to engage CDS. This could usefully be extended to Business Gateway advisors.

Recommendation 2: That whilst part of SE, CDS continues to have a broad pan-Scotland remit that includes community cooperatives and supporting cooperative values, where there are economic and social impacts to be generated.

Recommendation 3: That CDS retains an external, outward, awareness-raising role in communicating the benefits and impacts of cooperative/alternative business models. This is to continue the drive for long-term cultural change in the business and business support communities to recognise (and benefit from) the potential of cooperative models and to increase the pipeline of cooperative businesses.

Recommendation 4: That follow-on, post-establishment or transition support is the basis of a new product offering, which combines CDS understanding of cooperative business models with multiple SE support.

Recommendation 5: That SE and HIE account managers and sector teams work more closely with CDS, and that consideration is given to resourcing hands-on early stage consortium building to help realise potential new consortia reserved for strategically important collaboration opportunities (including collaborative exporting) in priority industry sectors.

Recommendation 6: That work is undertaken now, and in advance of the end of the three-year Community Shares programme, to identify how community shares investment support for community cooperatives can be continued in the future. This can have links to the developing social enterprise work within SE. CDS should focus on EO and consortium cooperatives, however it is also important that support for community cooperatives continues going forward.

Recommendation 7: That an educational role is undertaken to promote understanding of alternative business models in schools, FE and HE, drawing in the SFC. This may help drive a future pipeline of clients (e.g. postgraduates).

Recommendation 8: That consideration is given to a broader over-sight and or partner organisation input, that sits above or alongside an SE integrated CDS. This would include HIE of course. This would help ensure that a more integrated CDS within SE retained, say, its role in supporting community cooperatives and strengthening communities.

1 Introduction to the study

Overview

1.1 This report presents the findings of the study into the contribution of cooperative models to Scotland's Economic Strategy (ES) and an evaluation of Cooperative Development Scotland (CDS). ekosgen was commissioned by Scottish Enterprise (SE), on behalf of SE, Highlands and Islands Enterprise (HIE) and the Scottish Government in June 2015 to undertake the research. The review has incorporated extensive primary research with stakeholders and supported CDS-client cooperatives, as well as desk-based research.

1.2 The study is designed to both assess the potential contribution of cooperatives to Scotland's economy, and to understand the impact of CDS in the light of this potential. A wide range of views have been provided during the review period. The review therefore provides a number of recommendations for CDS and its funders going forward.

Study Purpose

1.3 There are two distinct purposes of the review. The first is to understand, as far as possible, the scale of the cooperative model sector, and its potential to contribute to economic and wider objectives. The second is to understand the impact of CDS activities over the review period from 2009 to June 2015. The findings are designed to inform the future scope and funding of CDS.

Understanding the potential of cooperative models to support Scotland's Economic Strategy

1.4 The 2015 Scottish Government's Economic Strategy refresh, the ES, further develops the economic vision for Scotland. It seeks to *"make Scotland a more successful country, with opportunities for all to flourish, through increasing sustainable economic growth."*¹ It is based on two 'key pillars': increasing competitiveness and tackling inequality, with the aim of *"creat[ing] a more cohesive and resilient economy that improves the opportunities, life chances and wellbeing of every citizen in our country."*² It further develops the aims of the previous Government Economic Strategy (GES), published in 2011, and the work of the Scottish Government since 2007, with the objective to not only bring economic performance back to pre-recession levels, but also to address *"the underlying challenges in our economy and labour market, increas[ing] the competitiveness and sustainability of the Scottish economy and reduc[ing] inequality."*³

1.5 The general hypothesis at the outset of the review is that cooperative models can make a significant (and larger) contribution to the delivery of the ES. They have the potential to generate economic growth and jobs, retained wealth, a more sustainable business base and inclusive growth, where more individuals benefit from profits generated. A key question for consideration is at what scale the cooperative sector can operate: whether this is a marginal or peripheral suite of businesses and activities; or whether the sector can be more central and comprise a large proportion of the overall business base and economy.

¹ Scottish Government (2015) *Scotland's Economic Strategy*, p. 13

² *Ibid.*, p.7

³ *Ibid.*, p.13

Identifying the role of CDS to date

1.6 CDS is a subsidiary organisation of SE which works in partnership with both SE and HIE to support business and economic growth through the promotion and support of collaborative, employee ownership and community cooperative business models. In broad terms, it seeks to increase the contribution of cooperative models to Scotland's sustainable economic development by raising awareness and understanding of the benefits of such models; providing specialist advice and support to businesses becoming or seeking to become cooperatives; and influencing the wider support networks for business to further increase understanding⁴.

1.7 CDS works extensively through promotional activity and campaigns, as well as working with and through partners to raise awareness of the benefits of cooperative working. CDS is very well networked, and has a wide range of partners it works with and alongside. The review seeks to understand the impact of this promotional and external partnership working, as well as the economic, social and wider impacts achieved by supported CDS clients.

1.8 In the main, CDS support three types of cooperative models: employee-owned businesses; consortia; and community cooperatives; and these are therefore the principle focus of the review, although CDS has supported a small number of worker/other cooperative models. Chapter 2 expands on the differences between the model types.

How CDS can maximise potential contribution of cooperative models going forward

1.9 Ultimately the review seeks to make recommendations on how CDS can further support cooperative models, and how best to maximise its potential contribution. This is about ensuring that CDS is involved in the right forms of activity, that the strategic direction and partner engagement and involvement is appropriate, and that the operating environment is conducive to delivering high impact support. CDS has been established for some 10 years, and the time is right to take stock of the organisation's activities and achievements.

Study aims and objectives

1.10 The specific evaluation study's aims and objectives are as follows:

- To provide an assessment of the potential contribution of cooperative models to the Scottish Government's refreshed Economic Strategy and the priorities of SE and HIE; and
- Undertake an evaluation of CDS' performance over the period 2009-2015 including quantifying the economic impact generated.

1.11 From this, the aim of the review is to provide a series of recommendations on enhancing the work of CDS and the future approach of SE, HIE and the Scottish Government to cooperative development support. These recommendations are framed around the following key questions:

- How might cooperative models most effectively be promoted and adopted as an approach for achieving the objectives of the Scottish Government and SE / HIE;

⁴ <http://www.scottish-enterprise.com/microsites/cooperative-development-scotland/about-us>

- How could CDS's approach be enhanced in the future in order to achieve greater impacts; and
- What is the most appropriate model for the future delivery of specialist cooperative development support?

Study approach

1.12 We adopted a multi-method approach, with a strong emphasis on primary research. This comprised an in-depth survey of CDS client businesses via face-to-face and telephone consultations, a detailed telephone survey, coupled with a wider online survey for beneficiaries of CDS support. This was supplemented by stakeholder consultations and desk-based research.

1.13 Specifically, this included:

- A desk review of CDS management information, including budgetary information, beneficiary support records and monitoring information in order to identify the client beneficiary profile and review reported expenditure and outputs against targets;
- A literature review of best practice in supporting cooperative models from elsewhere and to support the assessment of sector potential;
- An extensive programme of consultation with **40** key stakeholders from CDS partner organisations, advisers, associates and ambassadors
- Consultation sessions with the CDS management team and staff;
- **Four** focus groups with employees and managers from employee-owned businesses; and
- **61** completed client business surveys, undertaken by telephone and online, which represents a response rate of 41% of the 148 businesses supported with CDS specialist advice.

1.14 A full list of the stakeholder consultees is provided in Annex A.

Structure of the report

1.15 The report is structured in the following way:

- Chapter 2 presents the literature review in relation to cooperative models and their potential in Scotland. This also describes the differences in model types;
- Chapter 3 sets out the aims and objectives of CDS, its strategic priorities, its activities and nature of support, and details funding, expenditure, targets and reported outputs;
- Chapter 4 gives consideration to the overall contribution of cooperative models to the Scottish economy, and how they fit with the refreshed ES;

- Chapter 5 provides an analysis of the overall performance of CDS and its broad contribution to supporting the development of cooperative business models in the Scottish economy;
- Chapter 6 presents an economic impact assessment of cooperative models as a result of CDS support, drawing on the business survey responses and reporting on impacts achieved to date and those expected in the future as a result of the support;
- Chapter 7 provides further consideration of a number of the issues arising from primary research undertaken for the review; and
- Chapter 8 presents the conclusions from the research study, and makes recommendations regarding the future approach to and support for cooperative models and the role of CDS.

2 Cooperative business models and their potential in Scotland: Literature review

Introduction

2.1 This chapter reviews cooperative models, largely but not exclusively focusing on the three cooperative model types that CDS supports: employee-owned (EO) businesses; consortia; and community cooperatives. It reflects on the potential of the sector, and the ways in which the various models are supported elsewhere in the UK and internationally. The purpose of the review is to identify, at least to some extent, the potential scale of the sector in Scotland, and in so doing reflect on best practice approaches to maximising their impact through support.

Background and context

2.2 A cooperative can be defined as an *'autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise'*. This definition was adopted by the International Cooperative Alliance in 1995, in the revised Statement of Cooperative Identity. It was also adopted in the International Labour Organization (ILO) Recommendation 193 of 2002.⁵

2.3 Cooperatives often are a response to economic and social difficulties. Historically, cooperatives have been capable of enhancing the ability of disadvantaged groups of people to protect their own interests, by guaranteeing self-help outside the family in accessing basic goods and services. Unlike shareholder companies, where ownership rights belong to the investors, in a cooperative organisation ownership rights are assigned to other groups of agents (consumers, workers, producers, farmers, etc.). In both industrialised and developing countries, cooperatives continue to contribute to socio-economic development, support employment growth, and sustain a balanced distribution of wealth.⁶

2.4 Co-operation promotes business growth and sustainability by:

- Increasing productivity, income, innovation and survival: collaboration can grow income, achieve critical economies of scale, increase innovation and entrepreneurial attitudes / skills, foster loyalty and build up knowledge and thus a competitive advantage, greater responsiveness through employee motivation, and resilience;
- Rooting businesses and employment within communities: cooperative and employee owned businesses are set up to meet the needs of their co-owners, such as providing employment or services, which means they tend to stay rooted within a community, securing wealth and other benefits; and
- Sharing risk and reward more widely: co-ownership allows employees and members to share the cost and risk of the business venture.^{7,8}

⁵ International Cooperative Alliance (2015) <http://ica.coop/en/what-cooperative>

⁶ European Commission (2013) *Social economy and social entrepreneurship: Social Europe Guide Volume 4*, p.22

⁷ Cooperative Development Scotland (2010) *Growing Scotland's cooperative economy: The economic, environmental and community benefits of co-operation*

⁸ Scottish Government (2004) *Cooperative Development Agency Consultation Paper*

Cooperatives in Scotland to date

History of cooperatives in Scotland

2.5 The establishment of the Rochdale Society of Equitable Pioneers, and the setting out of the Rochdale Principles in 1844⁹ is considered by many to be the birth of the modern cooperative movement. Indeed, the Rochdale Principles still form the basis of cooperative principles.¹⁰ However, evidence suggests that cooperatives in Scotland predate that, going back as far as the Shore Porters Society (now a private partnership for removals, general haulage, property and warehousing) established in Aberdeen in 1498, by a group of porters. There were others, including the Fenwick Weaver's Society formed in 1769 which evolved into a consumer cooperative to facilitate the collective purchasing of bulk food items and books.^{11,12}

2.6 There is limited discussion in the literature of more recent cooperative movements in Scotland, anecdotal evidence suggests that the recent (20th Century) history of cooperatives in Scotland is closely linked with socialist and labour movements, particularly in the Central Belt, and is thus often portrayed in the 21st Century in a negative light. Consequently, there is a suggestion that cooperatives, as a way of working, have in many ways been shunned since the 1980s, and have only recently been given serious consideration.

The current cooperative landscape

2.7 In the main, inconsistency and incompleteness in record-keeping means there is limited accurate information on the scale and size of the cooperative sector. However, a number of studies have quantified the sector to a certain extent.

2.8 A 2012 report by CIRIEC into the scale of the social economy in the European Union placed the number of active cooperatives in the EU in 2009 at 207,000, providing direct employment to more than 4.7 million people.¹³ More recently, a report by Cooperatives UK places the number of cooperatives in the UK currently at 6,796, an increase from 6,196 in 2012. Whilst this represented a 4% increase from 2011, the increase in cooperative memberships rose by 13.7% to around 15.4 million.¹⁴ In Scotland, the number of cooperatives in 2012 was estimated at 567, with a turnover of £4.2 billion; 105 of these were in the Highlands and Islands.¹⁵ Research by ekosgen identified employment in the sector at around 28,600 in Scotland (2010), and identified important opportunities for the formation of new cooperative and EO businesses in a number of key sectors, including tourism, food and drink, renewable energy, forest industries and textiles.¹⁶ More recent ekosgen work for Glasgow City Council on mapping the cooperative sector identified over 100 businesses in Glasgow alone.¹⁷ Further, research

⁹ Cooperative Heritage Trust (2015) The Rochdale Pioneers . From:

<http://www.rochdalepioneersmuseum.coop/about-us/about-the-pioneers/>

¹⁰ International Cooperative Alliance (2015) Cooperative identity, values & principles. From:

<http://ica.coop/en/whats-co-op/cooperative-identity-values-principles>

¹¹ The Guardian (2007) *Strike Rochdale from the record books. The Co-op began in Scotland, 7th August 2007.* From: <http://www.theguardian.com/business/2007/aug/07/retail.uknews>

¹² MacFadzean, J. (2008) *The Co-operators - A History of the Fenwick Weavers* (East Ayrshire North Communities Federation Ltd.)

¹³ European Economic and Social Committee / CIRIEC (2012) *The Social Economy in the European Union*

¹⁴ Cooperatives UK (2015) *The cooperative economy 2015: an ownership agenda for Britain*, p.8

¹⁵ *Ibid.*, p.10

¹⁶ ekosgen (2010) *Size and Scale of Opportunity for Cooperative Development Scotland*

¹⁷ ekosgen (2014) *Cooperative business mapping and needs assessment for Glasgow City Council*

undertaken by St. Andrews, Stirling and Edinburgh Napier Universities identified 1,600 employees across the 12 EO businesses that they reviewed.¹⁸

2.9 Recent research commissioned by CDS compared the development of the cooperative sector in Scotland with comparator economies in Europe, highlighting the different socio-economic environment that existed in countries such as Finland, Switzerland and Sweden. Whilst consumer cooperatives developed through the social capital generated by the industrialised, urbanised working class of Scotland's Central Belt, other forms never developed in Scotland as they did in the comparator economies.¹⁹

Cooperatives and economic growth and the policy context

2.10 Cooperatives have the potential to significantly contribute to economic growth objectives, and some commentators have suggested that there has, to date, been a lack of debate on the role that cooperative and mutual structures can play in shaping Scotland's future economy, and that there is an opportunity to place the principles of cooperative and mutual business models, as well as EO structures, at the heart of future economic growth. This would, it is argued, benefit the Scottish people, but also bring an economic identity to the type of future economy Scotland wishes to create for its citizens.²⁰

Scottish Economic Strategy

2.11 Scotland's Economic Strategy (ES), published by the Scottish Government in March 2015 has the purpose of creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth, whilst ensuring that everyone in Scotland has the opportunity to fulfil their potential. This approach is centred on two pillars: increasing competitiveness and tackling inequality.²¹

2.12 The ES has four priorities to achieve this:

- Investing in people, infrastructure and assets;
- Fostering a culture of innovation;
- Promoting inclusive growth; and
- Taking advantage of international opportunities.²²

2.13 Cooperatives can arguably contribute to achieving these objectives, particularly through addressing certain aspects of the innovation and inclusive growth priorities, namely supporting the development of highly innovative businesses, and realising opportunities to deliver more equal growth. The participatory and democratic governance models evident in cooperatives encourage a greater level of innovation. Further, close contact within cooperatives (member engagement) and with society (being more locally rooted) encourages a more dynamic form of

¹⁸ Brown, R. et al. (2014) The performance of employee-owned businesses in Scotland: some preliminary empirical evidence, *Fraser of Allander Institute Economic Commentary*, 37(3), pp.108-117

¹⁹ Birchall, J. (2009) *A comparative analysis of cooperative sectors in Scotland, Finland, Sweden and Switzerland* (report for CDS, SE, HIE)

²⁰ NCVO / Fagelman, D. (2014) *Promoting cooperatives would benefit Scotland*, <http://www.scvo.org.uk/blog/promoting-cooperatives-would-benefit-scotland/>

²¹ Scottish Government (2015) *Scotland's Economic Strategy, March 2015*, p.7

²² *Ibid.*, p.9

knowledge transfer, which boosts the development of research and the creation of innovative activities and products. This creativity necessarily leads to greater social, environmental, cultural, managerial and technological innovation.²³

Business pledge

2.14 One of the key features of the ES is the business pledge, a proposal by the Scottish Government to support businesses in return for a private-sector commitment to a range of business and social policies, including the Living Wage. Cooperatives in particular can be well-placed to contribute to supporting workforce engagement and development, and other progressive workplace policies, and can play an active role in the community – as well as contributing to an innovation programme in certain cases.²⁴

Cooperatives and wider / social objectives

2.15 Inclusive growth is a key feature of the *Europe 2020 Strategy*, developed by the European Commission in response to the economic downturn, to drive smart sustainable and inclusive growth. The 'Inclusive Growth' objectives are targeted at delivering a high-employment economy delivering economic, social and territorial cohesion, including through increasing labour participation and raising corporate social responsibility:

*Inclusive growth means empowering people through high levels of employment, investing in skills, fighting poverty and modernising labour markets, training and social protection systems so as to help people anticipate and manage change, and build a cohesive society. It is also essential that the benefits of economic growth spread to all parts of the Union, including its outermost regions, thus strengthening territorial cohesion. It is about ensuring access and opportunities for all throughout the lifecycle. Europe needs to make full use of its labour potential to face the challenges of an ageing population and rising global competition. Policies to promote gender equality will be needed to increase labour force participation thus adding to growth and social cohesion.*²⁵

2.16 Again, it is arguable that cooperatives have the potential to contribute greatly to achieving Europe 2020 objectives on inclusive growth.

Types of cooperatives

2.17 A variety of cooperative models exist. For the purposes of this research, the focus is on three main models: employee ownership (EO), consortia and community cooperatives. Some attention is given to other model types (e.g. worker cooperatives as a type of employee ownership). There are a number of models – such as agricultural cooperatives and credit unions where support structures already exist – that are outwith the scope of CDS, and as such are not the focus of this study, as discussed later.

²³ Cooperatives Europe (2015) <https://www.coopseurope.coop/about-cooperatives/eu2020-%E2%80%9Cinnovation-union%E2%80%9D>

²⁴ *Ibid.*, p.63

²⁵ European Commission (2010) *Europe 2020: A strategy for smart, sustainable and inclusive growth* (COM (2010) 2020), p.15

Employee-owned organisations

The nature of the sector

2.18 Employee-ownership (EO) is perhaps the most high-profile of cooperative models, at least in recent years, and arguably the one with the highest potential for generating local economic growth and impacts. EO businesses take a number of forms, but in simplest terms, they are businesses that are at least majority-owned by the employees themselves, rather than external shareholders. EO businesses with 51% of employee ownership are considered to be cooperatives.

2.19 Most commonly, such EO organisations are either worker cooperatives (often considered the oldest form of cooperative, underpinned by socialist thinkers such as Robert Owen, and the Rochdale Society of Equitable Pioneers), or take the form of employee share ownership, where company shares are held in an employee trust or similar holding. The latter has two main variations: shares are held either in trust and paid in bonus, on an equal basis to all employees, or they are held in a performance-based shares incentive plan. The John Lewis Partnership²⁶ is often cited as an example of an employee share ownership model; other high-profile examples include W.L. Gore & Associates²⁷, manufacturers of GORE-TEX™.

2.20 EO can drive greater ownership and participation amongst employees, and create an environment for stronger governance and workplace innovation, not least through greater incentives for the workforce / membership.

The performance of employee-owned businesses in Scotland

2.21 Recent research by St. Andrews, Stirling and Edinburgh Napier Universities examined the performance of Scottish EO businesses in light of growing focus in public policy in recent years on promoting the concept of EO businesses within public policy. Through an intensive, small-scale study, the evidence demonstrated that EO businesses in Scotland, as with EO businesses elsewhere, outperform more conventional businesses, on average are bigger and exhibit higher turnover growth than comparative conventional businesses.²⁸ Often this is attributed to increasing levels of staff engagement.²⁹ The research also highlights that relative to the rest of the UK, Scotland already has more EO businesses, and indicates that this is an opportunity to capitalise on to foster a culture of EO.^{30,31} Wider research elsewhere has shown that where the nature of the work means that there is a high degree of autonomy amongst the workforce, then EO is shown to be particularly valuable.³²

Examples from Scotland and elsewhere

2.22 There are a number of good examples of EO businesses in Scotland and elsewhere. These include Page\Park, an architectural firm based in Glasgow, established in 1981 and the

²⁶ John Lewis Partnership (2015) <http://www.johnlewispartnership.co.uk/>

²⁷ W.L. Gore & Associates (2015) http://www.gore.com/en_gb/aboutus/culture/index.html

²⁸ Brown, R. et al. (2014) The performance of employee-owned businesses in Scotland: some preliminary empirical evidence, *Fraser of Allander Institute Economic Commentary*, 37(3), pp.108-117

²⁹ Employee Ownership Association (2015) *Case Studies – Page\Park*: <http://employeeownership.co.uk/case-studies/pagepark/>

³⁰ Brown, R. et al. (2014) The performance of employee-owned businesses in Scotland: some preliminary empirical evidence, *Fraser of Allander Institute Economic Commentary*, 37(3), p.115

³¹ Employment Research Institute (2013) *The Growth of Employee Owned Businesses in Scotland: Report to Scottish Enterprise*

³² CentreForum (2012) *Employee ownership: unlocking growth in the UK economy*

MONDRAGON Corporation is a federation of worker cooperatives based in Mondragón in the Basque region of Spain, established in 1956 and now the tenth largest business group in Spain. More details of each example are at Appendix B. Examples also include Scott & Fyfe at Tayport in Scotland that was one of the research study case studies (at Appendix B).

The Nuttall Review of employee ownership³³

2.23 Following the global economic downturn, there has been unprecedented political interest in EO. The 2012 Nuttall Review provided a substantial body of evidence that demonstrated how EO drives economic benefits for companies. Notably, EO companies create jobs faster and have been more resilient through the recent economic downturn. At the heart of EO is employee engagement, with a reported increased commitment and dedication amongst staff of EO companies. EO also offers the chance to increase the diversity of ownership models in the economy. These benefits are best achieved when employee share ownership is integrated with ensuring employee engagement (the benefits of which have been demonstrated through the MacLeod Review³⁴, and by others).

2.24 The review also identified a number of barriers to EO. Firstly, a lack of awareness of the concept of EO, which in many ways underpins all other barriers to EO. Opportunities to adopt EO are lost when employers, employees and advisers are unaware of its relevance and benefits. Secondly, a lack of resources available to support EO exists; existing information and guidance available for EO is insufficient. The lack of awareness means advice is hard to find – underlining the contrast between the ready availability of cost-effective information and resources on conventional business models, and that which is available for EO. Thirdly, the actual (or perceived) legal, tax and other regulatory complexities of EO were cited as barriers to its adoption, or as burdens facing EO companies, raising questions around corporate governance, structure, and tax implications.

2.25 The review made a number of recommendations around awareness-raising for the EO model, increasing resources available to promote EO, and measures to reduce its complexity. It also made recommendations for Government to support changes to make a real difference both to EO companies, and also to the adoption of the model for those considering the move. Similar recommendations are made by the CentreForum report into employee ownership.³⁵ Following on from the recommendations on simplification and reduced burden for employee ownership, the UK Government launched a consultation on tax relief for employee-owned businesses in 2013³⁶. It followed this with the announcement in the 2014 Budget that “the Government will introduce a package of tax reliefs to support the employee ownership sector”.³⁷ Employee ownership trust tax exemptions were also contained within the Finance Act (2014).³⁸

Transition to employee ownership and succession

2.26 Transition to EO status is a particular point of focus for business succession, especially where entrepreneurs or business owners are seeking to retire. However, recent research

³³ HM Government / Nuttall, G. (2012) *Sharing Success: The Nuttall Review of employee ownership*

³⁴ HM Government / MacLeod D. & Clarke, C. (2009) *Engaging for Success: enhancing performance through employee engagement: a report to Government*

³⁵ CentreForum (2012) *Employee ownership: unlocking growth in the UK economy*

³⁶ HM Government (2013) Government to provide two new tax reliefs to encourage employee ownership, From: <https://www.gov.uk/government/news/government-to-provide-two-new-tax-reliefs-to-encourage-employee-ownership>

³⁷ HM Treasury (2014) *Budget 2014*

³⁸ HM Government (2014) *Finance Act 2014 (c.26)*

indicates that a wide range of factors coalesce to hamper firms making the transition to EO. There is a need for focus and targeting of support towards entrepreneurs close to retirement age, employees working in firms considering EO and key industrial sectors which have strong synergies with this form of ownership structure.³⁹ EO presents itself as a sustainable solution to business succession amongst SMEs, particularly where business owners are merely looking to retire and are reluctant to sell.⁴⁰ In many cases, there is a non-financial incentive for transitioning to EO – to keep business in a local community and secure employment, whilst still retaining some measure of return on sale. Succession is increasingly being recognised as an issue amongst small business, many of which are family owned.

2.27 CDS has identified a potential succession time-bomb amongst Scotland's SMEs⁴¹, where 63% of businesses are family-owned^{42,43}, although the problem is an issue across the UK (66% of businesses in the UK are family owned⁴⁴) and more widely. For example, the Wales Cooperative Centre has identified this as a particular difficulty for Welsh business.⁴⁵ A range of academic research centres are undertaking research on this challenge.⁴⁶

The potential of employee-owned business

2.28 EO helps to guard against occasions where private investors are simply acquiring companies for a quick return, and acts to root turnover and economic growth more strongly in the local economy where the employees wish to retain business production and ownership locally. Gradual, long-term transfer of company shares over a period of time, can also avoid the need for loans to purchase the company, and often see original owners maintain a role in the company. Chapter 3 explores the potential of EO in Scotland.

Consortia

The nature of the sector

2.29 Consortia are typically vehicles established by a collective of companies to maximise market access through creating an organisation/entity of sufficient size to access opportunities that would otherwise usually be beyond the reach of individual members, e.g. tendering for large public sector contracts. Such opportunities tend to be higher value and higher quality. They can also bring businesses together for joint marketing or joint purchasing activities, where the consortium can achieve more than each member acting alone. In short, they achieve economies of scale.

³⁹ McQuaid, R. et al. (2014) *Employee Owned Businesses – Access to Funding*

⁴⁰ Scottish Construction Now (2014) *Edinburgh consultant engineers sold to staff*, <http://www.scottishconstructionnow.com/2082/edinburgh-consultant-engineers-sold-staff/>

⁴¹ Cooperative Development Scotland (2013) *Why Scotland should take employee ownership seriously*, <http://CDSblog.co.uk/why-scotland-should-take-employee-ownership-seriously>

⁴² Scottish Government (2013) *Small Business Survey Scotland 2012*, p.10

⁴³ Holyrood Magazine (2014) A cooperative vision, <http://legacy.holyrood.com/2014/01/a-cooperative-vision/>

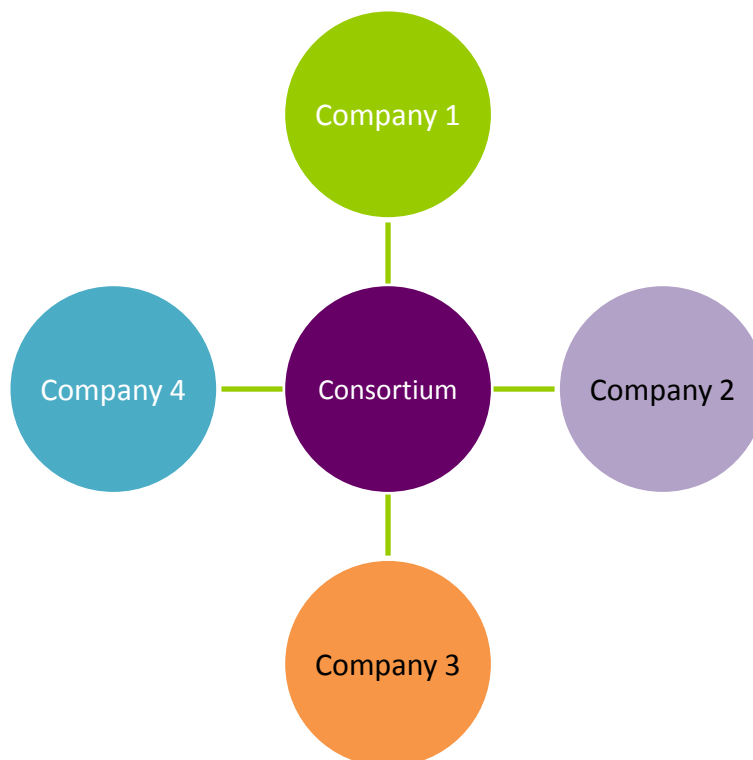
⁴⁴ Institute for Family Business / Oxford Economics (2011) *The UK Family Business Sector: Working to grow the UK economy*

⁴⁵ Davies, W. & Michie, J. / Centre for Mutual and Employee-owned Business (2012) *Employee Ownership: Defusing the business succession time-bomb in Wales, Report prepared for Wales Cooperative Centre*

⁴⁶ Such as the Centre for Family Business at the Lancaster University Management School, the Centre for Mutual and Employee-owned Business at the University of Oxford, and the Caledonian Family Business Centre at Glasgow Caledonian University

2.30 Unlike the contractor-sub-contractor arrangement, consortia are permanent structures usually with a longer-term purpose, and as such are able to accrue a track record for consortia and individual members alike. As a legal entity (company limited by guarantee), a consortium exists to act on behalf of its members in terms of managing contracts, with an equal share and equal voting rights held by each member.

Figure 2.1: Basic consortium model



2.31 The consortium is viewed as an innovative business model, enabling greater economic opportunity for companies involved. In particular, the consortium approach has the potential to address the issue of challenges faced by small and medium-sized businesses (SMEs) in competing with larger companies. Benefits are brought through scale, complementarity rather than competition of resources, and increased confidence to access market opportunities. Ekosgen, in identifying the impacts and benefits of consortia, identified a wide range of benefits for participating members, from the hard economic (sales) to the softer economic (improved knowledge-exchange between members) to social (such as reduced isolation) to environmental benefits.^{47,48}

The performance of consortia in Scotland

2.32 There is limited information in research or other literature on the performance of consortia cooperatives in Scotland, aside from the ekosgen work cited above. However, in its most recent Annual Report, CDS indicated that it had supported the creation of 20 new consortia, involving over 250 businesses, and projected to increase to over 400 companies within three years.⁴⁹

⁴⁷ ekosgen (2011) *Benefits and Impacts of Consortium Business Models – a methodology for monitoring and measurement: A report to Cooperative Development Scotland*

⁴⁸ ekosgen (2013) *Impacts and Benefits of Consortia: Final Report for Cooperative Development Scotland*

⁴⁹ Cooperative Development Scotland (2015) *Annual Review 2014-15*

2.33 A number of notable consortia exist in Scotland. The Argyll and Islands Tourism Cooperative was established with CDS support in 2012 as a consortium of local tourism organisations in Argyll⁵⁰. It is now seen as an exemplar for destination marketing / management; a number of stakeholder consultees noted this during the consultation process, with one highlighting that it was being used as an example of best practice for other destination areas. The Scottish Craft Distillers Limited was established as a means to promote and represent the interest of Scottish craft distillers at a political, legislative and environmental level, as well as assisting the development of member companies. It also serves to develop new UK and international markets for members such as Strathearn Distillery and Crossbill Highland Distilling.⁵¹

Consortium Case study examples

The 'In Concerto' consortium

2.34 Again there are many good examples of consortia operating at scale. These include the 'In Concerto' consortium in Castelfranco Veneto, North East Italy, founded in 2002 by local social cooperatives which by 2012 was the biggest business in the area and provides rehabilitation services. Another example is the société coopérative d'intérêt collectif (Cooperative Company of Collective Interest; SCIC), a new kind of cooperative in France, which aims to partner with a wide range of organisations to produce *"all types of goods and services which meet the collective needs of a territory with the best possible mobilisation of its economic and social resources"*

The potential of consortia

2.35 As with the evidence base on the current performance of Scottish consortia, there is little existing evidence or research into the potential contribution of consortia to the Scottish economy. However, a number of stakeholder pointed to the potential of the consortium approach in terms of securing business for smaller companies, as well as generating significant gains in terms of turnover and competitive advantage for larger ones. The best practice examples above are not typical of the consortia that exist in Scotland, although a number of consortia that currently exist in Scotland do operate at scale. As chapter 3 discusses, there seemed to be some recognition that consortia remained an untapped business model for real economic gain.

Community cooperatives

The nature of the sector

2.36 Community cooperatives are those where the community in effect acts as entrepreneur, to secure greater social and environmental returns for a local area / community. This model has seen increased popularity in recent years, often as a response to the threat of losing local amenities such as shops, post offices or pubs⁵². It is particularly prevalent in England.

2.37 Community cooperatives are often established to secure service / utility provision. For example, in Scotland community schemes are being established to set up renewable energy installations, and for the purpose of rolling out Next Generation Access broadband to more

⁵⁰ Argyll & the Isles (2015) Join us. From: <http://www.exploreargyll.co.uk/join.php>

⁵¹ Scottish Craft Distillers Limited (2015) About us. From: <http://scottishcraftdistillers.org/about-us/>

⁵² Hesketh Newmarket Brewery (2015) About Hesketh Newmarket Brewery. From: <http://www.hesketbrewery.co.uk/about-us/>

remote rural areas, such as through Community Broadband Scotland. This is a Scottish Government project led by Highlands and Islands Enterprise (HIE) intended to inspire, support and empower remote and rural communities across Scotland to establish community broadband networks.⁵³ Childcare is also becoming a focus of community cooperatives. Cooperative Societies and Community Benefit Societies (which most community cooperatives are) are the only form of cooperative to be able to publicly issue shares. They are run by committee, often drawing its membership from interested local people.

2.38 It should be noted that social enterprises are often confused with member cooperatives. Although there are a number of similarities between the two models, e.g. the pursuit of social returns for communities, and the provision of particular services required by a defined population, they are quite distinct, even though all are registered as companies that are limited by guarantee. Community interest companies (CIC) or development trusts have an interest in owning assets on behalf of a community, such as those divested by local authorities (particularly for CICs), whereas community cooperatives have a more deliberate aim of providing jobs, services or enterprise to a local community, and are democratically constituted to be accountable to its members and / or the community / customers that it serves. Community cooperatives can also own assets on behalf of communities.

The performance of community cooperatives in Scotland

2.39 Past research into the performance of community cooperatives in Scotland, and specifically the Highlands and Islands (H&I), has pointed to the success of community cooperatives on a number of different levels: job and service creation; business / enterprise creation; asset base development; and revenue generation to underpin further local development. It also highlighted the transformational social benefits that cooperatives have – consciousness and awareness-raising, encouraging participation, up-skilling, as well as reinforcing what is seen as the mutual co-operation tradition of the region.⁵⁴ More recently, a notable number of renewable energy community cooperatives have been established, such as the Islay Energy Community Benefit Society.⁵⁵ As well as generating more sustainable forms of energy for remote rural communities, a number of other benefits have been identified, including the transformational impact such projects have on local communities, an increase in local skills and capacity, increased and retained income and economic wealth, and job creation / retention, all of which drive socio-economic development at a local scale.⁵⁶

Case study examples

Social cooperatives in Italy

2.40 Social cooperatives, a form of community cooperative, are a distinct, important and rapidly growing sector of the Italian economy. Developed during the 1970s at a time of low economic productivity and high unemployment in Italy, they have grown and evolved to form a crucial element of the delivery of social services in partnership with municipalities.⁵⁷ Social

⁵³ Highlands and Islands Enterprise (2015) Community Broadband Scotland, <http://www.hie.co.uk/community-support/community-broadband-scotland/>

⁵⁴ Gordon, M. (2002) Highlands and Islands of Scotland to the Development of the Social Economy, *Journal of Rural Co-operation*, 30(2), pp.95-117

⁵⁵ Islay Community Benefit Society (2015) Home. From: <http://islayenergycbs.com/>

⁵⁶ Highlands and Islands Enterprise (2014) *Practical measures to maximise socio-economic impact: the HIE approach to local energy economies*, Conference presentation for the 2014 Community Energy Scotland Conference

⁵⁷ Social Enterprise London (2002) *Social cooperatives in Italy: Lessons for the UK*

cooperatives in Italy are distinguished by their social goals: their objective is the general benefit of the community and the social integration of citizens, particularly those disadvantaged.⁵⁸

The potential of community cooperatives

2.41 The potential of community cooperatives goes beyond the economic value that such cooperatives bring. In the case of community shops, pubs and other amenities, the direct economic benefits may well be modest. However, such benefits can be significant at a *local* scale, retaining jobs and income that would otherwise be hard to provide, and also retaining people and businesses in sometimes fragile communities. In the case of community energy schemes, however, the potential for economic gain can be considerably greater, particularly in instances where such communities are able to export energy back to the national grid. On the whole, though, it is the wider, softer economic benefits and social benefits that are arguably more important in such instances, and as illustrated above, it is social objectives that typically drive community cooperatives.

Potential to develop the cooperative sector

Increasing competitive advantages

2.42 Cooperatives can have a transformational impact on the competitive advantage of individual businesses. There is a wealth of evidence to suggest that the gains in productivity and innovation in EO businesses as a result of greater employee engagement put them at a distinct advantage in comparison to traditional business models. An added advantage is the greater levels of resilience to market fluctuations displayed by EO businesses.

2.43 For consortia, there are also a range of advantages. Collaboration can facilitate greater levels of knowledge-sharing and innovation, as well as creating greater opportunities through accessing new markets and opening up bidding, tendering and other opportunities not previously accessible by individual businesses. This is particularly important for smaller and more rural businesses seeking to compete in larger regional, national and international markets.

Retaining wealth

2.44 Cooperatives help to retain wealth both at a national and local scale. As argued by Brown et al. (2014), policy frameworks that support EO are justified and greater efforts to advocate the benefits of EO should be pursued. This is not simply to foster greater levels of growth, but also prevent the trade sales of firms when owner-managers retire. Since many trade sales or acquisitions are driven by foreign-owned firms, encouraging EO may also be a good mechanism for retaining domestic ownership of Scottish businesses.⁵⁹ In some instances, this can be at a much more local level, with the retention of major or locally important businesses that act as anchor employers for local communities. As illustrated above, community cooperatives can also have the same effect, whether as key businesses at a micro scale, or through revenue generation by activities such as community energy.

⁵⁸ European Commission (2013) *Social economy and social entrepreneurship: Social Europe Guide Volume 4*, p.35

⁵⁹ Brown, R. et al. (2014) The performance of employee-owned businesses in Scotland: some preliminary empirical evidence, *Fraser of Allander Institute Economic Commentary*, 37(3), p.115

Strengthening the potential of social economy

2.45 The recent economic crisis demonstrated that social economy organisations can not only be more resilient than investor-owned enterprises, but also highlighted the shortcomings of more traditional business models. In addition to the economic contribution of social economy organisations, it is important to note that the involvement of citizens in this type of enterprise increases confidence in the democratic process and the creation of social capital.⁶⁰ Social economy organisations such as community cooperatives also effectively foster entrepreneurship and business creation, in a number of ways:

- They contribute to generating economic activity in areas that are otherwise neglected due to low profitability;
- They bring an entrepreneurial culture in sectors that were traditionally considered outside of the scope of entrepreneurial behaviour, especially in the delivery of social, health and educational services; and
- Their higher level of resilience works to mitigate the effects of the economic crisis and possibly offer a path towards a different model of economic growth.⁶¹

New cooperative development

2.46 The financial and economic crisis as well as increasing awareness about cooperatives awoke interest in cooperatives and similar business models. Several initiatives for establishing new cooperatives have emerged in recent years, in traditional (e.g. farmers' cooperatives) and new sectors (e.g. media, worker, local food supply, energy and housing cooperatives).⁶²

Barriers and challenges to growing the sector

Issues of scale and volume

2.47 There is a limited evidence base on the current scale of the sector, and the lack of information can itself be a barrier to growing the sector (i.e. knowing the baseline size of the sector.cooperative A previous Communities and Local Government Committee report by the UK Government identified the lack of understanding of the scale and size of the cooperative and mutual sector.⁶³

Governance issues

2.48 The 'standard' business argument against the adoption of cooperative or alternative business models over more traditional business models is that cooperatives can have weak governance and lack market control. However, this critique is based on viewing cooperatives in the standard firm ownership model, i.e. ones that are investor-owned, with assumed low-level of member interest, which can be inefficient as a result. However, in cooperatives, psychological ownership motivations are at play. As members feel the cooperative is theirs, they are

⁶⁰ European Commission (2013) *Social economy and social entrepreneurship: Social Europe Guide Volume 4*, pp.52-54

⁶¹ *Ibid.*, pp.77-78

⁶² Avsec, F. & Štromajer, J. (2015) Development and socioeconomic environment of cooperatives in Slovenia, *Journal of Cooperative Organization and Management*, Volume 3, pp.40-48

⁶³ HM Government (2012) Communities and Local Government Committee – Fifth Report: Mutual and cooperative approaches to delivering local services

motivated to use behave differently. Administrators with a sense of ownership act as contributing stewards. It is the psychological ownership that secures the success and future of the cooperative form of enterprise.⁶⁴

2.49 Also, predominant economic theories of the firm neglect the importance of co-operation based on trust and loyalty, and that as a result, their criticisms of worker cooperatives are incomplete. Competence-based theories tend to focus exclusively on coordination and thus fail to acknowledge that the development and application of productive knowledge also involves co-operation. Contract-based theories typically adhere to a rigid model of behaviour that does not account for the type of co-operation involved. Cooperatives may in fact be more propitiously situated than conventional firms to achieve the co-operation involved in the development and application of productive knowledge, and that they can achieve coordination without incurring potentially adverse effects on co-operation.⁶⁵

Other barriers to growth

2.50 There are a range of barriers to cooperative growth, both in Scotland and elsewhere. Some of these are cultural. For example, as identified above, cooperatives have in the 20th Century and early 21st Century been (negatively) associated with particular socialist and left-wing political and labour movements, and some of these associations and negative connotations persist, as identified through the consultation programme. Other consultees also highlighted the misconceptions held by some businesses on the incompatibility of cooperatives with profit-making and growth. Such negative connotations that some businesses and commentators associate with the term 'cooperative' have been cited as a particular barrier to increasing the impact of cooperatives, preventing the adoption of otherwise suitable business models.^{66,67}

2.51 Research for the European Commission has also identified a range of other challenges that affect cooperatives and prevent them from maximising their economic impact on the economies they operate in.⁶⁸ These include:

- The lack of visibility that still affects this segment of the economy, which in part can be attributed to inadequate business support and marketing / promotion on behalf of cooperatives (arguably itself a product of the lack of awareness);
- Access to appropriate financing – particularly since most financial products, grant / loan support and other financial assistance is at least perceived to be geared towards traditional business models;

⁶⁴ Borgström, M. (2013) Effective cooperative governance: A practitioner's perspective, *Journal of Cooperative Organization and Management*, Volume 1, pp.49-50

⁶⁵ Thompson, S. (2015) Towards a social theory of the firm: Worker cooperatives reconsidered, *Journal of Cooperative Organization and Management*, Volume 3, pp.3-13

⁶⁶ OCDC (2013) *COOPERATIVE ADVOCACY: A Practical Guide for Advocating Cooperative Legal and Regulatory Reform* (Washington DC, OCDC)

⁶⁷ Asioli, D. et al. (2011) *The cooperative business ethos: Its contribution to sustainable local food supply An investigation of retailer cooperatives in Finland and Italy*, Paper for the 27th IMP Conference in Glasgow

⁶⁸ European Commission (2013) *Social economy and social entrepreneurship: Social Europe Guide Volume 4*, p.81

- The lack of specialised training and education for both cooperative businesses and employees, and also the business support mechanisms that support cooperatives, which creates a competitive disadvantage relative to conventional businesses; and
- Underdeveloped support networks and infrastructure providing suitable business development and support services.

Key point summary

2.52 Scotland has a strong history of cooperatives, with a number pre-dating the establishment of the Rochdale Principles. However, in recent years, the association of cooperatives with political and labour movements, along with a range of misconceptions, has acted to prevent the more widespread uptake of cooperative models.

2.53 However, there are a number of strong examples from Scotland and globally of highly successful cooperative businesses, across the range of alternative business models. These bring a range of economic benefits, such as increased productivity, increased competitive advantage and (local) retention of wealth, plus greater resilience. They also bring a whole range of softer economic benefits, as well as an extensive number of social benefits, which are often as important. In some instances, such as in community cooperatives and in smaller or more rural communities, the social benefits are more important than the economic benefits that cooperative working can bring.

2.54 Though limited evidence exists in terms of quantifiable benefits, extensive anecdotal and other evidence suggests that there is significant potential for cooperative models to contribute to the Scottish economy and the objectives of Scotland's Economic Strategy. This is explored further in Chapter 3.

3 The contribution of cooperative business models to the Scottish economy and Scotland's Economic Strategy

Introduction

3.1 This chapter examines the current and potential contribution of cooperative business models to the Scottish economy, and specifically to the objectives of the Scottish Government's new economic strategy. It is informed by widespread consultation with stakeholders who have been asked to provide their views.

The current contribution of cooperative models to Scotland's Economic Strategy

Overview

3.2 Views on the *current* contribution of cooperative models to the Economic Strategy are mixed. It is certainly the case that almost all those consulted consider there to be more potential in the sector than is currently the case. The *potential* of the sector is explored later in this chapter.

3.3 The current contribution of the sector is viewed most positively by those working most closely with the sector, which typically correlates to the level of understanding of the sector. Those who understand the sector less fully tend to see its contribution as more marginal. Even among some more informed consultees, a number think the contribution of cooperatives to the economy is really quite modest, or on the periphery – and will always be.

3.4 Around half the 40 stakeholders consulted considered the current contribution of cooperative models as limited or moderate, and a further 25% were unable to say. By contrast, more than 80% regard there to be significant or very significant *potential* in the sector.

Improving competitiveness

3.5 By extension, the view from stakeholders is that the current contribution of cooperatives to improving competitiveness is relatively modest, but that it is increasing. This is predominantly an issue of volume, and this is true for EO, consortium cooperatives and community cooperatives. Whilst the contribution of individual cooperatives or business adopting alternative business models may be significant, this is not happening on a large enough scale to effect change at a national ES level. Still, many feel there is latent demand and strong potential for alternative models to be more widespread.

3.6 For **EO businesses**, there is a wide recognition that where EO does exist then this helps to improve competitiveness. This is still in relatively small numbers, yet there is a general understanding EO helps drive innovation and creativity through stimulating greater employee engagement and participation in strategic direction setting. There is a perception that the workplace innovation often found amongst EO organisations drives competitiveness. The progressive people practices that are put in place help to foster greater levels of motivation.

3.7 EO businesses have been supported in the past, and this continues to be the case. EO Scotland existed prior to CDS, and now the Employee Ownership Association (EOA) provides support to businesses that are employee owned or transitioning to employee ownership across the UK. There has also been support to EO businesses via the Family Business Association

(and Family Business Unit) in particular with regard to succession planning, yet the numbers involved in EO continue to be quite modest. However, many believe there could be far higher numbers of EO businesses active in Scotland.

3.8 Similarly **consortia** have been regarded as having a modest contribution in terms of the number of formal consortia, and often their scale, where many are small, although again there appears to be a widespread view that there is more potential in the sector. Consortium arrangements produce network / framework or local economic ecosystem arrangements that otherwise would not have been seen or realised by businesses. This has been noted in some sectors in particular, such as tourism which lends itself to collaboration (where small businesses combine to jointly promote an area, or aligned products), although not always formal consortia. In such instances, consortia are considered to be a solid platform for economic growth, providing stability and security for small businesses, whilst enabling greater access to support and funding, and thus fostering increased competitiveness.

3.9 In terms of the current contribution, some are of the view that this is relatively modest and that significant benefits only come where there are larger consortia (for example in the oil and gas sector (see below)).

3.10 Consortia can certainly be important in local areas and in rural areas. They enable the step up from existing, limited local markets that small companies operate in to competing in more regional, national and even international markets. Food and drink companies in particular are seen to be benefitting hugely from this approach, although this is also the case in other sectors, including creative industries and forestry.

3.11 **Community cooperatives** also contribute to improving competitiveness. The current contribution in certain local community contexts, is strong, and growing, with the potential for further growth (see below). A good example is the Community Shares programme (see 3.22 below) – a way of financing local economic growth which has seen an increase in the diversity of projects over the year since it started and which cover renewable energy projects and a range of economy/ enterprise projects.

Creating an economy which is fairer and more equal

3.12 Cooperative, or alternative business models, are seen to be contributing to creating a fairer, more equal economy, although again the current contribution is seen as relatively modest, albeit one that is growing, especially in communities. Cooperatives, given the way they are constituted, are deemed inherently democratic, equitable, socially just, fair, and inclusive. The achievement of inclusive growth is seen as being “in their DNA”. As a result, cooperative businesses can facilitate a more balanced economy, and to achieve rebalancing growth.

3.13 The UK Government recognises the contribution cooperatives make, especially **EO businesses**. They are seen as a good way of retaining jobs locally and there is a more supportive legislative support for EO, including tax breaks. EO already makes a good contribution to a fairer and more equal economy, where EO is in place. It helps to set a level playing field in terms of governance and power in businesses, as well as a more equitable form of wealth generation and remuneration, in part due to its focus on the long-term viability and well-being of the company rather than a more short-term concern with company share price. In one instance, this resulted in the equalisation of the company pay structure, resulting in less disparity between the highest and lowest paid.

3.14 There is also recognition of the enabling role that **consortia** play in creating greater business opportunity for smaller business, in addition to competitiveness. In giving smaller business a "seat at a bigger table", there is more equality of opportunity. One particular example highlighted was at the 2014 Commonwealth Games, where consortia approaches enabled the showcasing of a significant number of small food and drink producers from predominantly fragile rural areas of Scotland.

3.15 One stakeholder argued that approaches being taken throughout Scotland's tourism sector are demonstrably more inclusive as a result of the equitable collaboration approach being employed. Each company secures an equal footing in consortia and collaborative partnerships. A good example is the Argyll and Islands Strategic Tourism Partnership where, in this case, the consortium model has been used to improve cohesion in the tourism sector, and where the model itself ensures the consortium is representative of the sector through an elected process.

Strengthening communities

3.16 Cooperatives are also playing a significant role in strengthening communities, and this is widely recognised. There is evidence that cooperatives are, directly and indirectly securing business and employment, acting to protect community facilities, helping to guard against depopulation, and acting against fragility of areas. They are facilitating resilience, particularly in more remote, rural areas.

3.17 There is evidence that **EO** is good at meeting local employment needs (i.e. providing employment locally) and rooting businesses in Scotland, and in their local communities, thereby strengthening the community and growing the local economy; Scott & Fyfe in Tayport is a good example of this (see Appendix B). Geographically specific consortia can achieve this as well. This is avoiding the loss of jobs and businesses to outside owners (and thus threat of relocation and removal of economic value / benefits from Scottish economy). This is in turn creating deeper local roots, and a greater level of corporate social responsibility.

3.18 There is evidence of covenants or similar provisions which guarantee a local presence, comparing it in positive terms to common practice amongst a range of businesses elsewhere in Europe, such as in Germany (irrespective of whether the business in question had a cooperative form or not). Other benefits are highlighted. EO businesses tend to look for local suppliers. They also tend to see that employees live closer to work / more locally, so less time is spent commuting by employees. This can result in greater community participation, and greater local spend by employees. These factors combined can result in more supply chain and indirect spend benefits within local economies, acting as local multipliers.

3.19 The scale of impact cooperatives (including EO where these exist) are having in areas such as the H&I is clearly recognised. Due to the prevalence of SMEs and degree of family ownership throughout the H&I region and specifically in fragile areas, cooperatives are contributing to strengthening communities, and in many cases are having disproportionately positive impact, even if the absolute scale of economic impact is not substantial.

3.20 There are also examples of **consortia** contributing to stronger communities. One example is groups of Development Trusts bidding as consortia – e.g. for larger employability contracts. This is about alternative models to service delivery and strengthening rural and urban communities via service delivery, although this still largely remains a potential rather than a current contribution.

3.21 In the case of **community cooperatives**, the primary motivator is seen as the achievement of social outcomes, shared endeavours that act to strengthen the social fabric of communities. The role of the Community Empowerment Bill, recently passed by the Scottish Parliament in June 2015, in bolstering this role was also highlighted.

3.22 The number of community cooperatives is growing; for example, many renewable energy cooperatives are established as community cooperatives, and over 30 renewable energy cooperatives had been established between 2008 and 2012.⁶⁹ This is bolstering community rights and also the right to develop assets for communities (an essential part of Community Asset Transfer). The Community Shares programme is a good example of this. The Development Trust Association for Scotland (DTAS) is the lead partner of the Big Lottery funded programme which arose out of DTA England and funding from Co-ops UK which supported a community shares pilot in England and Wales. This introduced a new way of funding community projects. Although initially not covering Scotland, DTAS thought it could work in Scotland too. They had ongoing discussion with CDS over two years and this dialogue between the Big Lottery Fund, DTAS and CDS informed the current programme.

3.23 Community Benefit Societies are now an acceptable structure for communities to apply for land and asset transfer (investment by community rather than donation). They are now legitimate community bodies supported by the Community Empowerment Bill (previously had to be limited by guarantee).

3.24 The current contribution in the H&I is more extensive than elsewhere, where there is a longer history of cooperative development and where community cooperatives constitute a large proportion of the 105 cooperatives in the Highlands and Islands. Across the H&I there is a disproportionate level of activity, going back to the 1960s, and is a core way of doing business in some communities.

3.25 There are benefits of the formal governance model for communities. A good example is Community Broadband Scotland. For example, seven communities have come together in Argyll/Islands in relation to broadband) and the cooperative model is almost essential i.e. to create aggregated demand.

Achieving the Scottish Business Pledge

3.26 Cooperatives are already making a contribution to the Scottish Business Pledge, through staff engagement amongst EO companies, and equal rights in terms of voting and participation in cooperatives. EO business are seen as more likely to pay the living wage, and also have lower pay differentials (as indicated above), fewer zero hour contracts, and be more equitably managed firms overall, with other qualities such as better supplier relationships. .

3.27 However, there is an acknowledgement that some smaller companies are not paying and cannot pay the living wage, whether due to size or sector (with food and drink producers identified as a sector where this is likely to be the case). Nevertheless, some stakeholders agreed that this may be achieved through consortia, with lower, shared costs, greater access to markets, etc. creating the potential for increased turnover, and thus increasing benefits for employees in the longer term.

⁶⁹ Cooperatives UK (2012) *Cooperative renewable energy in the UK: A guide to this growing sector*

3.28 It is worth noting that a number of consultees view meeting the necessary criteria to satisfy the Scottish Business Pledge as onerous for some, particularly smaller, companies that may be in consortia, or even small EO organisations, with the suggestion that smaller food, tourism and retail companies would struggle to achieve this. There was also the suggestion from some that the Business Pledge could be more of a distraction than a help, since cooperatives already have a tendency to be responsible employers.

Current understanding of cooperative models

3.29 The general view is that understanding of cooperatives is weak, other than those immersed in the sector or supporting one of the models, irrespective of sector or audience. The suggestion from consultees is that most do not know what a cooperative really is, whether general public, business, intermediary organisations, or public sector support bodies, besides CDS. This provides CDS with a market failure rationale (see Chapter 5). Only those already engaged directly with cooperatives have a strong level of understanding of the models. Some of this relates to a dated perception of cooperatives, but the misunderstandings are quite widespread.

3.30 More widely, one specific reason given for this is that understanding is limited (and skewed) by (or to) awareness of the Cooperative Group or the John Lewis Partnership, with no awareness of the many different varieties cooperatives can take. Cooperatives in Scotland and the UK are typically considered constrained by the relative success of the consumer retail cooperative movement in the UK in comparison to mainland Europe. Where there is greater awareness, it is perceived to be clouded by the demise of high-profile cooperatives, such as Tullis Russell. Also, an extension of this is that cooperatives, as well as being associated with worker or consumer cooperatives, are *not* associated with consortia, or particularly by EO (and if there is an appreciation of EO, this is partial).

3.31 The lack of real education on cooperatives is also identified, with many consultees pinpointing the very low level of education available (at any level) as being critical to constraining understanding of cooperatives. Some noted the absence of cooperatives at a Higher Education level, on management degree or MBAs courses, as a viable business model with little teaching around these elements. This form of education/information deficiency market failure continues to exist and at many levels. One stakeholder in particular commented that throughout their academic and professional education and training, cooperatives amounted to about "five minutes' worth" of course content.

3.32 There was also a suggestion that business advisor knowledge is not as strong as it could be, with one consultee stating that "if we are signposting businesses, the knowledge needs to be there." There was also acknowledgement from some stakeholders that amongst the generally weak understanding of cooperatives, public sector understanding is also not strong, which in turn impacts on the overall business support offer. We return to this issue in Chapter 5, including CDS's role in increasing awareness in partners and professional intermediaries.

3.33 In summary here, there are a number of market failures in relation to information deficiencies (which CDS is addressing – see Chapters 4 and 5). These are: a weak understanding of what constitutes a cooperative business; a lack of understanding of the benefits that being a cooperative brings; and lack of knowledge about how to become a cooperative. These information deficiencies exist in the business support sector as well as amongst the business community, employees and communities.

Benefits of cooperative working/alternative business models for businesses and sectors

3.34 There are a wide range of benefits of from alternative business models, including direct economic impacts. These are further highlighted in the economic impact assessment of CDS support and wider benefits described in Chapter 6.

Stimulating innovation

3.35 There is certainly evidence that EO can help foster and stimulate innovation, and 80% of EO businesses and consortia surveyed for this research have introduced new innovations following their transition or set up (see Chapter 6). For EO, this is achieved though greater employee engagement. More than 70% of EO businesses supported by CDS have already seen increased levels of employer engagement and increased staff input to decision making (see Figure 3.1 and Chapter 6). Employees may always be capable of bringing innovation to the business, but only EO release this by providing the requisite motivation for employees to be engaged.

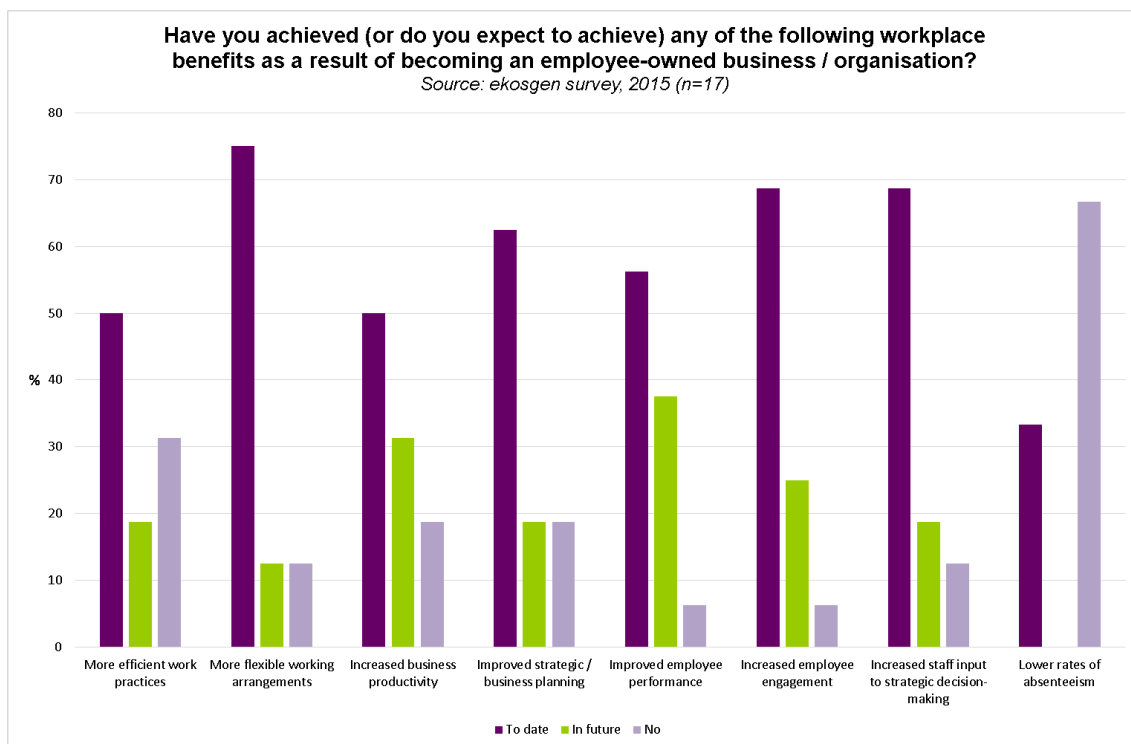
3.36 This is backed up by employees from one EO, Scott & Fyfe in Tayport (see case study in Appendix B). Though an innovative culture was already starting to emerge as a result of an in-house project led by a research institute, a shift to EO crystallised it through greater engagement and empowerment of staff, allowing for implementation of ideas and methods that had not previously been fully exploited. Similarly, in this example, EO has fostered a “fail faster” ethos – where there is encouragement to try out new ideas, process, products, and so on, and to learn and move on quickly if they fail.

3.37 EO businesses are also coming together more, and networking more widely. This is bringing wider, more informal collaboration and knowledge sharing, and a cross-fertilisation of ideas as a result, further driving innovation. Evidence from earlier work by ekosgen on the impacts and benefits of consortia, reinforced by this review, is that consortium working fosters innovation. At the time of the last study, over a third of respondent consortia had developed a new innovation, and it was seen by many as a critical success factor.

3.38 More widely, cooperatives are seen as being sources of business self-help and business self-improvement as result of greater engagement and responsibility, whether on the part of employee-owners or consortium members. The shared accountability is perceived to drive a greater willingness to be proactive in making things better.

Business processes, work practices

3.39 Alternative business models can and do also help improve business processes, linked to business innovation. Figure 3.1 below illustrates this, based on feedback from 17 EO businesses. Half have seen more efficient business practices as a result of moving to EO, and a further third expect to do so in the future. More than 60% have introduced new business and strategic planning processes.



Market presence and customer relationships

3.40 As well as driving competitiveness, the pooling of resources, sharing of costs, undertaking of joint investments, also open up access to markets otherwise unavailable. This aspect of consortia in particular was seen as important for smaller enterprises in giving them greater market presence. This is further expanded upon in Chapter 6. The coming together of businesses does not automatically make businesses more attractive to customers; however, establishing the right group can make a consortium of businesses a real market force, though often this takes time.

Geographic representation of cooperatives

3.41 There is also the perception that consortium approaches are more prevalent in more rural areas, in part reflecting the more spatial (land or location-based) nature of the sectors in which they are most frequent, e.g. food and drink and tourism. A similar perception applies to community cooperatives, where the sense is they are more appropriate in smaller and rural communities, although there is no reason more community cooperatives and consortia cannot exist in urban areas.

3.42 EO businesses, where they are larger, are perceived to be more prevalent in urban areas, particularly the Central Belt, although most know of a few larger and higher profile EO businesses in the H&I (Aquascot, West Highland Press) or outside the Central Belt (such as Scott and Fyfe). Smaller EO businesses, associated with succession planning, are often again associated with rural areas. Chapter 4 shows the geographic coverage of the cooperatives supported by CDS.

The potential of cooperative models

3.43 There is widespread acknowledgement that cooperative models offer more potential than is the case at present. This is not a universally held view, and some think that

cooperatives or alternative business models will always be on the margins. Others state it will not be for all businesses. Further, some think that the demand cannot be created, although the market failures around information deficiencies can be better overcome.

Favourable Policy Environment

3.44 What is clear is that there is a favourable political context. The inclusive growth agenda presents “a fair wind” for growing the cooperative business base. There is an opportunity for different business models in different environments; for EO engagement; consortia; and for community cooperatives. Whilst inclusive growth has always been there in Scottish Government and enterprise agency policy, it is now far more visible. Programme for Government presents an opportunity to more fully realise the potential for alternative business models. Cooperatives also chime with the Fairer Work agenda, for enterprising workplaces and a more productive, engaged workforce.

3.45 As well as the increased focus on inclusive growth, the Community Empowerment Bill presents further opportunities for community cooperatives. Some regard there still to be “*a job to be done in Scotland*”, although there needs to be an acceptance the returns will be different to those derived from large businesses.

3.46 Further, there is strong policy support for EO businesses, arising from the Nuttal Review reprised in Chapter 2. The UK government sees this as a good way to plan for retirement, based on the US model where the US government promotes EO as a way for business owners to secure retirement income and where the model is used quite extensively. Overall, cooperative, or alternative models, are seen as being able to deliver inclusive growth, cohesive growth, and sustainable growth. For many it is “*not good enough to have growth for growth’s sake*”. Rather, the potential exists to create a rebalancing form of growth, and there is lots of potential in sustainable business models. The collaborative spirit evident in Germany’s *Mittelstand* businesses is a prime example of this.⁷⁰

3.47 CDS themselves cite the “Scotland CAN DO” framework in their strategic approach (see Chapter 4), and this too presents a positive environment within which to promote alternative business models. Although there is a favourable policy environment there remains a need for cultural change/push, as Scotland continues to largely do business in the same way as it has done, despite technological changes.

Continued Need for Collaboration

3.48 In a basic sense, the continued need for smaller (and medium sized) businesses to collaborate to remain/increase competitiveness provides a rationale for cooperative working, although not all of this requires formal constitution (and of course there are other factors that also drive competitiveness other than collaboration). Nonetheless, this is seen as having further potential to stimulate alternative businesses models across a number of sectors. Scotland’s business base is characterised by small businesses, many of whom have growth aspirations but are constrained by scale. The reverse is also true, there are fewer businesses of scale (and expertise/experience) to compete internationally, and collaboration between businesses can help create scale and share knowledge (and risks).

⁷⁰ Venhor, B. (2013) *The power of uncommon common sense management principles – The secret recipe of German Mittelstand companies: Lessons for large and small companies*, Conference Presentation, 2nd Global Drucker Forum Vienna 2010

Employee-ownership

3.49 The potential of the EO model is seen to be significant. They are potential wealth generators for exiting business owners (a financial imperative) as well as offering benefits to employees (and communities).

3.50 The level of employee ownership in the USA, and the economic benefit that such EO businesses bring, is held up as being indicative of latent potential in Scotland, though few are able to comment on the actual scale of potential, or how many businesses might be suited to EO in Scotland. If the USA rate of EO ownership was applied to Scotland there would be more than 200 Scottish EO businesses with Employee Share Ownership plans (ESOP) alone, aside from other forms of cooperative, relating to 250,000 employees, 10% of the total workforce⁷¹, although any direct comparisons are difficult given the different legislative environments between the USA and the UK. MONDRAGON in the Basque region of Spain, as cited in Chapter 2, is also highlighted as a particularly good example for demonstrating the significant potential benefits of cooperatives (see also Appendix C).

3.51 EO is regarded as having significant potential in rural areas, including H&I, with respect to succession and its role in retaining local businesses and jobs. CDS recognise the potential of succession – and have conducted some market research/intelligence into the scale of the opportunity to establish whether this is the case. This relates to the “baby boomer” generation which is now of retirement age. CDS see considerable potential for EO among owners who are seeking an exit from their business, and there appears to be market failure in the understanding of how to move to EO or the benefits it can bring.

3.52 Part of the potential relates in the EO model is the fact that there are genuine financial advantages to EO for the owner, and that this is not sufficiently well understood. Some of this relates to the tax benefits of EO and the supportive legislation – for example the ESOP provides tax advantages. Owners exiting their businesses through a move to EO can obtain a fair price alongside non-financial benefits (such as a retained input through the transition), although often a trade sale secures a better price given the seller is looking for the optimum time to sell to secure the best price. EO is also a tangible business solution, one of a finite list of options for exiting owners, where EO is an option alongside others such as a trade sale or Management Buy-out (MBO).

3.53 Despite the considerable potential of EO, there is a need to be clear where EO is appropriate. The rationale is sound where EO increases the viability and sustainability of the business e.g. family businesses, or where a business is well established. It is less appropriate where there are high levels of capital expenditure (e.g. sectors that are knowledge intensive) and for example where considerable or rapid re-investment is required.

Public sector service delivery

3.54 There is considerable potential for alternative business models in terms of public service delivery and contributing to local authority social objectives. This is particularly the case in the context of public sector financial constraints. There is also recognition of the role that public

⁷¹ There are an estimated 11,000 businesses with EO plans in the United States according to the Oakland National Center for Employee Ownership). This is 0.14% of the 8m US businesses with employees. Applied to the 156,765 registered Scottish businesses equals this is 215 Scottish businesses. However, some US EO businesses are very large and the same Center estimates 13 million employees are covered by EO plans, some 10% of the US workforce.

sector procurement can play as a commercial opportunity for cooperatives, and consortia specifically, creating both an economic impact as well as innovation in service delivery.

3.55 Two particular examples are the Cooperative Councils of Glasgow and Edinburgh. Glasgow City Council have enshrined cooperative working in corporate policy, and have a £1 million budget. Their action plan is centred around growing cooperative services, changing the way the Council works (including efforts to instigate a culture change within the organisation), and ensuring that service delivery is done with service users and groups, rather than just for or to. In Edinburgh, the Memorandum of Understanding with CDS translates strategic thinking about cooperatives into a more formal planning mechanism. This has been introduced as part of the Council restructure and BOLD approach (Better Outcomes through Leaner Delivery). The Council is seeking to drive cooperative behaviour.

3.56 Community Asset Transfer could also be used as a means to support growth, especially through community cooperatives. There is also seen to be considerable potential in rural areas, although not exclusively. DTAS see the scope for more service delivery in rural areas and fragile areas, but also in disadvantaged urban areas.

3.57 A good example is Highland Homecare, the largest EO headquartered in Scotland by number of employees, some 440 employees or so in total. This is supported by Highland Council and NHS Highland and provides a wide range of services in the care sector, engaging employees. Consortia can similarly be a good model for public sector service delivery.

Strengthening Communities

3.58 The role of community cooperatives, consortia, and to a lesser extent EO, are seen as having further potential to strengthen communities. This is a HIE priority, and a number of consultees recognised the potential for further consortium building, and the potential to strengthen / reinforce communities, local economies and fragile areas. There is an appreciation of this importance even if the scale of the economic impact / return will be relatively small – in many instances the impact will be vital to those fragile communities. One example is Food from Argyll, the consortium of Argyll food producers who combine to attend events and festivals and joined marketing/ sales events which helps sustain jobs in businesses located in some remote areas.

3.59 Many see cooperative models as powerful and appropriate, with broad application, especially in rural areas; one that is not always maximised. HIE are working with CDS to realise this potential.

3.60 Further, there is the potential to scale up social enterprise, community led ownership, and community assets. Often communities have poor infrastructure; existing arrangements often cannot generate scale in the way cooperatives can. The whole concept of community investment via shares is regarded as having significant potential and the approach can and is generated large sums via community share issues (including the work of Community Shares Scotland with whom CDS continue to work).

Community Based Enterprises

3.61 By extension, there is potential in community-based enterprises. Not all community enterprises are social enterprises by any means, and (at least in the past) social enterprises have been supported by policy and promoted in a more structured way a lot more over the last 20 years. As mentioned, more community enterprise happens in the Highlands and Islands,

and there may be an opportunity in lowland Scotland. Community based enterprises are seen as having considerable further potential to address inequality by offering local employment opportunities in a supportive work environment. This can be equally applicable to cities, to work together for a common interest, such as the Castle Road collective in Edinburgh, to generate workshop space, amongst others.

Specific sectors – Food and Drink, Textiles

3.62 There is perceived to be further potential in certain sectors, notwithstanding a certain level of activity and contribution currently exists. There is a view that there is further potential for collaborative activity, including amongst those that are non-trading collective groups (e.g. those that are coming together for marketing but not directly trading as an entity). The Food and Drink (and also the Textiles) sector can benefit further from economies of scale through collaboration and supplier development. This is already happening in relation to common interest groups coming together, some of which is around innovation and R&D, drawing in Interface (to connect with HE) and trade associations.

3.63 An example of the potential for effective collaborative working, possibly through a consortium approach, is with respect to craft brewers, who are being piloted as one of SE's one to many account management approach. Currently SE is regarded as good at one to one account management, and in developing specific projects working with clusters of companies, yet there has traditionally been less support for the ongoing collaborative approach.

3.64 Another example of collaborative working, which may lend itself to a cooperative or alternative business model in the textiles sector, is Rail Interior Solutions (RIS) who are a non-trading group of companies. RIS brings together different parts of the textiles sector in Scotland and seeks to secure contracts to supply textiles for rail interiors. Here, SE facilitates the collaboration, which is an informal collective, although one company typically takes the lead and an account manager manages this relationship. There is scope for more examples of this type of collaboration, although it can be resource intensive for a public sector partner, or lead business/ organisation, to continue to facilitate the relationships between group members.

3.65 There is a general sense there is potential for more consortia, and for more support to them, for example around trade shows and exhibitions, and this is not restricted to smaller companies. There have been new and emerging opportunities in the Food and Drink sector, such as those linked to major events last year, including supply chain opportunities.

Specific Sectors – Creative and Digital Industries

3.66 Creative industries is another sector where many think there is further potential for alternative business models. An example is the Creative Exchange/Creative Edinburgh, an 'open plan' exchange where some 1,600 businesses are involved and 57 different organisations. However, the majority of this is informal collaboration. CDS have been involved and provided some advice. Creative Edinburgh has searchable website and is designed to foster Business-2-Business activity. It has its own Board and is a small company with 1-2 employees limited by guarantee and generates income through network subscription.

3.67 Similarly, with regards to digital and technology, there are large amounts of collaborative activity, although again the majority is informal. An example is Codebase Edinburgh; businesses coming together here have the technical but not the business skills (such as sales and marketing, business planning, financial management and funding) and so

need to work together to develop the businesses and grow (and there is some world class excellence here, such as Skyscanner).

Sectors which may benefit from one-to-many support

3.68 There is a general view that there is potential around the one to many account managed groups to develop more cooperative approaches. These are typically very small companies, and where there is a need (and opportunity) to build capacity in businesses involved. This may suit certain sectors, including Food and Drink above, but also retail, customer services and other sectors. For these sectors (and others including the computer games sector) there is the potential for businesses to come together to access international markets (a key Economic Strategy objective), and there is potential in the consortium cooperative model as a means of delivering this.

Other sectors – oil and gas, manufacturing and engineering

3.69 The oil and gas sector has already been cited as one where intense competition is creating the environment for cooperative working to secure competitive advantages with some success. Alternative business models can apply and be relevant to any sector. In EO, there are major opportunities to support further businesses in manufacturing and engineering to make the transition to EO. Clansman, a 40+ strong EO engineering/assembly business in East Kilbride is a case in point, where the EO model could be replicated widely in the sector, although the right set of circumstances would need to be present to make this happen. Clansman Dynamics is an excellent example of how employer engagement is retaining wealth in Scotland and creating more stable job security.

Transfer of best practice

3.70 Some stakeholders noted the indirect potential of cooperatives, indicating that cooperative practices such as employee engagement can be lifted from EO organisations and spread to other traditional business models to drive greater levels of innovation and competitiveness.

Quantifying the Potential for Cooperative or Alternative Business Models

3.71 As chapter 2 indicates, there are few studies that have sought to quantify the potential scale of the sector. However, the potential could be very significant, particularly across the three model types on which CDS focuses.

3.72 In relation to EO alone, in 2013, the Family Business Unit identified that 73% of Scottish businesses describe themselves as family-owned where they employ 50% of the private sector workforce⁷². The Office for National Statistics, through the Inter-Departmental Business Register (IDBR) identifies the total number of businesses in Scotland at 156,765, of which some 114,438 would be family-owned. If 5% of these would be interested in EO, this would be some 6,000 businesses.

3.73 CDS have themselves sought to quantify the scale of the EO opportunity. In 2012 CDS estimated a target market of 5,500 businesses in Scotland for EO. This took businesses with 10-249 employees which at the time (2012) accounted for 12,500 businesses: EO is most relevant to family businesses (which at that time was estimated to account for 70% of Scottish

⁷² <http://www.familybusinessunited.com/research/the-oldest-family-businesses-in-scotland/>

business base). Research at the time by Deloitte identified that the number of business owners looking for an exit increased to 63% in 2011. Based on these two factors, it was estimated that 5,500 businesses will be considering ownership succession over the next few years, which suggests some considerable potential to increase numbers in the sector above the current modest level.

3.74 The CDS analysis states that EO will be most attractive to those owners that are concerned to see their business survive and thrive within its community in Scotland. The analysis stated that a number of factors are required to be considered, such as speed of exit and the ability to raise finance from employees. However, the number of businesses in family ownership illustrates significant potential for the adoption of this business model within the Scottish economy.

Constraints and barriers to realising this potential – market failures

3.75 There are a number of barriers to realising the potential of cooperatives, from cultural factors to other forms of market failure, both in terms of understanding how cooperative models work and their potential benefits to businesses.

Cultural

3.76 The historic legacy of cooperatives and the perception of their association with political or labour movements in the past, is often an unhelpful connotation. Cooperatives can often be perceived to be incongruent with profit-making or “proper” business approaches. Others reference misconceptions around efficiencies of cooperatives, or incompatibility with profit-making given the perceptions of more social objectives of cooperatives. Thus there are seemingly deep-rooted views of there not being a *good* cooperative model. Again this often relates to partial levels of understanding, or at least reflecting the differences *between* cooperatives/alternative business models. For some, the challenge here is to associate the cooperative brand with something else – perhaps with collaboration rather the standard cooperative thinking.

3.77 As a consequence, some stakeholders see the need for wide-scale culture change, whether amongst the business base of Scotland and the mind-set of business owners, or amongst the public sector view of cooperatives, including amongst support teams and organisations. This is a major challenge and this review recommends that this culture change is addressed on a number of fronts. CDS are mindful of this, and the negative connotations the use of cooperatives can bring, favouring the use of the three specific model types when communicating messages (EO, consortia and community cooperatives)

3.78 Other mind-sets are also considered to be a barrier to greater levels of transition to EO, e.g. the focus of incumbent business owners on maximising profit to achieve greater personal returns, or the perception of owners that they are maximising returns on the sale of a company through a trade sale (which may be a false perception). These can act against the transfer of businesses to EO.

3.79 There is typically limited awareness of the EO options for business owners, and options available to them. Some business owners have offered favourable terms in selling the business to employees, and this can dissuade other sellers seeking a better price. Others perceive the transition to EO be a reaction to a business in crisis. As chapter 2 illustrated, there are a number of areas/regions in Europe and elsewhere where there is a broader acceptance of the

cooperative culture, or that it is part of the ethos of the people (such as Flanders where cooperatives form the whole cultural environment).

Understanding of Intermediaries

3.80 There remains a relatively poor understanding amongst professional intermediaries of cooperative models and their benefits, and alternative business models are not always being offered as viable options.. Some are of the view that intermediary professions such as lawyers and solicitors can see cooperative business models as too stable, and thus not as profitable for them, and so there is reduced understanding in handling the specific legalities, tax requirements, financial setup etc. Again, CDS are aware of the need to continue to build capacity in this sector and have been seeking to achieve this.

3.81 There is also a view that some intermediaries (and businesses) that matters such as tax regimes, legal structures and the change in business approaches, etc. are too complex to consider. In general there is the perception that the awareness of cooperatives and the benefits that they can bring is not there amongst professional intermediaries, or the case has not been proven for them, e.g. on consortia / collaborative working. There is a need for real demonstration of benefits in order to realise the potential in the professional services sector.

3.82 Despite a favourable legislative environment, e.g. tax effectiveness, and awareness raising by CDS (see chapter 5, such as through ICAS magazine), there does not seem to be a breakthrough, or spike, in referrals from intermediaries. This is akin to the lack of awareness of access to finance measures amongst public sector intermediaries in the past, where understanding of the available financial support instruments (for the traditional business model sector) is now much improved. .

The need for a formal constitution

3.83 It is also the case that some businesses see cooperative approaches as too specialised a set-up, where other non-formal cooperative variations of collaborative working that are less formalised and time consuming/complex to establish are more preferable. The need for formally constituting as a cooperative is therefore questioned by some. Coupled with this, the timescales for cooperative set-up, or transitioning to EO, are often perceived to be lengthy, and one that does not typically happen quickly. Further, new business skills are required to facilitate the transition. There are also negative perceptions amongst some business on the affordability of transition to EO.

Understanding of policy-makers

3.84 Some also consider policy makers have a partial or limiting understanding of cooperatives. As a consequence, many think business legislation and policy defaults to the standard business model, as does the provision of business services.

Businesses do not see the benefits

3.85 In a number of instances, stakeholders pointed to more practical barriers, such as the likelihood of businesses “having to get on with day job” – and thus no time for thinking about collaboration or more cooperative approaches. This lack of time and capacity is often cited as a barrier, but what it really means is that businesses do not typically see the (sufficient) benefits of cooperative working to invest the time. Others suggested that whilst models such as EO had the

potential to unlock innovative thinking, converting that thinking into an EO business model (and therefore realising potential) is an entirely different proposition.

Challenges in communicating the potential of cooperative models

3.86 The perceived complexity of, and variety of cooperative models, makes communicating their benefits challenging. Notwithstanding this, the awareness of the benefits are perceived to be weak. This is not wholly about CDS (see chapter 5), with many seeing a greater need for more communication and awareness-raising around alternative business models, and in some instances, there is a perception that not enough is being done on communicating the potential and benefit of cooperative models. Others consider there to be missed opportunities because of the lack of both awareness *and* wider awareness-raising.

Too Narrow a Definition of Cooperative?

3.87 Further, there was feedback from some consultees regarding the fact that there are a lot of companies that would fit under a cooperative banner that are not formally constituted as cooperatives, but they have / adhere to cooperative values (such as collectives or groups of like-minded or same sector businesses). One consultee suggested that there was a wider debate to be had on what was more important – the label and adherence to a model and attempts to fulfil a description, or living by and operating to cooperative values, and championing cooperative ways of working. Some also see the scope for widening the debate on cooperative values, rather than models, pointing to the prevalence of companies that are already extolling the values of cooperatives, even if they don't fit a cooperative label, or view themselves as a cooperative.

Further innovation in the application of cooperative models

3.88 There was less agreement amongst consultees on the need for further innovation in applying cooperative models to the Scottish economy. For some, there is not really a need for further innovation, given the benefits of alternative business models, just an absolute need to demonstrate the viability and value of cooperative models for Scottish businesses and communities. For some, this is as simple as the need for relevant case studies. Others suggested that there was a need to learn from approaches adopted in other cooperative circles, such as the work of the Scottish Agricultural Organisation Society (SAOS) with agricultural cooperatives, in order to exploit crossover potential in ways of working.

3.89 Others perceived there to be administrative burdens, for example for new consortia, and contended that there is a need to understand the most efficient approaches to make consortia more attractive. One consultee noted that there were ways around formal constitution whilst retaining a collaborative approach – e.g. consortia-building on project basis, via an agreement or memorandum of understanding, but then that this may not be eligible for CDS support. CDS are aware of the need to minimise the bureaucracy and administration for new consortium cooperatives, and are effective in ensuring the process is administration-light.

Summary and conclusions

3.90 There is a widespread view that there is untapped potential for greater levels of cooperative working. In many quarters, there is genuine enthusiasm for cooperative or alternative business models. The policy context in Scotland is viewed as particularly favourable, and where awareness of the models and the sector is greatest, there is a real belief that this potential can be realised.

3.91 At the same time, the current contribution of cooperatives is seen to be relatively modest, albeit a contribution that is growing. There are a number of barriers to growing this contribution. CDS has had – and is expected to continue – a role in supporting and growing the sector. There is appetite for more support for the sector, and a genuine desire to see a step change in the level of cooperative working to benefit businesses, employees and communities in Scotland.

4 The role of Cooperative Development Scotland

Introduction

4.1 The previous chapter reviews the overall potential of the cooperative or alternative business sector. This chapter provides an overview of CDS's evolution over the review period 2009 to 2015. It reviews the rationale for, and stated aims and objectives of, CDS's activities. It also reviews expenditure to date. It is based on a review of internal documents and stakeholder consultations. Specifically the chapter covers:

- the rationale and evidence base for funding CDS and supporting CDS to contribute to Scottish Government, SE and HIE strategic priorities;
- CDS's own strategy development and operating priorities;
- anticipated benefits and CDS targets;
- budgets and costs;
- actual expenditure;
- activities undertaken;
- performance against targets; and
- a profile of supported clients.

Rationale and contribution to strategic priorities

4.2 CDS was established as a wholly-owned subsidiary of SE in 2005.⁷³ Its remit is Scotland-wide, with the aim of *"promot[ing] and facilitat[ing] the development of cooperative enterprises."* At its inception, the then Scottish Executive's guidance stipulated that *"CDS should have an enterprise focus, excluding social enterprise and those sectors that have existing support mechanisms (agricultural, housing, football supporters' trusts, credit unions)."*⁷⁴ CDS was therefore established as *"a specialist unit which promotes cooperative enterprise models, acts as a facilitator of knowledge and monitors the overall 'sector.'"*⁷⁵

4.3 CDS's stated purpose is now to *"support the development of cooperative and employee-owned enterprises across Scotland"*⁷⁶ by influencing the Scottish business community. It is a subsidiary of SE, working in partnership with HIE.⁷⁷ CDS continues to address the market failures in the level of understanding and knowledge of cooperative models and their benefits, either in the case of business owners who may benefit from EO, or amongst groups of companies (or individuals) knowing how to (and understanding the benefits of) coming together to form consortia or community cooperatives.

2009-12 Funding Period

4.4 The economic downturn and challenging economic conditions led to increased public awareness of the desire for more 'ethical' ways of doing business, a view supported by the Scotland and UK governments at the time. The Paper also recognised the increasing value being placed on 'localism' amongst consumers, for example with 'ethical sourcing' of food and drink products and renewable energy generation. Further, there was an increasing recognition

⁷³ Please note, this evaluation covers the period 2009-2015 so does not evaluate the initial contract.

⁷⁴ Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009., p.1

⁷⁵ Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009., p.1

⁷⁶ <http://www.scottish-enterprise.com/microsites/cooperative-development-scotland/about-us>

⁷⁷ <http://www.scottish-enterprise.com/microsites/cooperative-development-scotland/about-us>

of the benefits of cooperatives in the media, particularly in terms of promoting a more socially inclusive, and more 'ethical form of development.'⁷⁸ Within these circumstances, it was emphasised that:

*"...there is significant scope to generate sustainable economic growth through promoting business models based on collaboration. This is particularly the case in the current economic climate – where the benefit of co-operating with others reduces risk and enables wider benefits to be realised (innovation, investment, productivity)."*⁷⁹

4.5 In addition to the context above, there was a perceived need for a body to promote cooperatives and raise awareness, due to the market failure rationale related to *"information inefficiencies and difficulties in accessing relevant business advice (private & public)."* The approval paper also identified *"negative perceptions and [a] poor understanding of cooperative enterprise models,"* consequently leading to *"lower levels of business start-up, survival rates and growth."*⁸⁰

4.6 The rationale for funding CDS for the 2009-2012 period was to maximise the potential of cooperative models, whilst tackling the negative associations of 'co-operation' and information deficiencies. The aim was to *"address this failure in the short-term (through extensive promotional activity and advice) and in the long-term (through up-skilling professional advisers)."*⁸¹ The objectives, as identified in the 2009-12 Approval Paper were to *"improve awareness of cooperative enterprise"* and *"increase the adoption and growth of cooperative enterprises (resulting in economic, social and environmental impacts)."*⁸²

4.7 CDS's strategic priorities, set out in order to meet the above objectives, are summarised in Table 4.1 below.

Table 4.1: CDS Strategic Priorities 2009-2012

Role	Strategic priority
Client Support	Start-up opportunities. E.g. wind power, local food & drink, forestry, tourism, arts/crafts, transport, retail, community services (e.g. post offices, pubs),, consultants/professional advisers, teachers & manufacturing
	Conversion to employee ownership. Effective solution for family businesses seeking to manage succession without allowing ownership to shift outside the employees and/ or local community. Also an option when businesses are restructuring.
	Growth of existing cooperatives and employee-owned businesses
Policy influence	Influencing policy makers of the merits of using cooperative models to further their own objectives. Potential emerging opportunities including renewable energy, transfer of public services (e.g. care, leisure, waste, education, utilities) and technology start-ups and spin-outs.

Source: *Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009, p.3.*

⁷⁸ Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009., p.1

⁷⁹ Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009., p.1

⁸⁰ Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009., pp.2-3

⁸¹ Scottish Enterprise (2015) *For Approval: Cooperative Development Scotland.* 3rd February 2015, p.1

⁸² Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009., p.2

2012-15 Funding Period

4.8 The rationale for funding in the 2012-15 funding period was similar to that in 2009-2012, although with an increasing emphasis on awareness raising and truly embedding cooperative models in Scotland's business infrastructure, with the aim of 'mainstreaming' them. Accordingly, CDS's aim was "to support strategically significant consortium projects (contributing to SE/ HIE's key industries priorities)," as well as evidencing the benefits and 'proving' the merits of employee ownership, as a generally poorly understood model, so that increasing proportions of businesses transition to the model in the future.⁸³

2015-16 Contract Period

4.9 The focus for the 2015/16 period was to "further embed activities and enhance impact." CDS has thus been focusing; "identify[ing] strategically significant consortium projects and larger scale employee buyouts in key sectors...through working with Sector and International teams to determine high impact collaborative opportunities and aligning CDS support with the Company Growth differentiated account management mode."⁸⁴

Alignment with Scottish Government, SE and HIE priorities

4.10 Although the policy context has evolved since the 2009 approval, CDS's activities and remit have always sought to be closely aligned with both SE/HIE (articulated through their Operating Plans) and Scottish Government economic development priorities (communicated through the Government's Economic Strategy).

2009-2012 Contract Period

4.11 As outlined in the 2009 Approval Paper, cooperatives can make a clear contribution to the Scottish Government's objective of sustainable economic growth, and can play a key role in facilitating "solidarity, cohesion, participation and environmental sustainability." Further, cooperatives can make a key contribution to SE's Business Plan objectives for 'Enterprise', by "formalising collaboration to drive economic growth."⁸⁵ Similarly, cooperatives align well with HIE's Operating Plan at the time (2010-13), again with the focus on enterprise and strengthening communities, particularly in fragile areas.⁸⁶

4.12 Cooperatives were viewed as being particularly well aligned to growth objectives within the energy, food and drink, forestry and tourism priority industries, as well as having a great potential/actual "contribution to the equalities agenda, spreading benefits within organisations and communities, addressing environmental issues, and making an important contribution to the Scottish Rural Development Programme."⁸⁷

2012-2015 Contract Period

4.13 The 2012 Approval Paper further made the case for cooperative's contribution to SE/HIE's industry priorities and their overall Operating Plans, focusing on key sectors and CDS's role in "supporting collaborative ventures in these industries." CDS's activities were presented as being an important element of SE's Sector Delivery Plans – by "increasing

⁸³ Scottish Enterprise (2012) Review Paper: Cooperative Development Scotland. 21st February 2012., p.1

⁸⁴ Scottish Enterprise (2015) *For Approval: Cooperative Development Scotland*. 3rd February 2015, p.1

⁸⁵ Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009., p.2

⁸⁶ Highlands and Islands Enterprise (2010) *Operating Plan 2010/13*. Online at:

<http://www.hie.co.uk/common/handlers/download-document.ashx?id=86a2f206-dedd-467a-a536-2c38d7646171>

⁸⁷ Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009., p.2

productivity, stimulating innovation, securing jobs and driving growth.” To increase its alignment with Scottish Government, SE and HIE priorities, CDS had been working (and continues to do so) with specific sector teams to find the best way for specialist support to contribute to these goals, and has also worked with Scottish Development International and Smart Exporter to try and promote international ventures. CDS has supported a number of ‘low carbon’ ventures and contributes to strengthening communities and fragile area agendas, particularly in rural areas, thus contributing to HIE Operating Priorities.⁸⁸

2015-16 Contract Period

4.14 Following the publication of the renewed Scottish Economic Strategy (2015), the current funding period is very much focusing on the contribution that collaboration can make to Scotland (and cooperatives can be a way of achieving this), as *“a country with a higher than average proportion of small, ambitious and capable businesses.”*⁸⁹ As such, CDS has been working to emphasise that cooperative business models can *“contribute directly to the core objectives of the Government’s recently launched economic strategy, which aims to make the Scottish economy fairer and more internationally competitive.”*⁹⁰ Specifically for consortia, these include internationalisation, by enabling businesses to *“work together in exporting, sharing the risks and costs and potentially accessing SDI support”*; innovation, by allowing *“businesses the opportunity to share the risks and costs of innovation”*; inclusive growth, through collective working and increasing the ability of smaller businesses to access larger public sector contracts; and investment, *“by enabling businesses to invest collectively in a shared property or venture”* and sharing risk.⁹¹

4.15 CDS’s aim is therefore to *“support businesses to unlock capacity from **people** (employees and partner businesses) and introduce **innovative business practices** that lead to turnover and jobs growth.”* CDS has also emphasised the potential of the cooperative ethos to deliver wider societal benefits (e.g. resilience, well-being, equality). By promoting workplace innovation, employee engagement, community involvement and collaboration, cooperative models have the potential to make an important contribution to a number of the issues highlighted in the new Programme for Government and in Strategic Guidance, including the:

- Scottish Business Pledge;
- Scotland CAN DO framework, maximising the potential of EO *“to create a world-leading entrepreneurial and innovative nation”*;
- ‘Working Together Review: Progressive Workplace Policies in Scotland’;
- Community Empowerment (Scotland) Bill, seeking to increase local decision making; and the
- Community Right to Buy, encouraging communities *“to take control of publically owned buildings and land.”*⁹²

⁸⁸ Scottish Enterprise (2012) Review Paper: Cooperative Development Scotland. 21st February 2012., p.1

⁸⁹ Cooperative Development Scotland (2015) *Annual Review 2014/15*, p.4

⁹⁰ Cooperative Development Scotland (2015) *Annual Review 2014/15*, p.4

⁹¹ Cooperative Development Scotland (2015) *Consortium Cooperative Strategy 2015-18*, pp.5-6;

Cooperative Development Scotland (2015) *Annual Review 2014/15*, p.4

⁹² Scottish Enterprise (2015) *For Approval: Cooperative Development Scotland*. 3rd February 2015, p.1

CDS's strategy development and operating priorities

4.16 CDS has developed strategies for the two models that are considered to have maximum impact: employee ownership and consortium cooperative models. These are summarised in the following sections. There is no current strategy for community cooperatives, given its relatively new area of specific focus, and the more reactive than proactive approach that is being taken.

Employee Ownership (EO)

4.17 The EO Strategy 2014-17 sets forward CDS's aim to *"ensure employee ownership becomes a mainstream business option, considered alongside and equally with other forms of ownership transfer."* It sets out how EO contributes to a number of key themes that align well with the Scottish Government's Economic Strategy, including *"innovation via new business models, productivity, sustainability, business growth and well-being."* Other benefits include retaining business within Scotland and reducing the risks associated with ownership changes.

4.18 The Strategy also highlights the potential benefits to be generated as a result of transitioning to EO, citing evidence from the UK Government's 'Nuttall Review' of Employee Ownership, published in July 2012 (see chapter 2):

*"EO businesses outperform other businesses in job creation, have a lower risk of failure and are more satisfying places to work. It also emphasised how EO businesses are more resilient than other businesses to changing economic conditions, and that giving employees a stake in long term success is a powerful way of aligning their interests and building company performance."*⁹³

4.19 CDS is currently aiming to *"focus marketing activity as far as possible on businesses with more than £5m turnover (of which CDS aims to have one or two transitions a year)"* and also within key growth sectors, where appropriate. The focus is on those with a turnover of £1m or more in the Highlands and Islands area, reflecting the nature of the business base there.⁹⁴

Consortia

4.20 CDS's *Consortium Cooperative Strategy 2015-18* aims to *"provide a clear line of sight between the SES, SE and HIE objectives and the activities CDS proposes to undertake and how achievements will be measured."* It sets out how the consortium cooperative model also aligns well with the new Economic Strategy, with the view that encouraging collaboration can foster *"sustainable growth in the medium/ longer term by supporting increased competitiveness of member businesses, while also increasing fairness and equality at company level."*⁹⁵

Anticipated Benefits and Targets

4.21 A range of measurable and more intangible benefits and targets have been set for CDS over the period. This section summarises these by contract period.

The 2009-12 Contract Period

4.22 Economic impact projections, recognising that impacts may take some time to be realised. This estimated anticipated net economic impacts for the 2009-2012 period to be in the region £2.4m - £3.8m, based on funding of £2.63m, with additional impact anticipated in the

⁹³ Cooperative Development Scotland (2014) *Employee Ownership Strategy 2014-2017*, p.3

⁹⁴ Cooperative Development Scotland (2014) *Employee Ownership Strategy 2014-2017*, p.7

⁹⁵ Cooperative Development Scotland (2014) *Consortium Cooperative Strategy 2015-2018*, p.3

future as a result of “*awareness raising and policy influence.*” An estimated £8m in GVA was also anticipated to be “*retained via conversion to employee ownership.*” Additional social and environmental impacts were also anticipated, but had not been quantified at the time of the 2009 approval paper.⁹⁶

4.23 The 2009 Approval paper set initial targets, with the aim of generating 10-15 start-ups each year.

The 2012-15 Contract Period

4.24 For the 2012-15 contract, the objectives and associated targets were updated as follows, with the overall aim of maximising impact:

- *“Raise awareness of cooperative and employee ownership models (500 event attendees per annum; and 1800-2000 ezine sign-ups)*
- *[to] Help root companies in Scotland and drive performance and growth (7-9 transfers to EO by 2015)*
- *Help companies collaborate to achieve scale and reduce risk (establish 20-25 new consortia per annum)*
- *Contribution to key industries (50% of clients)*
- *Contribution to industry led strategic initiatives (providing collaboration, best practice and developing propositions (5 projects per annum).”⁹⁷*

4.25 Wider benefits for the period 2012-15 were also identified:

- **“Social benefits** – *cooperative activity has a significant social impact, sustaining jobs in communities and empowering individuals, leading to improved health and well-being;*
- **Sustainable development** – *collaboration and cooperative enterprises can help reduce Scotland’s carbon footprint and deliver the Government’s Low Carbon Economic Strategy;*
- **Rural development** – *cooperative activity has a significant impact in rural locations where small businesses work together for mutual benefit.”⁹⁸*

4.26 In terms of anticipated economic impact, the 2012 Approval Paper estimated that the cumulative GVA generated as a result of CDS’s support was likely to be 10 times the cost by 2013/14, as estimated in an SE review of CDS’s 2010/11 achievements. Over the 2012-15 contract period, it was therefore estimated that a £1.8m investment could generate £18m GVA.⁹⁹

4.27 CDS also set a more general target in 2013/14 of developing 350 new cooperatives in Scotland in the next ten years. It aimed to do this by focusing on scale (potential impact); sector (key industries) and purpose (addressing economic development need).¹⁰⁰

⁹⁶ Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009., p.4

⁹⁷ Scottish Enterprise (2012) Review Paper: Cooperative Development Scotland. 21st February 2012., pp.1,4

⁹⁸ Scottish Enterprise (2012) Review Paper: Cooperative Development Scotland. 21st February 2012., p.6

⁹⁹ Scottish Enterprise (2012) Review Paper: Cooperative Development Scotland. 21st February 2012., p.4

¹⁰⁰ Cooperative Development Scotland (2014) *Annual Review 2013/14*, p.4

The 2015-16 Contract Period

4.28 For the current one year extension period, SMART objectives were intended to create the following, through marketing and advice:

- **“130 consortium enquiries** in 2015/16, which result in **30 new consortia**, of which 40% will deliver +£100,000 additional GVA per annum and 73% in growth sectors [415 consortium enquiries over 3 years 2015/18, resulting in 102 new consortia]
- **GVA impact** from consortia models of **£1-1.5m** [increase from £3.2m during 2012/15 to £5m over 2015/18]
- **70 employee ownership enquiries** in 2015/16, resulting in **7 new employee owned businesses**, of which 25% will have a turnover of >£5m (SE)/ £1m (HIE) and 65% in growth sectors. [225 employee ownership enquiries over 3 years, resulting in 23 new employee owned businesses]
- **GVA impact** from employee ownership of **£3-4m** [increase from £10m during 2012/15 to £13m over 2015/18]
- **International activity** by piloting ‘collaborative exporting’ support by end 2015/16. [Deliver an international demonstrator project by end 2016/17.”¹⁰¹

Employee Ownership

4.29 Specific targets are also set for EO businesses within the 2014-17 Strategy. Between 2013 and 2023, CDS aims to generate a ten-fold increase in supported EO businesses, increasing the number of transitions from 15 (April 2013) to 150 in 2023 (CDS and non-CDS supported), leading to a total of 163 EO businesses headquartered in Scotland.¹⁰² *The Strategy* puts forward the following targets (table 4.2):

Table 4.2

	2013/14	2014/15	2015/16	2016/17
Enquiries received	60	65	70	75
Pipeline clients	100	120	140	140
Completed Transitions	6	7	7	8
Scale: Transitions >£5m turnover (a lower figure will apply in the HIE area)	0	1	1	2
Strategic Focus: Transitions in priority industry sectors	4	4	5	5

Source: Cooperative Development Scotland (2014) *Employee Ownership Strategy 2014-17*, p.6

Consortium Cooperatives

4.30 The anticipated benefits of consortium cooperatives include “reducing costs and risks, creating new platforms for growth, enhanced business profile, improved knowledge sharing, increased business connections and increased confidence to trade. Social outcomes such as reduced sense of isolation and closer links within the local community are frequently achieved in

¹⁰¹ Scottish Enterprise (2015) *For Approval: Cooperative Development Scotland*. 3rd February 2015, p.1

¹⁰² Cooperative Development Scotland (2014) *Employee Ownership Strategy 2014-2017*, p.6; please note, this includes 13 businesses already existent without CDS support.

the short term, with improved business performance usually more obvious when the consortium is longer established.¹⁰³ CDS's annualised targets for consortia, as set out in the *Consortium Cooperative Strategy 2015-18*, are set out in table 4.3:

Table 4.3

	2014/15	2015/16	2016/17	2017/18
Enquiries received	128	130	140	145
Registrations	20	30	35	37
% scale (i.e. those of scale or strategic importance)	30	40	45	45
% in key sectors	70	73	75	78

Source: *Cooperative Development Scotland (2015) Consortium Cooperative Strategy 2015-16*, p.7

4.31 CDS breaks these targets down further in terms of the rationale (purpose) and key sectors, as set out in Tables 4.4 and 4.5 below.

4.32 In terms of purpose, the majority of consortia are expected to focus on marketing, given this has been one of the principle rationales for establishing consortia. Nevertheless, those relating to tendering and innovation are set to grow by 2017/18.

Table 4.4

Purpose	2015/16	2016/17	2017/18	Total
Marketing	23	20	15	58
Tendering	4	8	10	22
Innovation	2	5	8	15
International	1	2	4	7
<i>Total</i>	<i>30</i>	<i>35</i>	<i>37</i>	<i>102</i>

4.33 In terms of the sector, the key areas of focus are the Creative Industries and Tourism, with around a quarter not in key sectors.

Table 4.5

Sector	2015/16	2016/17	2017/18	Total
Creative Industries	11	12	13	36
Tourism	6	7	7	20
Food & Drink	2	3	3	8
Textiles	1	1	1	3
Forestry	1	1	1	3
Renewables	1	1	1	3
New key sectors	1	1	2	4
Other (non-key) sectors	7	9	9	25
<i>Total</i>	<i>30</i>	<i>35</i>	<i>37</i>	<i>102</i>

4.34 Overall, the current contract targets are appropriate. The forward strategy targets are ambitions and challenging to achieve, and are rightly stretching. Both will require support and contribution from SE and HIE colleagues, Business Gateway, other public sector partners and private sector intermediaries (e.g. in generating a sufficient number of good quality enquiries).

¹⁰³ Cooperative Development Scotland (2014) *Consortium Cooperative Strategy 2015-2018*, p.3

Budgets and Funding

4.35 Table 4.6 breaks down the funding approval over the period from 2009-2015. Funding was greatest for the 2009-12 period, at about 1.5 times the value of the 2012-15 contract.

Table 4.6

Funding period	Funding Amount
2009-12	£2,630,000
2012-15	£1,800,000
2015-16	£655,000
<i>Total</i>	<i>£5,085,000</i>

Source: CDS Approval Papers

4.36 The sections below provide a more detailed explanation of the anticipated areas of spend for each contract period.

2009-12 Contract

4.37 For the 2009-2012 funding period, funding was allocated from SE's overall funding from the Scottish Government. The breakdown of anticipated project expenditure is detailed in Table 4.7. Marketing spend was substantial, given CDS's awareness raising role.

Table 4.7

	2009/10	2010/11	2011/12	Total
Nature of spend	£'000	£'000	£'000	£'000
Marketing	202	205	200	607
Development	242	296	293	831
Staffing	360	330	367	1,057
Contingency	30	40	40	110
Evaluation	0	0	25	25
<i>SE total</i>	<i>834</i>	<i>871</i>	<i>925</i>	<i>2,630</i>

Source: Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009, p.5

4.38 Marketing spend relates to the website, newsletters, public relations, advertising, fact-sheets, guides, case-studies, events, awards, video production, partner programmes. Development expenditure is split 50:50 between client support (covering education, training, advice, consultancy, study visits, registrations) and research and policy (covering awareness studies, research projects, feasibilities, policy influence, evaluation, subscriptions). Staffing relates to salaries, national insurance, pensions and training expenses.¹⁰⁴

4.39 The majority of funding was anticipated from SE (see Table 4.8 below), with a small proportion sought from private sources:

¹⁰⁴ Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009., p.15

Table 4.8

Project Funding Sources	£'000
Scottish Enterprise	2,630
European	-
Other public	-
Private (*excludes potential support from Cooperative Group)	229
Total Project Costs	2,859
Gross Approval Sought	2,630
Project Income	0

2012-15 Contract Period

4.40 Total project expenditure for the period 2012-15 was forecast to be as set out in Table 4.9. All of these were to be covered by SE.

Table 4.9

Nature of spend	2012/13	2013/14	2014/15	Total
Marketing	£100,000	£120,000	£120,000	£340,000
Development	£175,000	£120,000	£120,000	£415,000
Staffing and expenses	£325,000	£360,000	£360,000	£1,045,000
Total project costs	£600,000	£600,000	£600,000	£1,800,000

2015-16 Contract Period

4.41 For the current 2015/16 financial year, total project costs were as follows in Table 4.10.

Table 4.10

Nature of spend	2015/16
Marketing	£108,000
Business Support	£100,000
Staffing and expenses	£447,000
Total project costs	£655,000

Source: Scottish Enterprise (2015) For Approval: Cooperative Development Scotland. 3rd February 2015, p.4

Actual Expenditure

4.42 Table 4.11 below details CDS's actual expenditure from 2009/10 to 2014/15. Other operational costs typically relate to staff training/conferences, catering and other minor costs related to Advisory Board activities and membership of various associations and other expenses. In 2012/13, £6,381 of the salary/NI and pension costs are related to temporary agency staff.

4.43 An additional £169,037 was ring-fenced for the International Year of Cooperatives. This was largely allocated for 2011/12 and 2012/13, with £47,695 and £121,223 in each year respectively.

Table 4.11

	Staff costs/ pension	NI/	Other costs*	operational	Grand total

	Staff costs/ pension	NI/ Other costs*	operational Grand total
2009/10	£284,097	£59,367	£343,464
2010/11	£275,623	£23,613	£299,236
2011/12	£260,914	£19,437	£280,351 ¹⁰⁵
2012/13	£298,452	£27,684	£326,136 ¹⁰⁶
2013/14	£348,126	£24,794	£372,920
2014/15	£362,929	£31,909	£394,838 ¹⁰⁷
Grand total	£1,830,141	£186,804	£2,016,945¹⁰⁸

Source: Information provided by CDS; * includes accounts audit/corporation tax and staff expenses

4.44 Table 4.12 summarises CDS's expenditure over the six year period. Since 2012/13, SE has provided some additional funding for the Business Development code, detailed below.

Table 4.12

	Business Development Total Spend:	Of which: CDS Spend	Of which: SE's CDS Product Spend
2009/10	£141,364	£141,364	-
2010/11	£147,476	£147,476	-
2011/12	£179,396	£179,396	-
2012/13	£150,065	£120,550	£29,515
2013/14	£195,443	£139,310	£56,133
2014/15	£154,398	£88,232	£66,166
Grand total	£968,142	£816,328	£151,814

Source: Information provided by CDS

Activities Undertaken

4.45 A range of activities have been undertaken since 2009, with the two main contract periods having the following emphases, following on from their work from 2006-2009 to build presence:

- **2009-12: Strategically and Operationally Integrated.** Recognised within the UK and internationally for an innovative approach to cooperative development.
- **2012-15: Increasing Impact.** Recognised within Scotland, UK and internationally for its catalytic role in the use of cooperative models in economic development.¹⁰⁹

¹⁰⁵ Please note, this figure has been corrected slightly from the figure of £279,285 provided by CDS

¹⁰⁶ Please note, this figure has been corrected slightly from the figure of £323,016 provided by CDS

¹⁰⁷ Please note, this figure has been corrected slightly from the figure of £394,840 provided by CDS

¹⁰⁸ Please note, this figure has been corrected from the figure of £2,012,761 provided by CDS.

Calculations have been corrected based on the sum of the annual spend.

4.46 CDS provides support to cooperative start-ups, established cooperatives wishing to grow and businesses considering transitioning to EO. Clients either access CDS directly or are referred by partner agencies, most commonly SE, HIE, BG, the Scottish Agricultural Organisation Society (SOAS) Ltd. or Cooperatives UK. The key industries of CDS focus are food and drink, tourism, renewable energy, forestry, textile and creative industries, with the rationale that by collaborating, businesses can *“increase their scale resulting in increased productivity and new market opportunities.”*¹¹⁰ CDS works with a range of partners to promote cooperative working and its benefits. Partners include SE, HIE and BG.

4.47 CDS’s core activities involve development (for both individual businesses and of the cooperative sector as a whole) and marketing, to raise awareness of cooperative models. A range of services are provided to clients, including *“impartial advice on legal structures, model rules and registration processes; funding options and sources; share structures and tax implications; membership participation methods and cultural development processes.”* These are the key day-to-day activities of CDS when supporting the three cooperative model types and is the support most valued by supported clients. CDS also hosts a range of online resources and organises promotional events on specific issues, as well as providing funding for feasibility studies and business planning and undertaking *“awareness raising, research and policy influence on behalf of the wider cooperative sector.”*¹¹¹

4.48 CDS also capitalised on the United Nation’s ‘International Year of Cooperatives’ in 2012. CDS’s programme of activities included a Launch Event hosted by the then First Minister, Alex Salmond; a Scotland-wide Roadshow to promote successful cooperatives; the launch of the Collaboration Prize aiming to stimulate new collaborative opportunities; the creation of an Ambassadors Network to promote employee ownership; and research into the performance and impact of employee ownership.¹¹²

4.49 In 2013/14, CDS focused on influencing agendas, contributing to the creation of incentives for employee ownership (through membership of the Department for Business, Innovation and Skills Employee Ownership Stakeholder Group); Community Shares Scotland (with CDS being a member of its Expert Reference Group); and Education Packages for Universities and Colleges.¹¹³

4.50 In 2014/15, the focus was on CDS’s activities of *“business collaboration: enhancing understanding of how a consortium approach can be used to deliver sustained, inclusive growth and increase export potential”* and *“succession planning: highlighting the benefits of adopting employee ownership as an inclusive and innovative succession solution, moving this model further into the mainstream.”*¹¹⁴ CDS also undertakes a range of other activities, including growing CDS’s global network (across the USA, Canada and Europe) as part of best practice exchange and promoting the benefits cooperative models, through various media channels, online content, speaker engagement, EO articles and awareness raising amongst over 700

¹⁰⁹ Scottish Enterprise (2012) Review Paper: Cooperative Development Scotland. 21st February 2012., p.11

¹¹⁰ Cooperative Development Scotland (2014) *Annual Review 2010/11*, p.1

¹¹¹ Scottish Enterprise (2009) Review Paper: Cooperative Development Scotland. 10th February 2009., p.1

¹¹² Cooperative Development Scotland (2014) *Annual Review 2012/13*, p.1

¹¹³ Cooperative Development Scotland (2014) *Annual Review 2013/14*, p.1

¹¹⁴ Cooperative Development Scotland (2015) *Annual Review 2014/15*, p.1

business advisors, lawyers, bankers and accountants. They also undertake/commission research to improve understanding of the strategic impact of business collaboration.¹¹⁵

4.51 The Consortium Collaboration prize was launched in October 2011/12 providing £10,000 (£5,000 in cash and £5,000 in support) to the best collaborative ventures in three different categories (marketing, tendering and innovation purposes), with a total fund value of £30,000.¹¹⁶

Employee Ownership Specific Activities

4.52 CDS's 2014-2017 Employee Ownership Strategy puts forward its proposed activities for the period, with the aim of *“growing and strengthening the EO business community in Scotland by: raising awareness of the model...providing support directly to businesses...[and] engaging in research and policy activities.”* CDS has 11 Employee Ownership Ambassadors who *“provide practical advice... [to help businesses] make an informed decision”* and help increase awareness and *“understanding in the legal and accountancy professions, as well as other professional bodies, to reduce market failure.”*¹¹⁷ EO Ambassadors (as do Consortium Champions) play an important advisory role for CDS. CDS also runs a Succession Campaign which aims to promote the benefits of EO to business owners seeking to pass on their business.

4.53 CDS helps businesses to decide whether employee ownership is the right route for them and, if so, supports them to transition to employee ownership by offering the following services (typically offering three days of support):

- Explaining employee ownership
- Assessing the feasibility of an employee ownership project including all employee share schemes and buyouts
- Advising on the legal, financial and employee engagement aspects of employee ownership projects

4.54 Helping businesses choose appropriate consultants to implement employee ownership and buyout projects.¹¹⁸ The three days of support directly addresses market failure around lack of information and understanding of EO as an option for business owners, although more time and resources than this can be required to articulate the full benefits of EO.

Consortium Cooperatives

4.55 CDS also provides *“specialist advice to businesses from all sectors to support the successful creation of new consortia and further development of existing cooperative groups.”* Advisors work with clients to: *“explore and assess opportunities; develop shared objectives; establish memorandum and members’ agreements; assist ongoing development; structure the company; finance the business; [and] develop member participation.”*¹¹⁹ Again, CDS provides three days of support for new consortia to help them establish themselves as a consortium, and this addresses the market failure related to a lack of knowledge amongst businesses about how

¹¹⁵ Cooperative Development Scotland (2015) *Annual Review 2014/15*, p.1

¹¹⁶ Cooperative Development Scotland (2014) FINAL PRESS RELEASE: Scottish Companies to work together for £30,000 prize, 1st October 2014.

¹¹⁷ Cooperative Development Scotland (2014) *Employee Ownership Strategy 2014-2017*, p.11-14

¹¹⁸ <http://www.scottish-enterprise.com/microsites/cooperative-development-scotland/co-ownership/employee-ownership>

¹¹⁹ <http://www.scottish-enterprise.com/microsites/cooperative-development-scotland/collaboration/consortium-cooperatives>

to come together to form a consortium (although as the report concludes there can also be an ongoing need for support post set-up).

Community Cooperatives

4.56 For community cooperatives, CDS works with clients to “*gauge community support for the idea; assess the availability of the assets; consider the need for financial investment; [and] determine the funding potential within the community.*”¹²⁰. CDS offers three days of support to help community cooperatives establish, although often more resources are required to help communities come together in this structured way.

Performance Against Targets

4.57 Information is provided in the Annual Reviews relating to ventures and buy-outs supported, community cooperatives supported, consortia created, cooperatives created, EO's created, the number of businesses benefitting from professional advice and the number of enquiries received. These are useful additions management information. Full assessment of progress against targets is challenging, given inconsistencies in monitoring data in the early years of CDS..

4.58 Information is also recorded on outcomes. There were some data challenges initially in the early years of CDS when there was no access to CRM and CDS was establishing itself as a new organisation. For some periods temporary staff failed to keep accurate records. In recent years, CDS recording and reporting has improved markedly as the organisation has matured and with the resources of two capable specialist advisers.

4.59 Going forward, it will continue to be important to record the range of CDS activities and outcomes, via CRM2. It is also important to record all contact details, details and outcomes that can be easily updated and monitored.

4.60 For 2009-12, the 2012 Approval Paper states that “*CDS has supported the creation of 68 new cooperatives and employee-owned businesses – 72% increase on baseline for industries within CDS's remit.*” It also estimated that the GVA generated as a result was expected to be ten times the initial amount funded.”¹²¹

4.61 In 2015, it was estimated that CDS has generated a further £13.2m net GVA from 2012-15 by supporting the creation of over 100 new cooperatives and EO businesses, seven in 10 of which are operating in key industries. The cost: impact ratio was estimated at 1:7.¹²²

Client profile

4.62 Table 4.13 below details the profile of CDS clients by geography and type from 2009 to 2015. Please note, this is compiled from CDS's monitoring records, and in some cases, information was missing or incomplete. Where possible, this has been updated based on internet searches.

¹²⁰ <http://www.scottish-enterprise.com/microsites/cooperative-development-scotland/collaboration/consortium-cooperatives>

¹²¹ Scottish Enterprise (2012) Review Paper: Cooperative Development Scotland. 21st February 2012., p.1

¹²² Scottish Enterprise (2015) *For Approval: Cooperative Development Scotland*. 3rd February 2015, p.1

4.63 Just under seven in 10 clients supported by CDS are based in the SE area, with a further 21% in the HIE area. A small number (6 – 4%) are categorised as all of Scotland, and for a further 11 (7%), the geography is not known.

4.64 By far the most common type of cooperative supported is consortia (106 – 68%), with around 13% being either EO organisations or community cooperatives. In all, nine are classified as other – including six worker cooperatives, one Community Interest Company (formerly a worker cooperative) and one classified as ‘other.’

Table 4.13

	Number	Percentage
Geography		
SE	106	68%
HIE	33	21%
All Scotland	6	4%
Not known	11	7%
<i>Total</i>	<i>156</i>	<i>100</i>
Cooperative type		
Employee ownership	21	13%
Consortium	106	68%
Community	21	13%
Other	8	5%
<i>Total</i>	<i>156</i>	<i>99%</i>

Source: CDS Monitoring Data 2009-2015. Please note, percentages may not sum due to rounding.

Summary

4.65 CDS has developed its strategy, focus and operational capability (such as record keeping) over time as the organisation has matured. This has sought to move to a clearer focus on the three specific model types of EO, consortia and community cooperatives. CDS has retained a strong focus on awareness-raising, external partnership working and dissemination of alternative model benefits, and this has been appropriate in the light of the continuing need to raise awareness amongst a wide range of public and private sector partners, businesses and community.

4.66 Whilst there has been a continued awareness-raising and communication role, CDS has sought to increase its focus on impact, and to undertake activities and to support sectors where impact can be greatest. This includes a strong focus on EO where CDS are seeking to help a small number of larger companies make the transition to EO and, as the review indicates, CDS is achieving a focus on EO. CDS also recognises the role cooperatives and alternative business models play in sustainable and rural development, including strengthening communities, at least in part demonstrated by the fact that more than 20% of its supported clients are from the Highlands and Islands, above its 10% population representation.

4.67 CDS has a specific strategy in place for EO and for consortia, and these are partly through their implementation. The subsequent chapter reflects on some of the successes and challenges in delivering against these objectives, and the appropriateness of the approach strategically and operationally.

5 The performance and contribution of Cooperative Development Scotland

Introduction

5.1 This chapter reviews the contribution of CDS in context. It reviews its strategic contribution and the appropriateness of its aims and objectives, its focus on the three models, its targets, CDS's strategic alignment with SG and Enterprise agency priorities and its operational alignment and its positioning.

5.2 The chapter also reviews the effectiveness of key CDS activities in terms of awareness-raising and its effectiveness, external partnership working and the CDS delivery model. Barriers to effective delivery and impact maximisation are also covered. The review is informed by stakeholders, with varying levels of understanding of CDS and its activities, and this context is considered throughout the commentary.

CDS and its strategic contribution

The appropriateness of CDS's aims and objectives

5.3 The general view from consultees, which the report authors echo, is that CDS is operating in the right space, and that its aims and objectives are broadly appropriate. This is notwithstanding there is partial understanding of many of the specific activities of CDS.

The strategic focus on EO

5.4 There is particularly positive feedback around what CDS is seeking to do with EO. As chapter 3 indicates, this is seen as an area with considerable potential, one that can deliver significant productivity benefits, employer engagement and retention of wealth in Scotland. Many would like to see "more value" created by this activity i.e. EO undertaken on a greater scale with more successful companies demonstrating the benefits of EO. This is in line with the CDS strategy to focus activity on companies with turnover of more than £5m in lowland Scotland and £1m in the H&I area and in key growth sectors, where CDS aims to have one or two transitions per year.

5.5 The CDS objective is to make EO a mainstream business option, one that is considered alongside and equally with other forms of ownership transfer. This is regarded as being an appropriate objective, given the potential in the model, particularly given the level of family ownership. In this sense CDS are perceived to be "doing the right job".

The strategic focus on consortia

5.6 CDS continues to promote consortium working as an alternative business model. Supporting this form of collaborative working has been a CDS strategic objective over the whole of the review period, and yet there is a mixed view on the extent to which a narrow focus on the model (i.e. one that is solely about establishing a consortium) is appropriate. The benefits of consortia appear more difficult to package and communicate. The value of collaboration is widely understood, the specific value of cooperative consortia less so.

Community cooperatives

5.7 Community cooperatives have not been a strategic objective of CDS as such, with the more recent upsurge in activity reactive rather than planned. There is no community cooperative strategy in place, yet there is a general acknowledgement that this is worthwhile activity and in line with the CDS strategic aims (which is likely to require a more formalised approach) and the new Economic Strategy focus on Inclusive Growth. There is a view that community cooperatives must continue to support economic development; however it is also understood that community cooperatives can (and do) achieve this.

5.8 For some, however, community cooperatives do not sit well with the drive for improving competitiveness through alternative business models, or are at least a secondary priority. Inclusive growth yes, where this is about good employer engagement and increased staff contribution (and greater links to the SE Organisational Development team to achieve cultural change in business and supporting progressive people ideals), but not necessarily strengthening communities.

The focus on three models

5.9 CDS's strategic focus is on three main forms of cooperatives outlined above. As such, there is a potential danger that CDS is perceived to be too narrowly focused and, potentially quite niche, although given the scale of potential in the three models outlined in chapter 3 (which indicates potential to increase the size of the sector significantly over time) this may not be the case. Some stakeholders believe that the 'narrow' approach is quite limiting (and that CDS are themselves constrained by it) and would prefer a broader approach which includes supporting other models or the three models beyond start-up. As such, there was a view that there is an opportunity to work more widely on succession planning (not just EO) and also more generally on other forms of collaboration. This support does not fit neatly within the three models that CDS promote at present. The question is whether CDS aims and objectives should relate more widely to cooperative values or cooperative forms.

Promoting the Sector

5.10 More widely, there is a view held that CDS should continue to raise awareness of the benefits of cooperative or alternative business models. This is, and has been, a significant part of the CDS role and its strategic aim. To this end, many consider that CDS should have a wider, *more* encompassing role and wider engagement with partner organisations i.e. that there is a sense that CDS's current remit is too limiting, and that CDS should deal with more than just the current models (EO, consortium cooperatives and community cooperatives),. This is part of the dilemma – achieving focus and promoting the whole cooperative approach.

5.11 Hence for some, CDS should be championing and adopting a clear cooperative enterprise strategy, with necessarily greater resource to drive this. Some see the responsibility for providing this strategic direction and resourcing coming from Scottish Government, particularly given what is perceived as a cooperative, collaborative thrust in the new Economic Strategy.

Views on targets

5.12 CDS targets have generally be seen as being appropriate, although a number have commented on the more stretching targets in the last full contract and particularly in the

2015/2016 extension. Some consider them to be overly ambitious, however the drive implied by ambitious and stretching targets is seen by many stakeholders as the right approach in seeking to achieve step change.

5.13 Targets do typically influence behaviour, and there is some feedback that the recent targets are having a more positive impact on the level of referrals and engagement with SE teams, including sector teams. In the past, CDS targets have tended to focus on activity, rather than outcomes and impact – and whilst there is still the need to generate a greater volume of businesses adopting alternative business models, there is also the need to help them deliver growth (which could involve some form of growth-related target).

Alignment to Scottish Government, SE and HIE priorities

With the Economic Strategy

5.14 CDS activities and approach are aligned well with the Economic Strategy and Scottish Government priorities. As one commented, CDS are “*more aligned than they themselves or anyone else realises...particularly in terms of promoting Scottish ownership through EO*”. For some, CDS’s objectives around promoting EO is central to improving competitiveness and creating inclusive growth in the Scottish economy. In this way, it can be considered as important as the promotion of exporting and its contribution to future economic growth in Scotland.

With SE

5.15 In strategic terms, CDS is well aligned to SE priorities of growth, insofar as CDS strategic objectives and activities are designed to generate GVA. CDS themselves are well aware of the need to demonstrate and achieve business growth. At the same time, there can be tensions between SE’s focus on growth, and CDS activities that are working with smaller companies (often in the case of consortia) and community cooperatives, which have social objectives too. There can also be tension between SE’s focus on achieving and reporting GVA impacts (including over the short-term), and the longer term culture-change which CDS is seeking to bring about in growing alternative business models (from a low base).

5.16 For some, SE should therefore embrace a broader interpretation of CDS, as well as looking to develop the cultural change in business implied by the inclusive growth agenda (which SE is increasingly doing). Some of this strategic misalignment in the past has also been translated into sub-optimal operational practices which have not maximised the inputs of SE and CDS (see below).

With HIE

5.17 Particularly with respect to community cooperatives, but also consortia and to a lesser extent EO, there is strong alignment seen with HIE’s twin objectives of economic growth and strengthening communities. The promotion and encouragement of all forms of cooperatives are seen as supporting a strong economy in Highlands and Islands through the development of different business models, thereby helping to increase business and community resilience.

Link to account management

5.18 Both SE and HIE operate the account management approach. Support for some cooperatives, and community cooperatives in particular, is not always well aligned to the

account management approach, given its focus on growth, and at scale. There is arguably a need for different forms of account management which may allow more cooperatives to be supported (e.g. consortia)– and the one to many approach being trialled is an example of this (see below). Few CDS client companies (past or present) are account managed. The links between CDS and the account management function is not as strong as it should be, reflected in modest levels of referrals.

Within, or outside SE (and integration)

5.19 The research revealed a range of views on the extent to which CDS *should* be aligned to SE and HIE priorities, and whether such focus is right for CDS. The position of CDS as a subsidiary of SE is viewed by some as unhelpful, and that a fully independent body with its own distinct remit on cooperative growth would be more appropriate. One consultee, in echoing views from others on the need for CDS to be a standalone organisation, suggested that any cooperative development unit “*has to be independent from the enterprise network if the Scottish government is serious about a balanced economy and a diversity of business models*”, suggesting that only a standalone organisation can have a sufficiently broad remit.

5.20 For others, CDS should be far *more* integrated with SE and HIE, and that there should be a concerted effort for CDS *not* to be independent, and that more integration is needed to enhance the joint working offer for CDS to fully benefit from being a part of SE.

5.21 Some consultees see a considerable gap between the respective remits of SE and CDS. For instance, one view proffered was that there was a requirement for CDS to concentrate far more on a more commercial, economic growth forms of collaboration, rather than the approach currently undertaken (e.g. with respect consortia). By contrast, others suggested that SE’s growth objectives ‘clouded’ CDS’s mission and prevented it from fully addressing the wider non-economic benefits that cooperatives can bring, which help to foster a more resilient form of economic growth.

A greater focus on social objectives?

5.22 Some consultees questioned whether the current approach really focuses *sufficiently* on balanced economic growth and strengthening communities. These views reflected a desire for CDS to achieve both the full social *and* economic benefits of cooperatives, a remit which requires both more integration with SE and HIE functions, and – potentially - a wider and more clearly defined remit. This included a greater consideration of non-growth objectives by SE, i.e. a more explicit focus on the non-economic and softer benefits of cooperative and collaborative working.

Awareness and understanding of CDS

Effectiveness of CDS awareness-raising

Overview

5.23 CDS are on the whole seen as being effective at raising awareness of cooperatives and sharing information, with their staff being described variously as active, enthusiastic, knowledgeable. They are also seen by many consultees as having a catalytic effect in facilitating culture shift in adoption of EO, for example, which some see as CDS’s strongest “selling point”, even if the impact of the shift will be realised much later. One of CDS’s key

successes has been to establish themselves as 'experts', building their service proposition, and significantly raising the profile of cooperatives and EO in particular. The effort and effectiveness of CDS is seen as good, even if the impacts of this awareness raising may not yet be realised, since the long term nature of CDS's mission will necessarily see stronger results over a period of time. .

5.24 Many still regard it necessary – and beneficial – to have a high profile lead. CDS are well regarded in this way, and are largely visible, particularly the Chief Executive, who recognises the very wide spectrum of audiences from big business to community enterprise. At the same time, awareness of CDS can be more limited at an operational level.

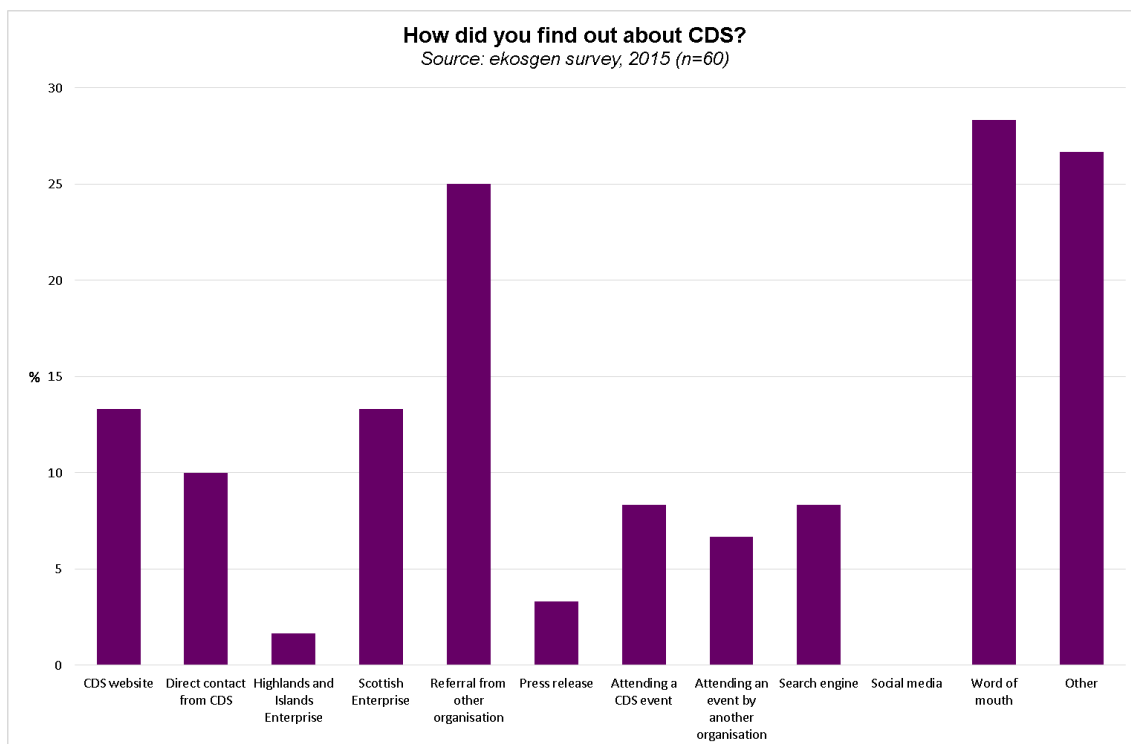
The Collaboration Prize and Successful Succession

5.25 In contrast to CDS's overall awareness-raising, familiarity with their specific marketing campaigns is somewhat patchy: some stakeholders are aware, whilst others are really not, particularly the Successful Succession campaign, which has not been regarded as particularly visible. By contrast, the Collaboration Prize was seen in a more positive light, and being a good tool for promoting collaboration amongst businesses, as well as being judged to have stimulated a good range of collaborations.

5.26 A number of consultees noted that more recently, CDS marketing activity "has been happening in fits and starts", so there is a sense that some of their work is less high-profile than it has previously been, or not as strong as it once was. Some have also questioned the visibility of a CDS presence in the H&I, despite the higher than average proportion of CDS clients there, and this challenge appears to be more at the operational level.

With the business community and clients

5.27 However, there was some question about CDS's effectiveness in raising awareness amongst the business community, in particular the extent to which the messages are appropriately targeted. From the survey of client companies, communication from CDS accounted for just under 40% of all routes to engagement with CDS, including direct communication, the website or CDS events, although none via social media despite the strong CDS presence through this medium. A quarter were engaged as a result of a referral from other organisations (principally Business Gateway) and 15% came through SE or HIE (with the aim to increase the proportion of engagement via referral routes).



Note, cooperative surveyed were asked to tick all that apply

5.28 More than half of the supported CDS clients surveyed became aware of CDS via word of mouth (28%), or by a variety of other means (27%) such as prior knowledge or understanding from working with enterprise networks.

5.29 On balance, despite an active and visible CDS, there remains work to be done to communicate the message by CDS and others, particularly around the benefits of alternative business models. Further communicating and marketing messages on outcomes and value, rather than models and processes, would be appropriate, as would targeting businesses (e.g. for EO/succession) earlier in their decision-making. This is also about the clarity of market and tailoring the message accordingly.

Impact of awareness-raising on pipeline development

5.30 Although some awareness raising efforts will have a long-term payback, consultees consider that CDS's role cannot be understated, considering that the companies that have transitioned to EO, or the consortia and community cooperatives established in recent years as being entirely down to CDS's "energetic and seed-sowing" efforts.

5.31 Some added that many "have only gained understanding of EO through CDS". For example, attention was drawn to the setting up of an energy switching cooperative, and also a district heating cooperative, in which CDS was considered by one the organisation to have been instrumental in this way. This view is borne out by the evidence from client companies, some of whom have attributed all their impacts to CDS.

Use of materials, case studies and communication channels

5.32 However, there is considerable agreement amongst stakeholders consulted that continued and in some cases improved communications are required. For instance, many

consultees considered there to be a real need for more case studies and a larger range of “good news stories”, with a number noting that the same case studies of consortia or EO are being re-used. Further, there was a desire to see more tangible examples, coupled with market segmentation to tailor communications and messages on cooperatives to specific audiences’ needs.

5.33 In addition to this, many consultees urged the consideration of different communication channels or vehicles dependent on the purpose. For example, some consultees warned against what they saw as an over-reliance on social or online media, seen as sometimes the wrong approach, particularly with the target audience for EO, many of whom are older and/or in traditional sectors. A return to printed press channels was seen as being more effective to encourage EO as an option for business succession.

Effectiveness of champions and ambassadors

5.34 CDS’s network of champions and ambassadors are a key part of disseminating the alternative business model message, and this is a new approach for CDS. There are both consortium champions and the 11 EO ambassadors, who are EO business owners/chairs or consortium leads, and their introduction is broadly welcomed. They have been introduced to replace the Advisory Board (although some lament the Board no longer exists –see Governance below), and both the consortium champions and EO ambassadors provide an important advisory role for CDS.

5.35 The champions and ambassadors are seen as complementary to the expertise held in-house by CDS, and in “*bringing a practical business edge to the service that CDS provide*”. The consortium champions in particular bring additional profile, professionalism and credibility to CDS’s work. Some believe the CDS champions can be better connected still and known to more potential cooperatives, and there would be benefits to a rolling programme of consortium champions as there are with EO ambassadors to keep energy levels and impact high. For EO ambassadors, peer to peer influence and advocacy is widely regarded as an effective means of communicating the impacts and benefits of EO.

External Partnership working

Influencing stakeholders and building partnerships

5.36 CDS does well in terms of strategic partner engagement, engaging with a wide range of organisations at the right level, which are perceived to help “buy-in” to what CDS is doing and help shape strategy. The CDS CEO is identified by many as being high-profile, proactive and having considerable influence with politicians and policy makers, and is credited by some as making the cooperative message particularly engaging.

5.37 However, for some the relationships with external partners are only strong for those “in the know” regarding cooperatives. For those who are less directly involved, and/or who do not have regular contact with cooperative models, there is less awareness and partnership working with CDS. One or two consultees view CDS as not being effective enough, and see there being a requirement for a strong chairman to raise their profile.

5.38 There are a number of examples where CDS has built a good relationship, from those in the business community (including clients), to those in the public sector (e.g. Edinburgh City

Council) to those representing communities (e.g. DTAS, where there is a strong strategic and operational around community shares programme).

5.39 The majority of peer organisations regard CDS partnership working to be strong, and it was clear that CDS has a good working relationship with a number of them.

Establishing Scotland's cooperative reputation

5.40 CDS is considered to play a prominent in promoting cooperative models to a wider, and often international, audience. For some, Scotland ranks alongside areas/regions such as Mondragon, Emilia Romagna and Quebec, in its development work. In this regard, it is being seen as at the forefront of cooperative model development and has "*certainly set the standard on employee ownership for the rest of the UK to look at*". Australia and Canada, for example, look to Scotland to learn about EO approaches. Others see CDS as having built strong relationships in terms of community cooperatives, leading the UK in this regard. CDS have also contributed to UK Government thinking around EO development.

The CDS delivery model

Enterprise agency understanding and prioritisation of CDS support

5.41 As trailed earlier, CDS is a subsidiary of SE and works with SE and HIE to deliver its strategic objectives, Whilst there are strong external relationships between CDS and a number of partner organisations, there is not always as a close a link between CDS and SE and HIE as there should be. Part of this is about the priority given to CDS by SE and HIE, and the strength of understanding of the CDS offer..

5.42 There is recognition within SE in particular that cooperative models and the role of CDS has not always been a priority, and that perhaps account managers have not always been as proactive as they can be. Until more recently there has not been a strategic drive within SE, and few referrals from specialist teams or account managers. Some of this relates to the fact that cooperative or alternative business models are seen as just one of a number of potential business solutions.

5.43 That said, there is a continuous need to improve enterprise agency staff understanding of cooperatives and CDS, to allow SE and HIE to know when and how to engage CDS. Some of this is beginning to happen, and HIE are building network of CDS leads amongst their area / sector teams. CDS are also starting to work more strategically with sector teams (eg Food and Drink), in recognition of some of the opportunities available and identified in Chapter 3. There is greater potential to CDS to be part of sector/ industry plan, and in the case of consortia helping businesses work together.

5.44 At the same time, CDS need to continue to raise levels of awareness in both SE and HIE. Some CDS and other practitioners consider SE/HIE knowledge to be poor, e.g. in relation to EO, although it is clear that for some in SE/HIE greater levels of understanding exist (and some believe there are sufficient levels of understanding in account managers). A number within SE/HIE consider that mainstream support is sufficiently available post set-up, yet others do not consider this to be the case, viewing their needs differently

5.45 CDS also needs to continue to develop its pan-Scotland approach and to give sufficient priority to cooperative development in the Highlands and Islands, although there are stronger links being made, both in some sectors (tourism, food and drink and creative industries) and

with respect to community cooperatives. This two-way working needs to be extended at operational level, including by HIE itself, if HIE and the H&I are to gain the greatest benefit from CDS.

The Appropriateness of the Offer

5.46 The current offer – in focusing on the establishment of the three models – is seen as appropriate, although there is a sense that this is rather narrow, and that the assumption that cooperatives are then ready to access mainstream business support post set-up does not always hold true. There is a view – and the client evidence reinforces this - that the post set-up business support required by cooperatives (such as first year handholding to ensure relationships within the cooperative bed down, or support for several businesses coming together under the consortium to plan for consortium business growth) is not currently available either through SE, HIE or Business Gateway (BG). This may also extend to CDS staff, given the current approach to focus on cooperative start-up and not growth. The enterprise agencies (or BG) are not always providing the business support post-CDS, which is considered a mistake by some stakeholders.

5.47 A number therefore consider there to be too much focus on cooperative set-up, and moving companies to formal EO and consortium. The perception is that opportunities are being missed since growth opportunities are not being explored/developed. There is a need for work on developing cooperative businesses further post set-up or transition, making sure co-operative businesses function optimally.

5.48 There is a sense (not entirely misplaced) that BG covers start-up, SE/HIE and BG business growth – but no one is addressing cooperative growth (e.g. new consortia, or EO member engagement) where the interactions can be more complex. New consortia need handholding.

5.49 There are clearly challenges in resourcing a portfolio approach and establishing a number of long-term relationships, and the focus on set-up is appropriate for some cooperatives where they are on the right trajectory and can access the right mainstream support. As the report goes on to recommend however, some early stage post-set up support may be beneficial.

5.50 There is also an opportunity to respond to awareness raising in schools and FE/HE, and to (re) introduce an offer here. CDS did for a while pilot some work with the University of the West of Scotland in partnership with CETS, for curriculum materials/models. This did not continue long enough to understand the impact of this activity, although the development of materials are a useful resource for future use. [The University of West of Scotland continues to include cooperative models in their teaching, with one cooperative being established within months of the materials being introduced. It was not intended that CDS would continue to work with the university, the support was pilot / pump priming activity.](#)

Community cooperatives

5.51 Some also consider the offer not well aligned with SE/HIE where community cooperatives are not focused on growth, or where they are not part of growth sectors. An example is the community pub – a successful cooperative model in England and Wales, but where there can be a community asset and real economic and social impact at a local level.

5.52 Additionally, some consultees suggest more standard business advice around streamlining, efficiency / cost savings is not appropriate or effective work when applied to community cooperatives. More mainstream advice can put pressure on community links and threaten success, rather community cooperative values need to be championed.

Effective joint-working and collaboration

Business Gateway

5.53 The review has already touched upon ways in which CDS can work better with SE and HIE, and vice versa. CDS requires a similarly strong relationship with Business Gateway which, whilst improving in some local authority areas, remains patchy. There is a certain relationship between the two that exists, although this could be stronger, and this tends to be stronger in certain geographic areas than others, largely dependent on personal relationships.

5.54 It is not the case that CDS are seeing a significant volume of referrals from BG, which suggests the positive messages about cooperative benefits has not reached BG advisors who often view the models in the “too hard to achieve” category, notwithstanding that cooperative or alternative business models will not be appropriate for all businesses. Educating advisers and frontline staff can be challenging, where advisers can become somewhat set in their ways of doing things, and even when briefed, can view alternative business models as “not like a proper business”. Changing these attitudes will require significant work.

5.55 There are certain resources available to BG, but these could be further developed. There is, for example the employee buy-out guide, but not one related to consortia. CDS and BG (through the National Unit) could also work together more effectively on joint communications and marketing.

5.56 Where there is some greater traction is with the two cooperative councils, and, given that more of the BG service is being taken under local authority control, working with and through the local authorities is appropriate for developing closer links (for example through the Scottish Local Authorities Economic Development officers (SLAED) and through BG National Unit). For example, CDS is working with Edinburgh CC via the BG Programme manager, and CDS link into local authority work on meet the buyer/procurement and the supplier development programme, for example, in relation to consortia. Even here the potential is untapped with regard the promotion of cooperative or alternative business models by growth advisors.

Referrals to CDS

5.57 The level of referrals CDS receives, from within SE/HIE but also BG, in comparison to referrals into other specialist terms of services, such as SMAS or innovation or technology networks, is perceived to be low. This can effect CDS's delivery and impact. One stakeholder suggested that the reason is that CDS are not necessarily explicitly related to / with growth, whereas "*collaboration really could spur growth on for some small start-ups and companies*".

CDS Staff and Resource

5.58 The CDS team of seven covers the range of CDS activity, more the external partner engagement, to building capacity in intermediaries, to working with SE/HIE account managers and sector teams, through to delivering the services and marketing. For some, this is an insufficient resource given the breadth of activity, for others this appears the right level of

resource but where there is the requirement for more referrals into CDS and closer working relationships with key agencies.

5.59 Overall, the majority of stakeholders recognised the effectiveness that CDS has had with its available resource. Some have regarded the level of resources as limiting the extent of strategic work with the cooperative sector. The CDS set-up relies on referrals (in the main) coming to CDS. CDS resource alone can be expected to generate only a relatively modest number of EO transitions and new cooperative consortia per year, and there are finite resources for strategic driving of culture change. One or two stakeholders suggested that the good online support already available could be supplemented with further templates or similar for smaller SMEs to extend the reach of CDS.

Oversight and Clarity

Advisory Arrangements

5.60 The single Advisory Group no longer exists, which many considered to play a much-needed strategic oversight and linking role. It was considered by some to be a good public-private forum, a "great arena" for contributing to CDS thinking and direction, and the reasons for moving away from it are not fully understood by some consultees. For others, there has been considerable merit in separating the EO and consortium elements, with CDS using the EO Ambassadors and Consortium Champions as fora or reference points for gauging the effectiveness of the CDS strategy and activities and acting as CDS advisors. There is also the Advisory Group for Community Shares Scotland as a third bespoke form. There may be benefit of re-establishing some form of over-arching reference group, given the potential in alternative business models, the number of partners touched by the models, the policy direction and the breadth of potential activities that CDS are engaged in. Separate reference point arrangements for EO and consortium cooperatives could exist beneath an over-arching group.

Clarity of Purpose

5.61 Comparison was drawn with SAOS and SMAS in terms of distinctiveness and clarity of mission, with one stakeholder commenting that there is "*too much clutter and confusion on who does what between SE, SG, HIE, SDI, and so on*". Again, better integration with SE may help with this.

The term of cooperative

5.62 As touched upon in Chapters 2 and 3, there remain central challenges around the perceptions of the word cooperative. "Cooperative" as a term still has a range of negative or inaccurate connotations associated with it. Consequently, for some stakeholders at least, CDS's name is of-putting for some businesses and intermediaries, and is serving to discourage engagement with CDS, and wider interest in cooperative business models.

Geographical Coverage

5.63 CDS has – and should continue – to have a pan-Scotland remit. However, some consider that the physical location in the Central Belt, and its position as a subsidiary of SE, as prohibitive in having a wider impact throughout Scotland. This does not always make it easy to have a pan-Scotland presence, and some consider there to be the need for a greater regional presence, like other parts of SE, HIE, or BG.

5.64 Some saw an opportunity for alignment with city-based activity, and the work of the Scottish Cities Alliance, to exploit the potential of Scotland's cities and their hinterlands, as well as tapping into the opportunities afforded by City Deal activity. Cooperative working is being promoted in the Cooperative Councils of Glasgow and Edinburgh in particular which could be replicated in other urban areas. There is the potential for local authorities to be an additional channel through their economic development functions (or indeed community development), but there was an acceptance that this does not necessarily ensure consistency, given the 32 local authorities.

5.65 Specifically in the Highlands and Islands, some consultees saw the need for better interactions operationally with HIE, in order to benefit from locally knowledge, which could also include horizon scanning for cooperative opportunities.

Summary and conclusions

5.66 CDS is the key support organisation for cooperatives, as three key types of alternative business model, and is widely regarded as professional and expert in its ability to help establish cooperatives and facilitate the transition to EO. The product and focus in this way is seen as effective, and there is widespread recognition of the effectiveness of CDS in raising the profile of the sector, both in Scotland and further afield.

5.67 There are two schools of thought as to CDS position, either more firmly within SE with greater integration with SE products and services and a higher profile within SE with strategic and operational benefits and efficiencies, or as an even more independent body, where CDS is able to more generally foster cooperative values. As the concluding chapter summarises, the benefits of integrating with SE are likely to outweigh a more separate entity, although some form of wider partner reference group may be beneficial, as potentially would a national strategy for alternative business models to which CDS made a full contribution.

5.68 The CDS offer is seen as appropriate as far as it goes, however, there are limits to the extent to which a focus on set up or transition to EO is wholly adequate given that cooperatives often need hand-holding and support post set-up. For each of the three principle model types, there is a requirement for some post set-up support that bridges set up and mainstream support via BG or SE/HIE. This would also help improve the level of understanding of the benefits of alternative business models amongst sector teams and frontline account managers and advisors.

6 The economic impact and wider benefits of CDS Support

Introduction

6.1 This chapter contains a quantified assessment of the economic impacts and wider benefits of CDS over the review period from 2009/10. The chapter begins by explaining the methodology used for the economic impact assessment, the types of impacts calculated, and the adjustments applied. Then the impacts for the survey sample are presented. Finally, the impacts of the survey sample are grossed up to the full population of client cooperatives that have been supported by CDS. This allows for comments on the return on investment (ROI) and value for money (VFM) of CDS and their activities.

6.2 Throughout the chapter, the impacts are presented separately for actual impacts to date and impacts that the cooperatives forecast will occur in the future.

Economic impact assessment (EIA) Methodology

6.3 The impacts in this chapter are based on the survey sample of 61 cooperatives. This represents 41% of CDS's client base, giving a confidence interval of within +/- 10% (+/- 9.56) at a 95% confidence level, which is a very robust evidence base. The results are then grossed up to the full population of 148 cooperatives in CDS's client base to accurately present the full impact of the support given by CDS since 2009¹²³.

6.4 Three different metrics are used within the economic impact assessment, namely turnover, employment and gross value added (GVA). Turnover and employment impacts are generated through survey responses. For these, additionality, displacement and CDS additionality adjustments are applied in order to move from gross direct to net additional direct impacts. This is further explained below. GVA impacts are calculated on a sector-by-sector basis using turnover-to-GVA ratios from the latest Scottish Annual Business Survey (SABS)¹²⁴ for 2013.

Range of impacts calculated

6.5 Three types of impact have been calculated:

- **Direct** – this is the activity generated within the participant cooperatives;
- **Indirect** – these impacts arise from the purchases of goods and services generated by the increased activity in established cooperatives, and are calculated using Type I multipliers from the latest Scottish Input-Output Tables¹²⁵ for 2012; and
- **Induced** – these impacts arise from the expenditure in the wider economy of the wages of those directly and indirectly employed as a result of the increased activity, and are calculated using Type II multipliers from the 2012 Scottish Input-Output Tables¹²⁶.

¹²³ CDS client base consists of 156 cooperative, however eight did not establish so they have been excluded from the impact assessment.

¹²⁴ <http://www.gov.scot/Topics/Statistics/Browse/Business/SABS>

¹²⁵ <http://www.gov.scot/Topics/Statistics/Browse/Economy/Input-Output/Downloads>

¹²⁶ *ibid.*

6.6 The total impact is the aggregate sum of the direct, indirect and induced impacts.

From gross direct to net additional direct impacts

Gross direct impacts

6.7 Total gross impacts are the turnover and employment impacts achieved by the cooperatives **as a result of being a cooperative**. These are based on survey findings and are calculated on a case-by-case basis.

Net direct impacts

6.8 The gross impacts are then reduced to net impacts. This reflects that some of the turnover achieved by the cooperatives will have been made **at the expense of competitors elsewhere in Scotland**. This is done by applying the displacement adjustment, which is done on a case-by-case basis for each cooperative, to the reported gross turnover and employment impacts to date.

Net additional impacts

6.9 Finally, the net impacts are then reduced to net additional impacts. This reflects that some of the increased turnover and employment activity in the participating cooperatives, and its effects in the wider economy, would have still occurred even if the cooperative had not engaged with CDS. Therefore, net additional impacts show the actual difference that CDS has made.

6.10 These impacts are calculated based on respondents views on how much of their increased activity would still have occurred had they not engaged with CDS. Again, this is calculated on a case-by-case basis for each cooperative.

Economic impacts to date

Gross Direct Impacts

6.11 Table 6.1 presents the gross direct impacts that have been achieved to date since 2009 among the survey sample.

Impact	EO Businesses	Consortia	Total
Turnover	£6.9m	£8.1m	£15.0m
Employment	63.1	N/A	63.1
GVA	£3.2m	£4.2m	£7.4m

6.12 Some 42 of the 61 (69%) cooperatives surveyed reported that, since their establishment as a cooperative, their turnover had increased, or was higher, **as a result of being a cooperative**. Of these, 21 cooperatives were able to quantify the impact on their turnover for each of the years they have been established (since their engagement with CDS). A further 21 cooperatives reported that their turnover had risen as a result of being a cooperative, but were unable to quantify this – these cooperatives were attributed the average percentage turnover increase for each year they had been in operation.

6.13 The remaining 19 cooperatives reported that they had not seen any impact on their turnover as a result of being a cooperative.

6.14 A significant finding was that none of the 61 respondents reported that their turnover had fallen as a result of being a, or part of a, cooperative.

6.15 The total turnover impact is slightly over £15m. However, the relative and absolute impacts vary considerably amongst cooperatives. For example, five cooperatives report their turnover to be between 81-100% higher for various financial years as a result of being a cooperative, while 10 state that the impact on their turnover has been low, an increase of between 1-20%. In terms of absolute turnover, the increase in turnover ranged from one employee owned cooperative attributing £5.4m over the past five years to being a cooperative – approximately 30% of their annual turnover – to a consortium achieving an increase of £4,000 – 10% of their turnover for 2014/15. The average turnover impact for the survey sample is just under £250,000, although the median is lower, at £87,000 for those reporting an impact.

6.16 The vast majority of the increased turnover is accounted for by EO cooperatives (an average of £448,000) and consortia (an average of £270,000).

6.17 The employment impacts reported are under-played as there was insufficient data on the employment impacts of consortia as a whole (i.e. the benefits accruing to consortium members) as this data was largely unavailable to the consortium lead contacts, although the employment impacts of the consortium leads themselves are taken into account.

6.18 There have therefore been relatively small employment impacts reported as a result of establishing as a cooperative. Some 34 cooperatives surveyed had created employment as a result of establishing as a cooperative, although only 13 were able to quantify this.

6.19 The remaining 27 cooperatives reported that they had not experienced any impact on their employment as a result of being a cooperative. Again, none of the cooperatives surveyed had experienced a decline in their employment as a result of being a, or part of a, cooperative.

6.20 The total employment impact is around 63 FTE jobs. This varies from 15.1 FTE for an EO cooperative to zero jobs created. The average employment impact for the survey sample is 1.0 FTE, and the median is zero, rising to 1.5 FTE jobs for those reporting an increase.

6.21 The GVA impact, calculated on a case-by-case basis for each cooperative depending on their sector of operation, is just under £7.4m. On average, employee owned cooperatives add approximately £141,000 net GVA to the economy, with consortia contributing around £125,000 net GVA.

Net Direct Impacts

6.22 Table 6.2 presents the net direct impacts, which are the gross direct impacts adjusted for displacement (i.e. the impacts achieved by cooperatives in Scotland at the expense of Scottish competitors – a zero sum gain to the Scottish economy).

Impact	Businesses	Consortia	Total
Turnover	£3.5m	£8.1m	£11.5m
Employment	63.1	N/A	63.1

Table 6.2: Net Direct Impacts (Survey Sample)

GVA	£1.5m	£4.2m	£5.7m
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6.23 Comparing the net direct impacts in Table 6.2 to the gross direct impacts in Table 6.1 shows that displacement is fairly low, at around 23%. This reflects that some of the cooperatives surveyed feel that their offer is relatively unique, and they had little or no competitors in Scotland – nearly one third (32%) stated this. Just 16% reported that all of their competitors are based in Scotland. Displacement is particularly low for consortia.

6.24 In addition, a small number of cooperatives export a significant amount of their business. Although almost half do not export, of the 36 respondents who could quantify what proportion of the turnover from their Scottish operations is accounted for by sales beyond Scotland, eight stated that this was 50% or more. Displacement will be low for these cooperatives as most of their business is overseas.

6.25 On the whole, EO cooperatives tend to export more than any other cooperative model although exporting is also significant amongst some consortia.

Net Additional Impacts

6.26 Table 6.3 presents the net additional impacts, which applies the additionality of CDS's support in establishing the cooperative to the net direct impacts (i.e. to what extent the cooperative would have been established without the support or intervention from CDS).

Table 6.3: Net Additional Impacts (Survey Sample)

Impact	Businesses	Consortia	Total
Turnover	£2.1m	£6.0m	£8.1m
Employment	38.1	N/A	38.1
GVA	£1.0m	£3.3m	£4.2m

6.27 Comparing the net additional impacts in Table 6.3 to the net direct impacts in Table 6.2 shows that there is generally a high level of additionality of CDS's support for the impacts achieved by surveyed cooperatives, at around 60%. Levels of additionality are broadly similar for both EO businesses and for consortia.

6.28 Over half of respondents (52%) stated that they **would not have established the cooperative at all without CDS support** or intervention, making the impacts achieved by these cooperatives 100% additional – a very positive finding for CDS. Just 14% of cooperatives felt that they would have initiated the cooperative anyway, to the same scale and in the same timeframe, without the support of CDS – making their impacts 0% additional.

6.29 In addition, the support from CDS has led to 27% of cooperatives establishing sooner, and small proportions establishing to a larger quality (5%) and a larger scale (2%). This was factored into the net additional calculations by apportioning 10% additionality for every 12 months the establishment of the cooperative was brought forward through CDS, and the respondent's view on the extent to which the cooperative derived quality or scale benefits as a result of CDS support (e.g. 50% larger = 50% additionality).

Total Net Additional Impacts

6.30 Table 6.4 presents the total direct, indirect and induced net additional impacts for the survey sample.

Table 6.4: Total Net Additional Impacts (Survey Sample)

Impact	Direct	Indirect	Induced	Total
Turnover	£8.1m	£3.9m	£2.3m	£14.3m
Employment	38.1	12.1	9.7	60.0
GVA	£4.2m	£1.9m	£1.2m	£7.3m

6.31 As the table shows, the inclusion of the indirect and induced impacts, calculated for each cooperative by sector using the latest Scottish Input-Output tables, increases the impacts significantly.

6.32 When indirect and induced impacts are included, the net additional turnover of the survey sample rises to £14.3m, of which 25% is via EO businesses and 75% from consortia. In addition, employment impacts rise to an estimated 60 FTE as a result of CDS support and wider knock-on effects (although this remains under-estimated for consortia).

6.33 The total net additional GVA impact of the survey sample rises to over £7.3m for the Scottish economy when indirect and induced impacts are included.

Forecast future economic impacts

6.34 The following sets out forecast future economic impacts for the surveyed cooperatives for one years' time (2016), three years' time (2018) and five years' time (2020).

Gross Direct Impacts

6.35 Table 6.5 presents the forecast gross direct impacts for 2016, 2018 and 2020.

Table 6.5: Forecast Gross Direct Impacts (Survey Sample)

Impact	Businesses			Consortia			Total		
	2016	2018	2020	2016	2018	2020	2016	2018	2020
Turnover	£2.9m	£5.7m	£7.0m	£4.8m	£3.9m	£3.6m	£7.7m	£9.5m	£10.6m
Employment	66.0	120.7	88.4	N/A	N/A	N/A	66.0	120.7	88.4
GVA	£1.5m	£3.0m	£3.7m	£2.5m	£2.0m	£1.9m	£3.9m	£5.0m	£5.6m

6.36 The majority of cooperatives forecast future turnover increases as a result of establishing as a cooperative. Some 47 of the 61 cooperatives surveyed reported that they expect an increase in turnover in at least one of the above three future years, **as a result of being a cooperative**. Of these, just 16 cooperatives could quantify the future turnover impact as a result of being a cooperative, while 31 reported that they expected a rise in turnover as a result, but were unable to quantify this. These 31 cooperatives were therefore attributed the average percentage increase for each year they expected turnover to rise.

6.37 In all, 14 cooperatives reported that they do not forecast any increases in turnover as a result of being a cooperative. None of the cooperatives surveyed expected turnover to fall in one, three or five years' time as a result of forming as a cooperative model.

6.38 As with the impacts to date, employment numbers are a conservative estimate as they do not include those of consortium members, although those forecast by the consortium leads

are included (and here some consortia leads are also estimating the future employment in some member businesses). Substantial employment impacts are expected by cooperatives in the short-term, with 66 FTE forecast in one years' time, more than has been achieved by the survey sample to date, rising significantly to 121 FTE in 2018.

6.39 For the survey sample, a further £3.9m GVA is expected to be contributed to the Scottish economy in one years' time, and £5m in 2018.

Net Additional Impacts

6.40 Table 6.6 presents the forecast net additional impacts, adjusting for displacement and the additionality of the support given by CDS to assist the establishment of the cooperative.

Impact	EO Businesses			Consortia			Total		
	2016	2018	2020	2016	2018	2020	2016	2018	2020
Turnover	£1.5m	£2.6m	£2.4m	£3.1m	£3.0m	£2.7m	£4.6m	£5.6m	£5.2m
Employment	36.8	103.4	44.9	N/A	N/A	N/A	36.8	103.4	44.9
GVA	£0.8m	£1.4m	£1.3m	£1.6m	£1.6m	£1.5m	£2.4m	£3.0m	£2.7m

6.41 Again, comparing the net additional impacts in Table 6.6 to the gross direct impacts in Table 6.5 shows a relatively high level of additionality of CDS's support service for forecast impacts, at between 50-60%. However, additionality is slightly lower than for the actual impacts to date reported previously, suggesting that, without CDS's support, some cooperatives believe they would have, in time, managed to form and generate economic benefits.

Total Net Additional Impacts

6.42 Table 6.7 presents the forecast total direct, indirect and induced net additional impacts for the surveyed cooperatives.

Impact	Direct			Indirect			Induced			Total		
	2016	2018	2020	2016	2018	2020	2016	2018	2020	2016	2018	2020
Turnover (£m)	4.6	5.6	5.2	2.1	2.6	2.3	1.3	1.6	1.4	8.0	9.8	8.9
Emp (FTE)	36.8	103.4	44.9	15.6	42.3	19.9	10.1	27.2	12.5	62.4	172.9	77.3
GVA (£m)	2.4	3.0	2.7	1.1	1.3	1.2	0.7	0.8	0.8	4.2	5.1	4.7

6.43 Again, the inclusion of indirect and induced impacts significantly increases the total impact of CDS's support. The forecast total net additional impact of CDS's support to cooperatives in one years' time is around £8m turnover, 62 FTE and £4.2m worth of GVA.

Combined actual and forecast impacts

Gross Direct Impacts

6.44 Table 6.8 shows the total gross direct impacts calculated from the cooperative survey, combining both impacts achieved to date and expected impacts in one years' time (2016).

Impact	To Date	Expected (2016)	Total
Turnover	£15.0m	£7.7m	£22.7m

Table 6.8: Gross Direct Impacts (Survey Sample)			
Employment	63.1	66.0	129.1
GVA	£7.4m	£3.9m	£11.3m

6.45 In terms of turnover and GVA impacts, those forecast are around 50% of those achieved to date, reflecting that a number of surveyed cooperatives had only recently been established and so are typically reporting future impacts rather than impacts to date. The employment impacts in cooperatives is more heavily weighted towards future impacts, suggesting significant growth plans for those surveyed but also some unreliability in terms of employment to date estimates which are under-reported. The data may also suggest that for some cooperative models, creating more jobs and taking on more local labour is a more important objective than increasing sales and profitability per se, although clearly sales/turnover increases are required to sustain those jobs.

Total Net Additional Impacts

6.46 Table 6.9 shows the total net additional impacts (including direct, indirect and induced impacts) achieved to date and expected in one years' time (2016).

Table 6.9: Total Net Additional Impacts (Survey Sample)			
Impact	To Date	Expected (2016)	Total
Turnover	£14.3m	£8.0m	£22.3m
Employment	60.0	62.4	122.4
GVA	£7.3m	£4.2m	£11.5m

6.47 In general, the total net additional impacts shown at Table 6.9 are similar to the gross direct impacts shown at Table 6.8. This is because the additional impact generated by the indirect and induced multiplier effects almost completely offset the loss of impact through the additionality and deadweight adjustments applied.

6.48 Again, the turnover and GVA impacts to date greatly outweigh those expected in one years' time, although the balance for employment is more weighted towards future FTE impacts.

Grossed up results

6.49 Thus far, the results have shown the impact of CDS's support on the 61 cooperatives surveyed for the evaluation. In order to fully capture the impact of the support given by CDS since 2009, the impacts calculated for the survey sample (61) need to be grossed up to the full population of cooperatives supported by CDS (148).

6.50 As this grossing up is being undertaken from a relatively large sample size (41% of the total population), there is less of a risk of there being a potentially large margin of error (less than 10%), and the full results can be displayed with more confidence (95%+). It is for this reason that any potential outliers have not been removed before grossing up.

6.51 Table 6.10 presents the estimates of the gross direct impacts for CDS's total client base of 148 cooperatives.

Table 6.10: Gross Direct Impacts (Full Population)			
Impact	To Date	Expected (2016)	Total
Turnover	£36.5m	£18.6m	£55.1m
Employment	153.1	160.0	313.1

Table 6.10: Gross Direct Impacts (Full Population)

GVA	£17.9m	£9.5m	£27.5m
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6.52 The total gross direct impacts suggest a total turnover (to date) of £36.5m, which equates to an average of approximately £246,000 turnover per cooperative. However, as suggested by the survey findings, this figure will have a wide variation with some cooperatives not achieving any turnover to date and some experiencing much larger than the average figure. As such, the top 10% of cooperatives account for just over half (51%) of turnover impacts. EO businesses contribute a quarter of the turnover impact, and consortia three quarters, although the average increase is higher per EO business.

6.53 The total gross turnover impacts (to date and for one years' time) of £55m suggests an impact of around £372,000 per cooperative, again varying widely.

6.54 The total gross employment (to date) is 313 FTE, which equates to 2.1 FTE post per cooperative. This average doubles if the forecasts for 2016 are taken into account.

6.55 Table 6.11 presents the estimates of the total net additional impacts (including indirect and induced impacts) for CDS's total client base of 148 cooperatives.

Table 6.11: Total Net Additional Impacts (Full Population)

Impact	To Date	Expected (2016)	Total
Turnover	£34.8m	£19.4m	£54.2m
Employment	145.5	151.4	296.9
GVA	£17.8m	£10.2m	£27.9m

6.56 The total turnover impact to date and for one year into the future is around £54m, most of which (64%) has been achieved to date. The total employment impact for the same period is just under 300 FTE, of which around half (49%) has been achieved to date. The total GVA impact to the Scottish economy is just under £28m, and nearly two thirds, some £18m, of this has been achieved to date due to the support and services provided by CDS.

Wider benefits of CDS support

6.57 In addition to questions on quantified economic impact, the survey asked respondent businesses about wider economic and other benefits. Many businesses / organisations reported realising or seeing an increase in these benefits as a result of moving to a cooperative way of working.

Workplace benefits as a result of employee ownership

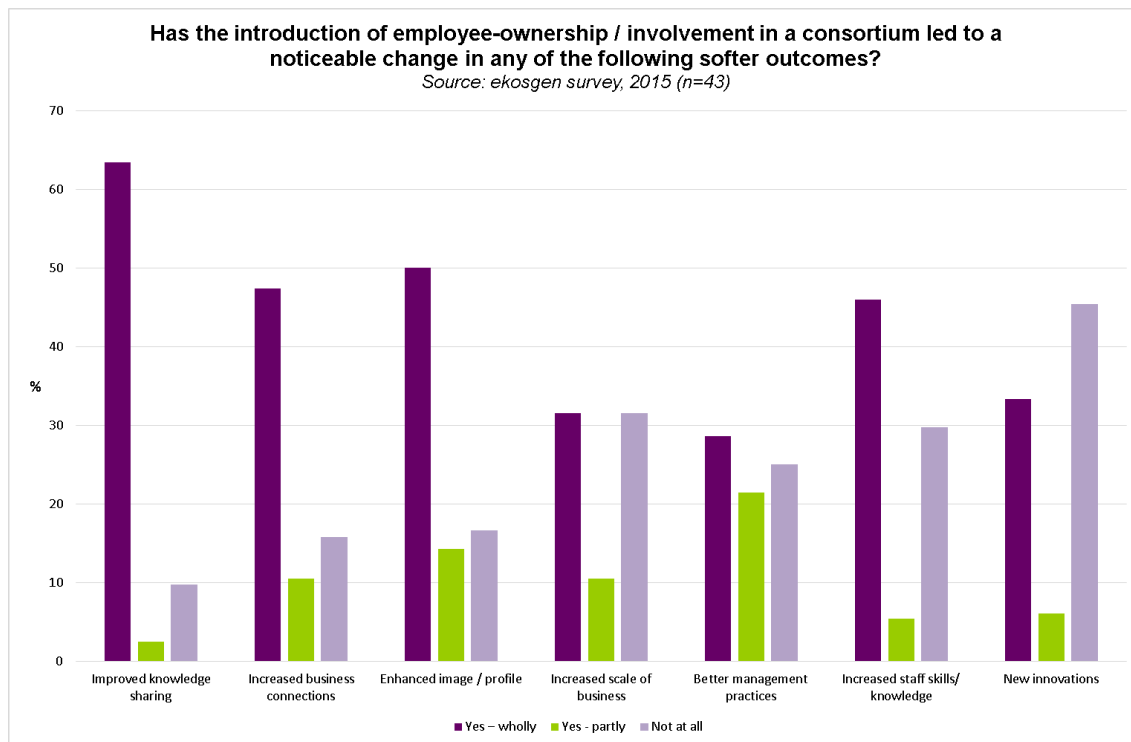
6.58 The majority of **EO businesses** surveyed reported seeing a range of workplace benefits to date as a result of moving to EO, with a considerable proportion also expecting to realise such benefits in the future. In all, 75% of respondent EO businesses reported having more flexible working arrangements, with a further 13% expecting to introduce them in the future. As highlighted in chapter 3, almost seven in 10 reported both increased employee engagement and increased staff input into strategic decision-making, with a further 25% and 19% respectively expected to benefit from this in future. Almost two thirds (63%) also stated that they had improved strategic business planning as a result of employee ownership.

6.59 Half the EO business base also reported both more efficient work practices, and increased productivity; 56% also saw improved employee performance. A further 38% also

thought that employee performance would improve in the future, and 31% anticipated future business productivity. Further one third (33%) reported lower rates of absenteeism.

Further economic outcomes for cooperative businesses / organisations

Figure 6.1

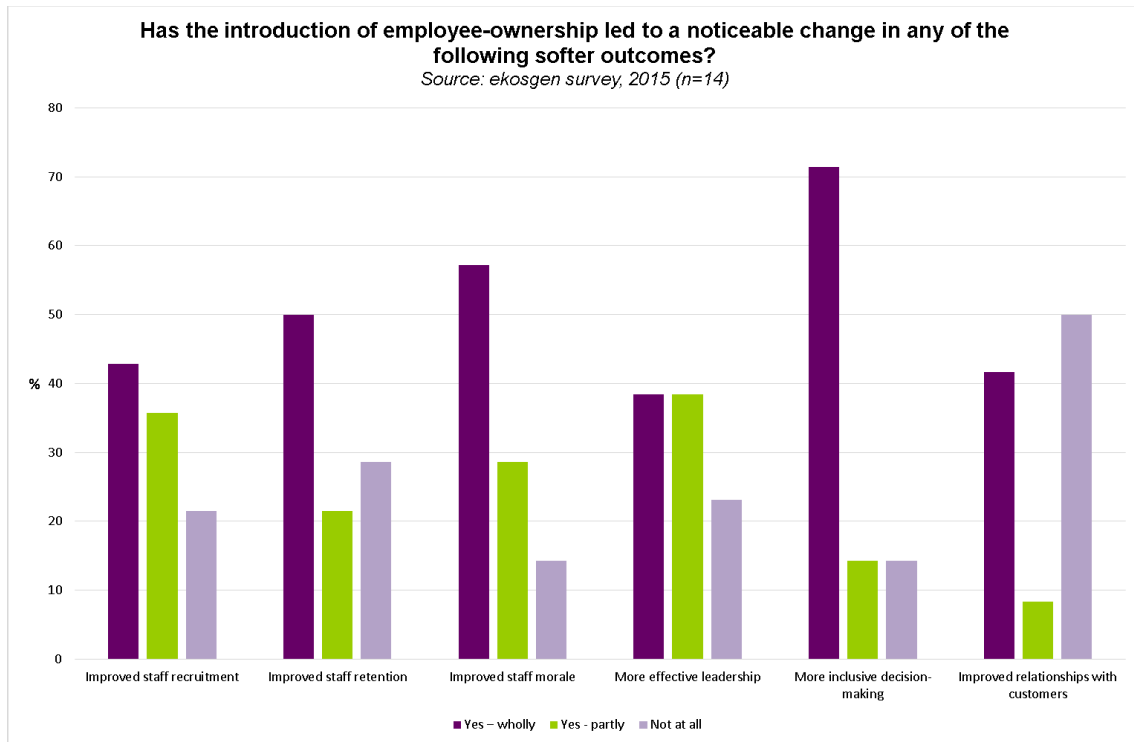


6.60 For **consortia** and **employee-owned businesses**, a number of wider outcomes were also reported. Almost two thirds (63%) stated that improved knowledge-sharing had arisen wholly as a result of consortium working / EO, whilst 51% reported that staff skills / knowledge had increase either partly or wholly as a result in the change of business operation (see Figure 6.1). Other businesses reported increased business connections (58%) or enhanced profile (64%), either partly or wholly as a result of moving to EO or joining / establishing a consortia. A smaller proportion had seen an increase in business scale (42%) or better management practices (50%). Almost two-fifths had also seen new innovations as a result of becoming employee-owned or part of a consortium.

6.61 EO businesses also reported a number of softer benefits specific to EO. Recruitment and retention of staff has been positively affected by EO. Some eight in 10 (79%) of employee-owned businesses reported that recruitment had been either wholly or partly improved by the move, whilst 71% also reported that staff retention had also been improved either partly or wholly. Almost nine in 10 (86%) also stated that staff morale had improved, either partly or wholly as a result of employee ownership.

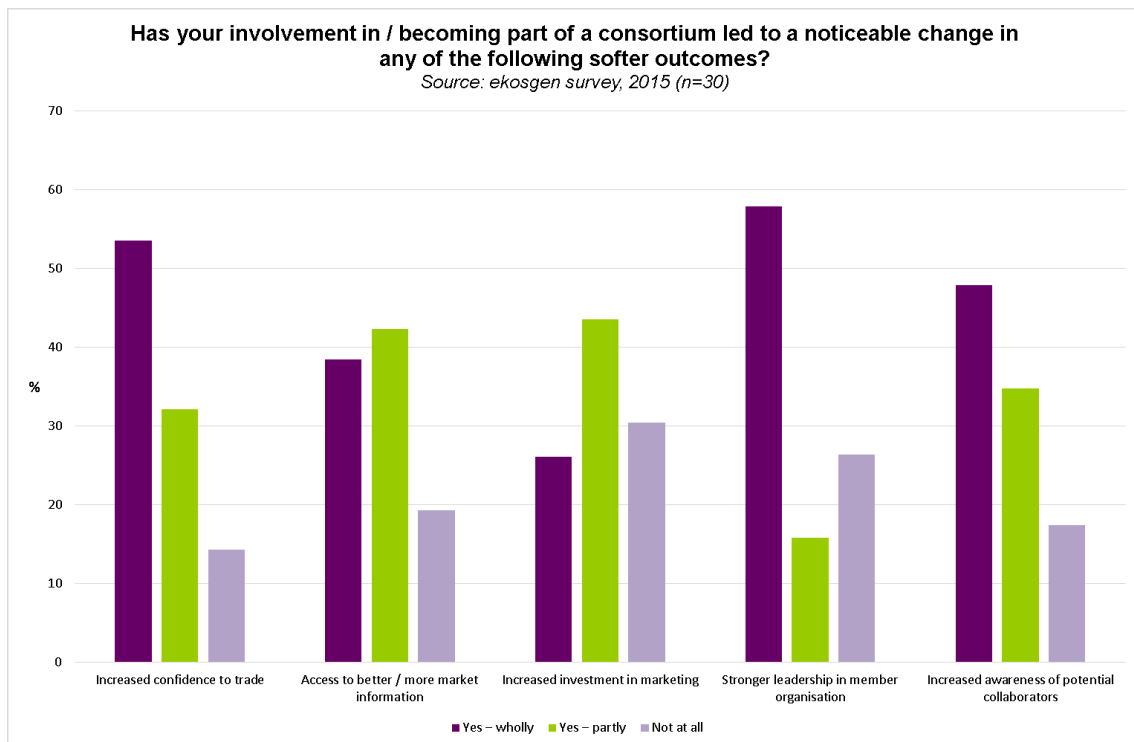
6.62 Aligned to the improvements in strategic / business planning, employee engagement, staff input to decision-making and better management practices as reported above, 77% of EO businesses considered that they now had more effective leadership, and 86% thought that their decision-making was more inclusive, either partly or wholly as a consequence of employee ownership.

Figure 6.2



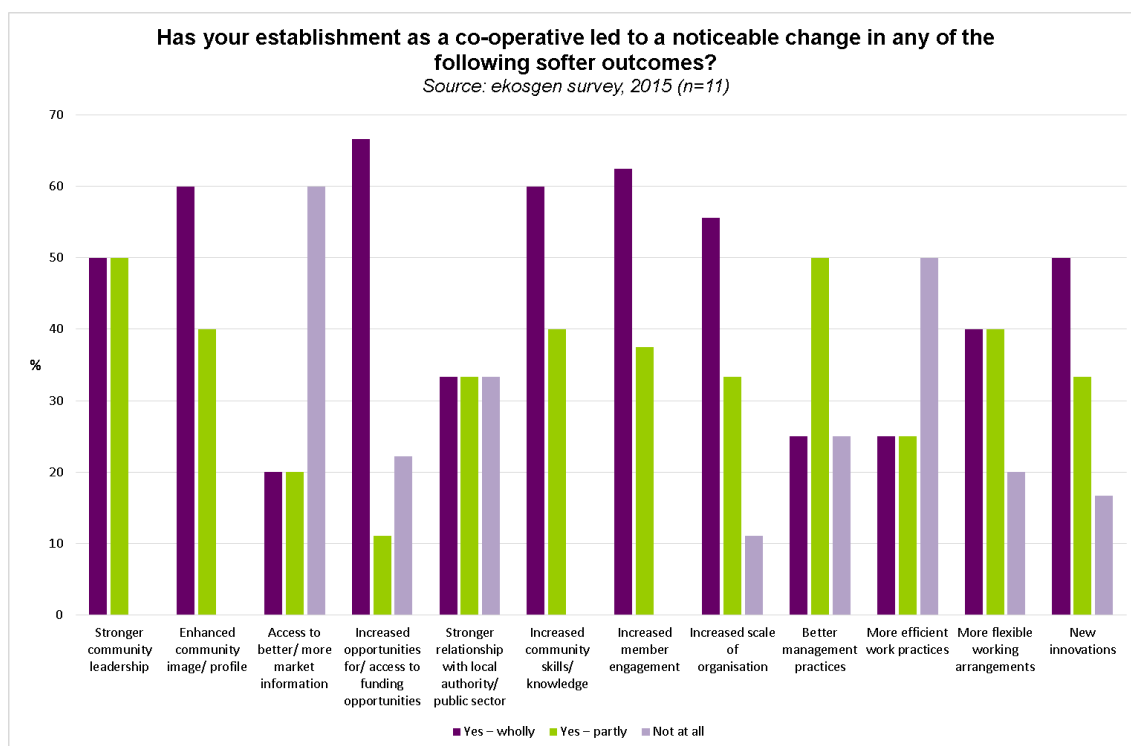
6.63 **Consortia** members and lead organisations reported that they had greater confidence to trade. More than half (54%) thought that this was wholly a result of becoming part of a consortium, with 32% indicating that this was partly so. Some 58% also reported that there was stronger leadership in the member organisation following joining / establishing a consortium, with a further 16% thinking that this was partly the case.

Figure 6.3



6.64 For **community cooperatives**, a wide range of softer benefits have been realised as a result of cooperative formation.

Figure 6.4



6.65 Of the community cooperatives that responded, 100% reported that there was stronger community leadership, that is, a greater level of leadership demonstrated by the community cooperative, an enhanced community profile, increased community skills / knowledge and better member engagement at least in part as a result of becoming a community cooperative, with at least 50% thinking that the change was wholly as a result of being a cooperative.

6.66 Further, 78% thought that they now had increased funding opportunities as a result (though only 40% saw any improvement in access to market information for example in relation to market potential). Almost nine in 10 (89%) also reported that the scale of their organisation had increased and 83% considered that being a cooperative was at least partly responsible for new innovations that they had developed or implemented.

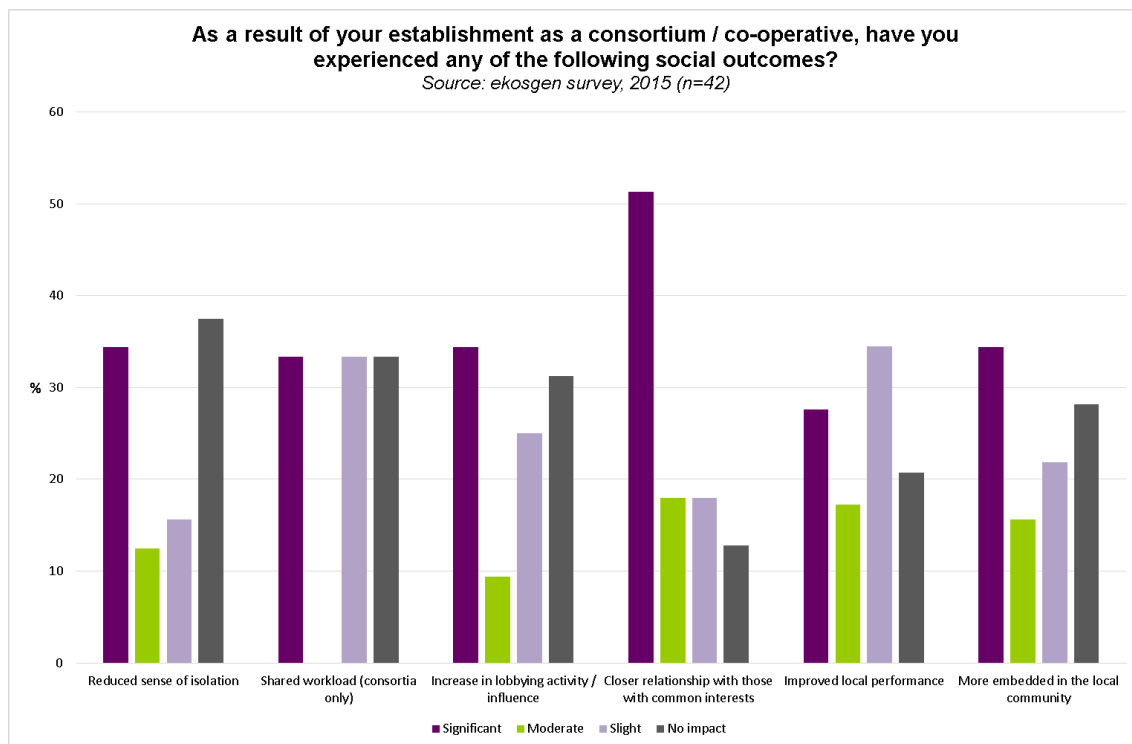
6.67 Three quarters (75%) of community cooperatives reported better management practices since becoming cooperative, with 80% reporting more flexible working arrangements either partly or wholly due to being a cooperative. However, 50% did not think that they had better working practices. Two-thirds of community cooperatives also reported some sort of improvement in the relationship with their respective local authority.

Social impacts of consortium and community cooperative working

6.68 Almost half (47%) of **consortium members / leaders** and **community cooperatives** reported that a cooperative approach to working had resulted in at least a moderate reduction in social isolation (i.e. furthering the business or community interest alone), whilst over two-thirds had seen some sort of increase in lobbying influence or activity. Almost four-fifths also saw at least a slight improvement in their local performance. However, the greatest social impacts were reported for organisations having closer relationships with those that shared common

interests (69% stated that this had at least moderately improved), whilst a further 72% considered that they were now at least slightly more embedded in the local community, with over a third stating that they were significantly more so.

Figure 6.5



6.69 All 100% of **community cooperatives** also saw at least a moderate increase in community engagement levels, whilst three-quarters saw at least a slight improvement in local partnerships.

Social objective-setting

6.70 A number of businesses and organisations had also set themselves social objectives. Community cooperatives appear to have done this to a greater extent, with the vast majority either having already committed to providing / improving local services, increasing the number of beneficiaries, providing local employment opportunities, or ensuring an equitable distribution of wealth for the community that they serve.

6.71 **Employee-owned businesses** have also set a number of social objectives. Most frequently, these were around providing local employment opportunities (60% having already done so or will do in the future), or ensuring that the company is embedded in the local community (53%), i.e. strong links with the local community aside from providing local jobs. However, 47% had not set any objectives around embedding the business in the local community, an interesting proportion considering the potential for employee-owned businesses to secure employment and enterprise in local areas. 60% also (or will also) seek to equitably distribute profits amongst employee-owners.

Success stories

6.72 Within the CDS client group, and the cooperative sector, there are some high-profile success stories. The cooperative businesses of Clansman Dynamics, Scott & Fyfe (both EO);

the Argyll & the Isles Tourism Consortium and Accord Energy are some of those better known, although there are others, including the Scottish Craft Distillers.

Value for Money Assessment

6.73 In order to assess the value for money (VFM) of SE funding to CDS, it is necessary to compare the total net additional GVA achieved to date (£17.8m) against the total actual expenditure over the period to 2014/2015 to date of £2.1m. This is displayed in Table 6.12.

Net Additional GVA to date	£17.8m
Total Expenditure	£4.4m
ROI	£4.4 : £1

6.74 For the current funding period (2009/10 to 2014/15), the support given by CDS to cooperatives in Scotland has seen a return of £4.40 to the Scottish economy for every £1 of public funding **to date**. This is a positive return and outlines the importance of CDS's support services in helping cooperatives to establish. The £4.40 to 1 ratio will increase as future anticipated returns are realised or outperformed and as newly established cooperatives start to generate impacts – and if all future anticipated impacts are realised the return will be £6.4 to 1.

Summary and Conclusion

6.75 There are some very positive returns and net impacts generated by CDS supported clients. This has generated net direct impacts to date in the 61 surveyed businesses of £11.5m in turnover and £5.7m in GVA, leading to net additional impacts of £14.3m turnover and £7.3m GVA. Displacement – at 23% - is relatively low given the strong export focus, especially in EO but also in consortia, and more than half say impacts are 100% attributable to CDS support. An additional £5.2m net additional turnover and £2.7m net additional GVA are expected in the future.

6.76 Across the 148 CDS supported businesses since 2009 this generates total net additional turnover of £54.2m and GVA of £27.9m, and these are likely to be minimum estimates since not all consortia leads are able to comment on the full economic benefits accruing to member businesses. These impacts are driven by EO businesses which account for 25% of impacts at a higher average increase per EO business, and by consortia which account for 75% of the total, with less much lower direct economic impacts from community cooperatives. Based on total actual spend of over the 2009/10 to 2014/15 period of £4.4m, this provides a Rol of £4.4 to 1 on impacts to date, rising to £6.4m to 1 if future forecast impacts are realised.

7 Conclusions and recommendations

7.1 The report presents the outcome of the independent review of cooperative businesses models and their potential contribution to the national economic strategy. The study reviews CDS over the in this context, over the period from 2009-2015. The report has drawn on views from 40 stakeholders, 61 CDS-supported client businesses (41%) and four focus groups with Employee-Owned (EO) businesses. CDS supports three types of cooperatives (EO businesses, consortium cooperatives, and community cooperatives) to become established and works internally and externally to raise the profile of the sector and its benefits.

Potential of the Sector

7.2 The review concludes that there is strong potential in the sector, and much of this remains untapped. There is a strong enthusiasm amongst a range of stakeholders for more businesses adopting alternative business models, notably EO but also consortia and community cooperatives. There is a favourable policy context, and many recognise the benefits of collaborative working. With EO in particular, but also the other models, there is a widespread belief that the sector can deliver fairer, more inclusive growth, with greater employee and/or community engagement, which retains more wealth in Scotland and in local areas.

7.3 It is difficult to quantify the scale of the opportunity, yet two thirds of Scottish businesses are family owned and an increasing number of post-war “baby boomer” business owners are reaching retirement age. Just 5% of these equate to 6,000 businesses, and the CDS target of a 10-fold increase in supported transitions (from 15 to 150) over 10 years equates to less than 2.5% of these. Exiting retirement age owners provides one source of potential EO businesses, yet the potential across the EO, consortia, and community cooperatives relates to the economic and social advantages that making the move can achieve. Businesses adopting alternative businesses models generate high levels of employee engagement and commitment which can translate into strong economic performance.

7.4 Given the relatively low numbers of EO businesses in particular (circa 30 in Scotland), the report authors believe there is scope to increase these numbers significantly. The potential of the sector in the medium terms (over the next ten years) may be quite big in terms of a proportionate increase (the CDS EO strategy targets a 10-fold increase is a useful starting point) although overall this would still be quite a small part of the Scotland’s overall business base. Longer-term, the potential continues to be much greater, if a cultural change can be achieved. However, achieving the 10-fold increase in EOs over 10 years will require many of the recommendations in the report to be implemented, including far greater levels of awareness amongst business support advisers/account managers and intermediaries. The potential amongst consortium and community cooperatives is also hard to quantify, but could be quite a lot larger than is currently the case for both.

Impact of CDS to Date

7.5 Not all cooperatives have been supported by CDS, and some that have would have formed or made the transition to a cooperative without CDS. That said, CDS has supported nearly 150 lasting cooperatives over the review period from 2009, and these have generated considerable impacts for the Scottish economy. There are some very positive returns and net impacts generated by CDS supported clients.

7.6 Across the CDS supported businesses since 2009, net additional turnover of £54.2m and GVA of £27.9m has been generated, if all the forecast impacts are realised. Most of these have already occurred, and the impacts will be higher given that not all consortia leads surveyed were able to comment on the full economic benefits accruing to member businesses. These impacts are higher on average in EO businesses, although three quarters of all impacts are from consortia given the higher number supported, with less direct economic impacts from community cooperatives, although these impacts are important in a local context.

7.7 Based on total actual spend of over the 2009/10 to 2014/15 period of £4.4m, this provides a RoI of £4.4 to 1 on impacts to date, rising to £6.4m to 1 if future forecast impacts are realised. These are good impacts, particularly given that not all of CDS expenditure by any means is directed at front-line activity given its awareness-raising role, and the impacts reflect good levels of additionality – for more than half those supported, all the economic impacts are attributable to CDS support and the formation of the cooperative. These are in addition to the range of wider benefits derived by those supported by CDS.

7.8 CDS support has also generated a wide range of further economic and social benefits. Some of these are eye-catching. For EO businesses: 88% businesses have, or will, implemented more flexible working practices; seven in 10 EO businesses report increased employer engagement; seven in 10 report input to decision-making; 56% have seen better employee performance to date and the remainder expect to see this in future; and half already improved productivity. The impacts go on: Two thirds of consortia and EO businesses have improved knowledge-sharing wholly as a result of consortium working/EO, and half have increased skills / knowledge partly or wholly as a result in the change of business operation. Almost two-fifths had also seen new innovations. It is the intensive CDS support prior to set up or transition (for each of the three models) that is most valued, where CDS makes the process easy and straightforward for clients, overcoming significant knowledge gaps and barriers for those supported.

Contribution to Scotland's Economic Strategy

7.9 There is therefore a certain contribution to the four 'Is' of the Economic Strategy being made by cooperatives, and this can increase further. The role of cooperatives in supporting **internationalisation** is clear, with both EO and consortia demonstrating a strong export focus (where two thirds have few competitors in Scotland) which is also reflected in low levels of displacement. The ability of cooperative models to bring scale to export activity is good, as is the desire to compete in international rather than more local markets. There are good levels of in-firm **investment**, and all three cooperative types demonstrate commitment to future investment, including investment for the longer-term (EO businesses) and community investment. There are considerable levels of **innovation** being delivered through EO businesses (in particular via workplace innovation including leadership – 75% have or will improve this) and by consortia through knowledge-sharing and new ways of working. Finally, there is evidence that cooperatives strongly deliver **inclusive growth** via employee engagement and empowerment (where more than 90% of EOs have or will increase employee engagement and employee strategic decision-making) and by consortia joint working involving SMEs and through community empowerment via community cooperative growth. Staff morale is high in EO businesses and higher post-transition. Overall, **co-operatives are contributing to the four 'Is', although due to the current scale of the sector, the current contribution overall is small.**

Strategic Direction and Focus

Greater integration with other SE/HIE support

7.10 Whilst there is a strong case for a separate and distinct entity in CDS, there is an arguably stronger case for greater integration with SE, and for CDS to be more firmly part of the family of products and services available from SE and HIE. This is about improving the working relationships, understanding and knowledge between CDS, sector teams, account managers and other specialist teams, such as Organisational Development and Innovation.

7.11 There are many advantages of CDS working more closely with other specialist teams, for example in championing employer engagement and innovation, or innovation, collaboration and consortium working. This will help CDS be part of joint planning and activity, and has the potential to drive a far greater level of referrals for CDS support (and vice versa). CDS can be positioned as helping to support innovation collaboration – where progressive people and employer engagement are a driver for innovation, which for customers can be a step change in the business.

7.12 In being part of SE and HIE strategies explicitly, CDS can and should be more integrated and joined up from the client perspective (SE alone have a 1,000 staff and 100 account managers). Greater integration – if achieved – should smooth handover processes and enable more seamless support to growth companies adopting alternative business models.

7.13 CDS are starting to work more closely with some SE sector teams, and again greater integration may improve this further. In view of the benefits identified above: **Recommendation 1a: that CDS is more closely integrated with SE, that it sits firmly within the SE infrastructure and is part of the “family” of support, similar to other SE specialist teams.** This integration should take a variety of forms, from the strategic to operational, including integrating CDS into SE planning functions and timings, cross-team working and shared targets, and communication and promotion of the CDS products by SE. As an add-on to this, **Recommendation 1b is to develop mechanisms/approaches for the continuous improvement of enterprise agency staff understanding of cooperatives and CDS**, to allow SE and HIE to know when and how to engage CDS.

Rebalancing Growth, Inclusive Growth

7.14 The general strategic direction of CDS is appropriate, given its focus on alternative business models and its stated intention to focus on growth. However, this must strike the balance between focus on economic growth and rebalancing growth (and inclusive and sustainable growth).

7.15 Whilst we recommend closer CDS integration with SE, there is a strong sense that CDS should not be overly *constrained* by being part of SE, although closer alignment and integration with SE would also be beneficial. CDS should have sufficient freedom to “do what it needs to do” in developing a more cooperative culture. There is a desire for a more engaged workforce, fairer workplaces (the inclusive) and for growth. There is a need to embrace “can do” around alternative business models, including use them to drive and foster innovation. **Recommendation 2: That whilst part of SE, CDS continues to have a broad pan-Scotland remit that includes community cooperatives and supporting cooperative values, where there are economic and social impacts to be generated.**

Continued market failure

7.16 The basic premise remains that there is a market failure in the understanding of how cooperative or alternative business models work in practice, and their benefits, remains. This market failure is quite severe, with information deficiencies amongst existing businesses, potential businesses who may benefit from alternative models and advisors, as well as both public sector and private sector intermediaries, including Business Gateway. The market failure also extends to other stakeholders. CDS is engaged in the right activities to address the market failures although more continues to need to be done with each group to raise understanding. In this sense, the rationale for CDS also remains, and the awareness-raising and partner relationship building that helps overcome some of these information deficiencies for businesses and prospective cooperatives. Therefore, whilst there should be a focus on impacts, there remains the need to work externally with public, business and community partners to continue to raise awareness of alternative business models and to generate pipeline businesses.

Recommendation 3: That CDS retains an external, outward, awareness-raising role in communicating the benefits and impacts of cooperative/alternative business models. This is to continue the drive for long-term cultural change in the business and business support communities to recognise (and benefit from) the potential of cooperative models and to increase the pipeline of cooperative businesses.

A greater focus on outcomes and impact

7.17 There is a need to have a stronger focus on outcomes and impacts. Additionality from CDS support is good and for more than half the impacts are attributable to the support provided by CDS support and the EO, consortium or community cooperative sometimes will not exist without CDS support. To date, however, there has been a strong focus on awareness-raising in the sector generally, and in setting up and establishing cooperative, which is largely activity driven (although with an assumption this will lead to positive impact).

7.18 It is appropriate, given the stage of CDS in its development, to move to a greater focus on growing cooperatives post set-up, which are also reflected in targets which seek additional GVA. However, the support offer also needs to reflect this. It is about deeper relationships in some cases, and quality, high impact businesses using alternative business models. smaller numbers but with growth; need to build the foundation for GVA.

Helping businesses grow – a cooperative growth product?

7.19 A greater focus on outcomes and impact, as distinct from the focus up till now on the activity of setting up cooperatives, means helping businesses and community enterprises to grow. This requires some follow through, post set-up, to ensure growth, and/or the sustainability of the cooperative, or to achieve faster transition and growth.

7.20 CDS helps businesses make and save money, although given the emphasis on start-up, further emphasising the commercial returns to businesses may help sell and promote positive messages about the impact of its activities to a wider audience. Part of this is about more intensive support provided to those with alternative business models (in the form of aftercare given the post set-up or transition challenges for cooperatives) which can also be better facilitated by being more closely part of SE.

7.21 Evidence suggests that the collaboration prize – where CDS and SE specialist teams and others provide a package of support to winners – is effective in helping the winning consortium to grow and develop. **Recommendation 4: that follow-on, post-establishment or**

transition support is the basis of a new product offering, which combines CDS understanding of cooperative business models with multiple SE support.

Building Capacity in Professional Services

7.22 Whilst some inroads have been made by CDS in raising awareness of the practicalities, and benefits, of alternative business models to the professional services of lawyers, accountants and advisors, understanding remains partial. Referrals from the sector are low and the sector does not remain fully convinced of the benefits. CDS should therefore continue to work with this sector to increase understanding and the flow of referrals.

More consortium builders

7.23 Whilst CDS has had some success in establishing consortia and helping businesses in the transition to EO, there needs to be more done to help build consortia, which is the upfront work with potential consortium members to help make the consortium happen. This is a facilitation role, and some of this is happening, including through SE sector teams. This is not necessarily a new role but further emphasis should be placed on this. It is a resource-intensive role which requires working with sector teams to identify gaps and opportunities where collaboration should exist but where it does not at present. Therefore, **Recommendation 5: That SE and HIE account managers and sector teams work more closely with CDS, and that consideration is given to resourcing hands-on early stage consortium building to help realise potential new consortia reserved for strategically important collaboration opportunities (including collaborative exporting) in priority industry sectors..**

Celebrating collaboration

7.24 CDS can broaden its remit, and work to support more effective collaborative working. Some of this would come from widening the remit from a focus on set-up, to one which offers post-set up support to help cooperatives grow. There is a need for CDS to be a champion of collaboration, even if this is not directly part of its product offering (although our recommendation for a post-set up/post transition product offer may include facilitating collaboration). CDS needs to be able to say to businesses and community enterprises: *collaboration is a good thing, and we know who can help you, and it may be that alternative business models are a route to achieving this.* By being more closely integrated with HIE and SE (and to BG/local authorities), CDS will be closer to those also supporting formal or informal collaboration.

Community cooperative capacity

7.25 At the community level, there is an ongoing need to build capacity in communities, and this has been the case for 25 years or more. This means empowerment (now supported by legislation) and the capacity of communities to respond to opportunities. CDS could provide more support to community cooperatives, the demand is there, although this is not part of the core SE strategy. It is also resource intensive for CDS. HIE is different, given its remit for strengthening communities.

Community cooperative support

7.26 There is potentially a need for further support in the future to continue community cooperative establishment and growth. The Community Shares Scotland programme, of which CDS is partner, is a very good mechanism for community investment providing economic opportunities, yet it is a three-year time limited discretionary programme which may leave a gap

in provision when it comes to an end. **Recommendation 6: That work is undertaken now, and in advance of the end of the three-year Community Shares programme, to identify how community shares investment support for community cooperatives can be continued in the future. This can have links to the developing social enterprise work within SE.** CDS should focus on EO and consortium cooperatives, however it is also important that support for community cooperatives continues going forward in light of the ongoing market failure in the sector and the opportunity to generate good levels of local impact.

Education in schools, FE and HE

7.27 There remains a market failure in terms of awareness-raising, and this applies at a number of different levels. Certainly, more can and should be done in schools, FE colleges and HE if there is to be a step change in the number of businesses adopting alternative business models in the future. This has worked for entrepreneurship, where there are a number of dedicated and well established support structures specifically designed to help FE and HE students to start a business (notably the Scottish Institute for Enterprise). There is a clear role for the Scottish Funding Council (SFC) here. **Recommendation 7: is therefore that this educational role should be undertaken, drawing in the SFC. This may help drive a future pipeline of clients (e.g. postgraduates).**

Supporting one to many account management

7.28 The one to many account management is still at the pilot stage within SE, however a number of the groups of 'many' could be consortia. Until the results of the pilot it is not appropriate for CDS to in any way duplicate activities, yet there should be ways in which CDS expertise in understanding the dynamics between potential consortia members may help the account manager responsible for managing a group of companies, albeit through a single contact. The consortium-builder facilitator links being developed through CDS could be applied here.

Measuring Outcomes and Impact

7.29 The measurement of impact must follow the natural focus on outcomes and impact. This needs a mechanism and framework for regular monitoring of impact (via CRM2). Impact measures must also relate to stable and sustainable inclusive growth.

7.30 The MOU with Edinburgh is designed to help formalise specific activity (although not impact systematically). Going forward, across the range of CDS activities, it would be useful to have a clear reporting mechanism in place (with a number of set outcomes to be reported). It would also be useful to record all contact details, details and outcomes in the new CRM2 system being rolled out across SE that can be easily updated and monitored in support of this.

Governance

7.31 The Advisory Board no longer operates, partly in response to the different models that CDS support and the different target audiences and partners involved in supporting the different cooperative types. EO Ambassadors and Consortium Champions provide a valuable advisory role for CDS. At the same time, there may be a need for a broader oversight of CDS activity than being part of SE would allow, or than is the case under the current arrangements. **Recommendation 8: is therefore that some consideration is given to a broader over-sight and or partner organisation input, that sits above or alongside an SE integrated CDS. This would include HIE of course. This would help ensure that a more integrated CDS**

within SE retained, say, its role in supporting community cooperatives and strengthening communities.

Concluding remarks

7.32 CDS supports a wide range of activity and focuses on EO businesses, consortium and community cooperatives, and this is appropriate given the potential in the sector and the number of cooperative/alternative business models. The sea-change has not yet occurred in the understanding of the benefits alternative business models can bring in retaining wealth in Scotland and securing inclusive growth. They contribute to national economic strategy objectives through promoting collaboration and ownership succession. Given the appetite to see alternative business models operating on a much greater scale, and in more locations, and the need to continue to educate and raise awareness across the public, education and business sectors, there is a role for others beyond CDS in ensuring that the potential of alternative business models are maximised.

ANNEXES

A. Stakeholder List

Stakeholder Consultees	
Stakeholder Name	Stakeholder Organisation
Hugh Lightbody	Business Gateway National Unit COSLA
Carole Leslie	CDS Consultant
Alistair Gibb	CDS Specialist Adviser
Jim Galloway	City of Edinburgh Council
Dick Philbrick	EO Ambassador (Clansman Dynamics)
Dave Hollings	Cooperative & Mutual Solutions Ltd
Martin Meteyard	Cooperative Enterprise Hub
James Proctor	Co-ops UK
Claire Hobson	Department for Business Innovation & Skills
Wendy Reid	Development Trusts Association Scotland
Deb Oxley	Employee Ownership Association
Alan Davidson	Glasgow City Council
Eddie Percy	Glasgow City Council
Charlotte Wright	Highlands & Islands Enterprise
Colin MacBeath	Highlands & Islands Enterprise
Elaine Jamieson	Highlands & Islands Enterprise
Kerrien Grant	Highlands & Islands Enterprise
Rachael MacCormack	Highlands & Islands Enterprise
Dougal Perman	Consortium Champion (Inner Ear)
Martyn Shaw	MacRoberts LLP
Andrew Prendergast	Plunkett Scotland
Carron Tobin	Rural Dimensions
James Graham	SAOS Ltd
Nick Kuenssberg	EO Ambassdor (Scott & Fyfe)
Ross Martin	Scottish Council Development & Industry
Lynn Grieve	Scottish Development International
Cathy Black	Scottish Enterprise
Clare Alexander	Scottish Enterprise
Jim Watson	Scottish Enterprise
Linda Hanna	Scottish Enterprise
Lorna Edwards	Scottish Enterprise
Nicola Watt	Scottish Enterprise
Paul McCafferty	Scottish Enterprise
Rhona Allison	Scottish Enterprise
Martin Stepek	Scottish Family Business Association
James Muldoon	Scottish Government
Marc Crothall	Scottish Tourism Alliance
Bill McKenchnie	Institute of Collaborative Working (Symbiotiq)
Alastair McNaughton	The Business Trinity
Ivan Broussine	VFormation (former Chair of CDS Advisory Board)

B. Impacts and benefits of EO – Case study: Scott & Fyfe

Company background and context

Scot & Fyfe Ltd is a technical textile manufacturing company based in Tayport, Fife. The company was established in 1864 by Robert Scott and Mr Hugh Fyfe as a linen works. The linen was supplied to the local area and used for sails on the boats of the River Tay and for covers for wagons. Prior to transition to employee ownership (EO), the company was in the ownership of the Tough family, who had been involved with the company since 1887. After significant internal physical and corporate restructuring in a difficult market the family eventually reached the decision to move to EO during summer/autumn 2011.

The announcement of the decision to move to EO took place in September 2012, with the transition taking place in January 2013. The rationale behind the transfer to EO was to retain the business (and thus the jobs) in Tayport instead of a MBO or trade sale, which could have put the jobs, and the retention of the business in the local area, at risk. An EO model was seen as the best way of retaining jobs. There are currently around 90 employee-owners at Scott & Fyfe. Most staff members at Scott & Fyfe have been at the company through the EO transition process.

The transition to employee ownership

Because of tough market conditions, the future of the business pre-transition was uncertain and EO was the most viable option to keep the company going. Full explanation of the decision to move to EO was given at a staff meeting, held in September 2012. Full staff participation was secured for the meeting, along with representation from the Tough family on the Employee Benefit Trust. The decision to switch to EO had made privately, due to on-going deliberation over the family's decision, but also to prevent the possibility of rumours starting / spreading. Despite initial employee surprise at the unexpectedness of the move, the decision was largely positively received.

Following the meeting, the process was supplemented by a series of education / awareness-raising workshops for staff, covering issues such as company structure, share purchase, etc. These were combined with a website (www.tayportworks.com) launched at the time of the announcement, which were all very well received and considered extremely informative. Despite the openness of the initial meeting, and the extensive programme of staff awareness-raising, staff and board members alike think that there remains still a degree of grappling with the EO concept, and the "what does it mean for me" question. In some regards, a full shift to EO is still theoretical, even though Scott & Fyfe are now some way down the line.

The balance of ownership at the time of the research was 93% owned by an employee trust, and 7% owned directly by employees. In the last round of share purchases, there was a 76% uptake on the share purchase plan (SIP) with staff were taking up the opportunity to buy shares.

Current way of employee ownership working

The feedback is that the working environment has improved significantly since moving to EO. Working relationships are seen as better, and relationships between management and shop-floor staff are considered to have improved significantly. Whereas management used to be far-removed both physically and hierarchically (something that was not helped by operating at two sites previously, this having changed as the company consolidated on one site pre-EO.

Management structures, approaches to problem-solving, etc. are now non-hierarchical. There are no “secrets”; by contrast there is a huge amount of information sharing. The only confidential information is salary information. This removes the “us and them” mentality, and has helped to improve competitiveness via a significant improvement in productivity. For example, following the loss of a key client, the chief executive shared the news with all staff within 2 hours. This was appreciated by staff, and the proactivity of sharing what was a negative message was seen as a very positive approach to management and information sharing. It also helped facilitate a positive, proactive approach to the response, in order to address the potential shortfall and engage new prospective clients.

Employee engagement is aided further through mechanisms such as the employee forum. This started just before the shift to EO. Its main aim was to act as a forum for new initiatives and innovations in the company. The forum has constructive and positive engagement from staff, and has also secured itself a budget, and has autonomy for some things, such as its local charity work role. Many of its considerations covered basic matters such as Wi-Fi or basic staff amenities, but staff consider that the small changes that the forum has secured in these respects has made a sizeable, positive difference to the working environment.

EO has also tapped into innovative ways of working instigated shortly before the move to EO. There had been collaboration with the Glasgow School of Art (GSA) through the NOW Project, which has enabled new products, different ways of thinking, and has been a starting point for significant change. The project has been carried on by staff, and not led by GSA. Innovation skills are now being tapped into (EO is a positive driver of this).

More widely, Scott & Fyfe have involvement in the Scotland-wide EO network, which enables a wide range of EO communications, knowledge sharing and efficiency learning.

Impacts and Benefits of employee ownership

It has been noted that the shift to EO has changed the work ethic overall; for a good number of employees; a strong commitment and work ethic was already there, but for others there was a marked improvement. More generally, there is much more engagement, a greater level of focus on work, with heightened awareness of the impact of mistakes or general performance on customer engagement, prospects and share price. There is more of an acute awareness of staff responsibility towards the company as owners as well as employees. Consequently, there is better motivation, better teamwork – a very collective “we” as employee-owners.

EO has brought a better understanding of staff roles and abilities. It has also given new opportunities for new roles through cross-working, and broader scope for workplace innovation, which has had a hugely positive impact on working practices. “Pods”, teams comprising a mix of staff members from different sections / roles, now focus on market sectors, and are helping to make cross-working more common in the company. Some are self-started, others are management initiated. Process innovations have been seen too. A waste reduction project that originated on the shop floor, involving sorting and baling of waste, secured payback in just three months. Additional waste creation / management checks have also been initiated by staff. A redesign of a Health & Safety form is now being submitted for a Health & Safety award, even though it was simply done out of necessity.

Employee engagement, and commitment more widely, has been greatly improved by EO. Recent recruits to the company have been surprised and interested to see just how community-based the company is. There is a considerable amount of unpaid and out-of-hours work done,

far beyond what employees are contracted to do. For employee-owners, the shares are not the driver behind this: the real driver is that they care about the company. Now, there is a real effort to put the company in the best economic position for the benefit of employees but also for the community too.

EO has also seen other improvements. There is a wider range of multi-role training, and not just job- or role-specific training for staff. All staff have an active engagement in key decisions, such as the purchase of new machinery. At the AGM, there is voting in of directors, including an employee director (who has recently been re-elected), who enables a good relationship between the shop floor and the office. There is a board of five directors including one employee director, with re-election every two years, and a maximum of three terms of the employee director. There appears to be good rapport all round within the company, but the employee director in question acts to ensure that there is a good relationship between staff and management.

In the view of staff, EO has made things happen, and on a much quicker timescale. It has also engendered a culture of openness, readiness and engagement. The main difference now is that the company is democratic. There is full engagement and explanation on all decisions, rather than the owner's decision being final. The staff voice is heard. Everyone acknowledges that they are still feeling their way in terms of fully understanding EO, but there is a general feeling that if something needs to be done, staff can just get on and do it, in a supportive and innovative environment that encourages staff to "fail faster".

EO is also seen as a definite attractor in terms of recruiting staff, and recent recruits have definitely viewed it as a benefit / positive reason for joining the company.

Please note: a case study from an EO business has been included as a case study to reflect the particular views of employees, for example in relation to their participation in decision-making and so on. Four EO focus groups were undertaken to provide employee input, of which Scott & Fyffe was one. No consortium cooperatives or community cooperatives were the subject to a specific focus group, and so have not been included as a case study write-up.

C. Further Background on and Examples of Cooperatives

History of cooperatives in Scotland

The establishment of the Rochdale Society of Equitable Pioneers, and the setting out of the Rochdale Principles in 1844¹²⁷ is considered by many to be the birth of the modern cooperative movement. Indeed, the Rochdale Principles still form the basis of cooperative principles.¹²⁸ However, evidence suggests that cooperatives in Scotland predate that,

The Shore Porters Society (now a private partnership for removals, general haulage, property and warehousing) was established in Aberdeen in 1498, by a group of porters, or 'Pynours' who worked at Aberdeen Harbour. They formed the Society for their mutual protection.¹²⁹ Later, the Fenwick Weaver's Society formed in 1769, originally to foster high weaving standards, but which evolved into a consumer cooperative to facilitate the collective purchasing of bulk food items and books.^{130,131} Further, Robert Owen, the Welsh social reformer and one of the founders of utopian socialism and the cooperative movement, put into practice many of his ideas on cooperative societies in the Cotton Mills of New Lanark.^{132,133}

During the 19th Century, a number of retail / consumer cooperatives were established in Scotland. Shortly after the establishment of the Rochdale Society of Equitable Pioneers, St Cuthbert's Cooperative Association was established in Edinburgh in 1859; it is now better known as Scotmid following a merger with the Dalziel Society of Motherwell in 1981.¹³⁴ Later, the Scottish Cooperative Wholesale Society (CWS) established in 1868.

Though there is limited discussion in the literature of more recent cooperative movements in Scotland, anecdotal evidence suggests that the recent (20th Century) history of cooperatives in Scotland is closely linked with socialist and labour movements, particularly in the Central Belt, and is thus often portrayed in the 21st Century in a negative light. Consequently, there is a suggestion that cooperatives, as a way of working, have in many ways been shunned since the 1980s

Examples of EO from Scotland

Page\Park

Page\Park is an architectural firm based in Glasgow, established in 1981. The company made the transition to EO in December 2013. In the year leading to the change, Page\Park moved from being a traditional architectural partnership into a "dynamic, creative forty-strong" EO

¹²⁷ Cooperative Heritage Trust (2015) The Rochdale Pioneers . From:

<http://www.rochdalepioneersmuseum.coop/about-us/about-the-pioneers/>

¹²⁸ International Cooperative Alliance (2015) Cooperative identity, values & principles. From:

<http://ica.coop/en/whats-co-op/cooperative-identity-values-principles>

¹²⁹ The Shore Porters Society (2015) About Us – History. From: <http://www.shoreporters.com/about-us/history.html>

¹³⁰ The Guardian (2007) *Strike Rochdale from the record books. The Co-op began in Scotland, 7th August 2007.* From: <http://www.theguardian.com/business/2007/aug/07/retail.uknews>

¹³¹ MacFadzean, J. (2008) *The Co-operators - A History of the Fenwick Weavers* (East Ayrshire North Communities Federation Ltd.)

¹³² Robert Owen Museum (2015) Robert Owen Museum – Welcome. From: <http://robert-owen-museum.org.uk/>

¹³³ New Lanark World Heritage Site / UNESCO World Heritage (2014) *New Lanark World Heritage Site: A Short Guide*

¹³⁴ Scotmid (2015) Our History. From: <http://www.scotmid.coop/about-us/our-history/>

model.¹³⁵ The change in ownership fitted well with the existing business model that shared responsibility across all levels of the business structure, and extolled the virtues of co-operation and transparency. Since then, the business has recruited further employee-owners, and are 71st in the Architects Journal's top 120 practices in 2015¹³⁶, having also won the AJ100 Best Place to Work Award in 2013.¹³⁷ The formalisation of responsibility-sharing coupled with benefit-sharing amongst employee-owners has led to significant and continual increase in staff engagement levels, which in turn is driving productivity and a desire to ensure that the business continues to succeed. This has resulted in Page\Park receiving more enquiries from other architectural firms expressing an interest in learning how EO has driven their success within the sector.¹³⁸

MONDRAGON

As a variant of an EO business, the MONDRAGON Corporation is a federation of worker cooperatives based in Mondragón in the Basque region of Spain. Established in 1956, and initially producing paraffin heaters, the corporation was responsible for establishing the *Escuela Profesional* (now the *Mondragon Eskola Politeknikoa*), and *Lagun Aro*, a voluntary mutual benefit organisation (as a response to the then exclusion from the General Social Security System by the Spanish Government). Fundamental to the future of MONDRAGON was the inception in 1959 of *Caja Laboral Popular*, a credit union made up of a mix of both worker-members and representatives from its associate cooperatives; it now provides the financial function for the MONDRAGON Corporation. Founded on values and principles of co-operation, participation, social responsibility and innovation, MONDRAGON has grown to be the foremost Basque business group and the tenth largest in Spain, with corporate offices in 41 different countries, sales in 150, and its own university and vocational / management training centres.¹³⁹ It is made up of 103 independent cooperatives and 125 production subsidiaries, has 31,736 workers and made €4.754 billion of sales in 2014.¹⁴⁰, and have only recently been given serious consideration.

Case study examples

The 'In Concerto' consortium

The Consortium 'In Concerto' consortium in Castelfranco Veneto, North East Italy, was founded in 2002 by local social cooperatives, many of which were in the start-up phase. By 2012 it had grown to become the biggest business in the area. The consortium includes 22 social cooperatives, and provides rehabilitation services. It has a total turnover exceeding €47 million, and even in 2010, in the midst of the global economic crisis, turnover grew by almost 13%. It has a single mission: the idea that social cooperatives should be as present as possible in the local area, and operate in all possible activities. This generates income from and for the local area, provides employment and fosters inclusion, especially for those at a social disadvantage (e.g. disabled people, unemployed people and ex-offenders).

¹³⁵ Page\Park (2015) Practice: Ethos. From: <http://pagepark.co.uk/practice/ethos>

¹³⁶ Architects Journal (2015) AJ120. From: <http://www.architectsjournal.co.uk/home/events/aj120/>

¹³⁷ Architects Journal (20113) AJ100 Best place to work – 2013. From:

<http://www.architectsjournal.co.uk/home/events/aj120/aj100-best-place-to-work-2013/8647623.article>

¹³⁸ ¹³⁸ Employee Ownership Association (2015) *Case Studies – Page\Park*:

<http://employeeownership.co.uk/case-studies/pagepark/>

¹³⁹ MONDRAGON Corporation (2015) Mondragon Corporation. From: <http://www.mondragon-corporation.com/eng/>

¹⁴⁰ MONDRAGON Corporation (2015) Annual Report 2014. From: <http://www.mondragon-corporation.com/eng/about-us/economic-and-financial-indicators/annual-report/>

Certain functions of the consortium are centralised, such as accounting, and an internal fund based on consortium member contributions funds innovation. Because of the range of sectors the In Concerto consortium covers, it presents itself as a 'resolver', able to cover a complete value chain of activity. Consequently, collaboration between members and the decision to favour the system as a whole rather than individual profit means that the consortium offers great advantages to clients. Its competitiveness stems from its flexibility, integration and innovative approach to enterprise.¹⁴¹

SCIC (Société coopérative d'intérêt collectif), France

The Société coopérative d'intérêt collectif (Cooperative Company of Collective Interest; SCIC) is a new kind of cooperative in France, which aims to partner with a wide range of organisations to produce *"all types of goods and services which meet the collective needs of a territory with the best possible mobilisation of its economic and social resources"* Operating under a logic of local and sustainable development, SCICs are rooted in a specific territory, and actively promote the connections between key stakeholders of the same economic region. As a type of hybrid cooperative (incorporating elements of both consortia and community cooperatives), it must have at least three different types of stakeholders, with all members allowed management and vote-casting responsibility.¹⁴²

Case study examples

Social cooperatives in Italy

Social cooperatives, a form of community cooperative, are a distinct, important and rapidly growing sector of the Italian economy. Developed during the 1970s at a time of low economic productivity and high unemployment in Italy, they have grown and evolved to form a crucial element of the delivery of social services in partnership with municipalities.¹⁴³ Social cooperatives in Italy are distinguished by their social goals: their objective is the general benefit of the community and the social integration of citizens, particularly those disadvantaged.¹⁴⁴

¹⁴¹ European Commission (2013) *Social economy and social entrepreneurship: Social Europe Guide Volume 4*, pp.39-40

¹⁴² *Ibid.*, p.36

¹⁴³ Social Enterprise London (2002) *Social cooperatives in Italy: Lessons for the UK*

¹⁴⁴ European Commission (2013) *Social economy and social entrepreneurship: Social Europe Guide Volume 4*, p.35