The Scottish Parliament
Pàrlamaid na h-Alba

ECONOMY, ENERGY AND TOURISM COMMITTEE

MEETING DETAILS

5th Meeting, 2016

Wednesday 3 February 2016

The James Clerk Maxwell Room (CR4)

Meeting starts at **10.15 am**

COMMITTEE PAPERS

Agenda

Submissions from:

Community Shares Scotland

John Lewis Partnership

Page / Park

Andrew Pendleton

Portpatrick Harbour

Scott & Fyfe

Scottish Enterprise

Screen Facilities Scotland

ADDITIONAL INFORMATION

Previous Meetings

Previous Meeting Papers and Official Reports

NOTICES

Next Meeting is Wednesday 10 February 2016.

Meeting is expected to start at 10.00am.

Business includes:

- Follow-up evidence on creative industries.
- Ministerial evidence on subordinate legislation.

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The Scottish Parliament
Pàrlamaid na h-Alba

ECONOMY, ENERGY AND TOURISM COMMITTEE

AGENDA

5th Meeting, 2016 (Session 4)

Wednesday 3 February 2016

The Committee will meet at 10.15 am in the James Clerk Maxwell Room (CR4).

1. **Decision on taking business in private:** The Committee will decide whether its consideration of its Session 4 legacy paper should be taken in private at future meetings.

2. **Employee owned businesses:** The Committee will take evidence from—

   Nathalie Agnew, PR Director, The Wee Agency;

   Calum Currie, Chair, Portpatrick Harbour Community Benefit Society;

   Sarah Deas, Chief Executive, Co-operative Development Scotland, Director, Enterprise Projects, Scottish Enterprise;

   Joanna Dewar-Gibb, Chairwoman, Screen Facilities Scotland;

   Simon Fowler, Partnership Registrar, Group & Partnership Services, John Lewis Partnership;

   Prof Nick Kuenssberg, Chairman, Scott & Fyfe Limited;

   Kelly McIntryre, Programme Manager, Community Shares Scotland;

   Andrew Pendleton, Professor of Human Resource Management, Durham University Business School;

   Karen Pickering, Head of Creative Workspace, Page \ Park Architects.

3. **Employee owned businesses:** The Committee will consider evidence heard at today's meeting.

MENU

EET/S4/16/5/A

Douglas Wands
Clerk to the Economy, Energy and Tourism Committee
Room T2.60
The Scottish Parliament
Edinburgh
Tel: 0131 348 5207
Email: douglas.wands@scottish.parliament.uk

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The papers for this meeting are as follows—

Agenda item 2

PRIVATE PAPER	EET/S4/16/5/1 (P)
Submission from Community Shares Scotland	EET/S4/16/5/2
Submission from John Lewis Partnership	EET/S4/16/5/3
Submission from Page / Park	EET/S4/16/5/4
Submission from Andrew Pendleton	EET/S4/16/5/5
Submission from Portpatrick Harbour	EET/S4/16/5/6
Submission from Scott and Fyfe Ltd	EET/S4/16/5/7
Submission from Scottish Enterprise	EET/S4/16/5/8
Submission from Screen Facilities Scotland	EET/S4/16/5/9

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Submission from Community Shares Scotland

Who we are and what we do

Community Shares Scotland is funded by the Big Lottery Fund Scotland and Carnegie UK Trust until March 2017 and is delivered by DTA Scotland in partnership with the Plunkett Foundation, the Community Shares Unit (a joint project run by Locality and Co-operatives UK) and Rocket Science. Community shares are an exciting and democratic model of raising finance for initiatives from communities who take part and benefit themselves. Community Shares Scotland operates as a dynamic hub for support and assistance to develop new share offers and support existing ones. It also acts as a platform for profiling the community share model, raising awareness of the value of the approach to new entrants and facilitating peer support and networking to those already involved in community shares. Finally it is a central reference point for market intelligence, providing the latest information on community share activities nationwide, as well as producing guidance materials.

CSS's core areas of activity are:

- Direct support (through general advice and signposting and referrals to consultancy support)
- Awareness-raising through social media, events and roadshows
- Capacity-building through training sessions for intermediary bodies and practitioners.

What are community shares?

A community share offer could be the ideal way to raise the all-important risk capital to start, and to grow a community project. Community Shares refers to the sale of shares in enterprises serving a community purpose. This type of investment has been used to finance shops, pubs, community buildings, renewable energy initiatives, local food schemes, along with a host of other community based ventures. Community Shares work to enable much-needed investment to come from the very community a project intends to benefit. By investing personally in local enterprises, community shareholders work together to successfully, and directly, provide goods and services that meet local needs.

Further to this, the democratic and co-operative, '1 member-investor, 1 vote', regardless of the amount invested, ensures that all are engaged and equal within the structure and thus focused collectively on the long term health, relevance and sustainability of the community enterprise.

Community shares is a term used to describe non-transferable, withdrawable share capital in an asset-locked entity; a form of equity unique to society legislation. Shareholders have the right to withdraw their share capital, subject to the terms and conditions stated in the society's rules and share offer document. They cannot sell or transfer their shares to a third party in order to achieve a capital gain from their investment in share capital.

A successful community share offer will have a solid business plan, sturdy governance structure, good community engagement and an offer document clearly outlining the investment opportunity, its community benefit, risks and potential rewards, both social and financial.

Community shares can only be issued by Community Benefit Societies or Co-operative Societies, both are regulated by the Financial Conduct Authority.

A community benefit society is run primarily for the benefit of the community at large, rather than just for members of the society. This means that it must have an overarching community purpose that reaches beyond its membership. An applicant enterprise must also have a special reason for being a community benefit society rather than a company, such as wanting to have democratic decision-making built into its structure. Although a community benefit society has the power to pay interest on members' share capital, it cannot distribute surpluses to members in the form of dividends. A community benefit society can opt to have a statutory asset lock, which has the same strength as the asset lock for a charity and for a community interest company. This type of asset lock is not currently available for co-operatives. (http://communityshares.org.uk/further-support/faq/whats-difference-between-co-operative-and-community-benefit-society)

At Community Shares Scotland we find that the Community Benefit Society model is the most relevant to the undertakings of the community enterprises that we have thus far supported. This is primarily due to its requirement of a wider-community purpose beyond its membership, making up 100% of the 8 successful community share offers that we have supported.

What success have we had so far?

The programme has worked with over 50 community groups over the first 18 months of the programme and are thrilled to have helped 8 groups launch successful shares offers. Additionally we have run 6 awareness raising community roadshows and 6 intermediary-level trainings, across Scotland.

Community Shares Scotland has also engaged with a wide range of infrastructure bodies and members of at least 14 different organisations have attended intermediary training sessions.

In addition, the resources that have been adapted or created by Community Shares Scotland over the past year include:

- Website, including a Step-by-Step Tool
- Case studies
- Community Shares Handbook
- 2 Community Shares Factsheets (attached for further details and quick reference)
- An Intermediary Training Support Pack
- A Community Shares Scotland Infographic. (attached)

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

Growth in community enterprises utilising community shares as part, or all, of their funding mix has been exponential both in Scotland and across the whole of the UK. According to our recent mid-way evaluation (infographic attached), 8 Scottish community groups have successfully launched and raised over £3,000,000 in community shares towards their community enterprises in less than 18 months of the launch of our programme. This is an ever increasing trend, according to our data, and is backed up by UK-wide data researched and produced by the Community Shares Unit ('Inside the Market' report published in June 2015 - attached). The growth both in numbers of groups, amount of capital raised and increased member-ownership, in Scotland and UK-wide, has been significant. UK-wide, in 2009 only 17 groups launched community shares offers, raising £2,500,000.00, as compared to 61 groups in 2014, raising £20,880,000.00, as was reported to the Community Shares Unit. Between 2009 and 2014, 246 share offers were launched, compared to less than 30 for the previous six-year period. (http://communityshares.org.uk/sites/default/files/resources/community_shares_-_inside_the_market_report_-_june_2015.pdf)

This trend shows no sign of slowing here in Scotland, whereby we at Community Shares Scotland are directly supporting over 50 groups that are considering, or in the process of, a community shares offer. These groups span over 11 distinct and varied sectors. Further to this, there is an ever increasing interest in community shares as demonstrated by the number of participants in awareness raising or training events run by Community Shares Scotland. At Community Shares Scotland events alone, we have had approximately 130 participants across 6 Roadshows and approximately 50 participants across 6 intermediary-level trainings. This appetite has not diminished, but grown, and we will be running licensed practitioner training beginning in April to create increased Scotland-wide capacity and legacy to support groups through the use of community shares.

All of our activities work to create a lasting legacy for Scotland's third sector and build wide-spread geographic and sectoral capacity for communities to utilise community shares and access support. We could not have anticipated the level of success or interest thus far, which has exceeded all expectations to date, and by all accounts will continue to grow over the next 18 month of the Community Shares Scotland programme. As such, there will more than likely continue to be a need for a central point of contact and provision of infrastructural support after the Community Shares Scotland programme's current completion date, which will need to be considered in the near future.

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

The use of community shares and community benefit societies, when appropriate, offers an alternative to the 'traditional' modes of funding for enterprising asset-based developments and local service provision enterprises, thus enabling community members to invest in their own future and be agents of strong and sustainable community-led regeneration.

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Portpatrick Harbour Community Benefit Society - Portpatrick, Dumfries and Galloway

In Autumn 2015 Portpatrick Harbour Community Benefit Society launched a community share offer, in collaboration with Community Shares Scotland, with an investment target of £100,000 in an attempt to secure the integrity and ownership of the historic harbour of Portpatrick for the benefit of the community. This community share offer has provided all who love the village of Portpatrick the opportunity to purchase community shares in the harbour thus supporting and securing the future of this unspoiled idyllic asset for many years to come. Achieving the ultimate goal of raising £100,000 has not only secure community ownership of the harbour but also allow the community to kick start much needed upgrades. What's more, the Portpatrick Harbour Community Benefit Society became the very first Community Benefit Society in Scotland to achieve both Financial Conduct Authority registration and full charitable status with the ability to issue share capital from the Scottish charity regulator OSCR in July 2015.

Cultybraggan Camp 21 Bunkhouse - Comrie, Perthshire

Cultybraggan Camp is the last remaining WWII high security POW camp in the UK. It is a unique environment with huge historic significance. The community of Comrie acquired the camp in 2007 and have now secured funding from Historic Scotland, the Heritage Lottery Fund and Southern Energy to refurbish a key group of vacant listed buildings within the camp.

The 10 huts will be refurbished and modernised into a self-catering accommodation business – offering a unique experience for visitors. Proceeds from the business will provide a significant revenue stream for re-investment in the camp and projects that benefit the local wider community.

Launched in September 2015, the Community Share Offer will provided the final piece of the funding package and demonstrated widespread community support for this exciting endeavour. The share offer successfully hit its target and raised over £28,000 – shares started at a minimum investment of £25 and a maximum of £5000. Every shareholder will have an equal say in how the business is run, regardless of the size of their shareholding.

'What fantastic potential there is to preserve an iconic wartime history and develop it into a hugely popular tourist stop' – Cultybraggan facebook page

3. Assessing the sources of funding and support available

Although innovative in their inclusivity, engagement and transparency, when compared to 'traditional business models, Community Shares are now a tried, tested and trusted model for raising equity finance to fund the start-up or growth of community enterprise. Furthermore, Community Benefit Societies are a well-tested, robust, yet nimble business structure. The use of community shares offers an alternative to the standard modes of funding, when appropriate, to enable community members to invest in their own future and be agents of strong and sustainable community-led regeneration.

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There is no other organisation offering the level of in-depth and focused support for community shares that is provided by Community Shares Scotland. In all instances we collaborate with existing organisations to ensure that there is no duplication or over-lap of support or resource. That being the case, we are still the main source for support, advice, awareness raising, training, networking, etc. for the community shares society model in Scotland.

In some cases community shares will make up the entirety of the funding package that a community enterprise requires, as was the case with the community-led greengrocer, Dig-in Bruntsfield (http://www.diginbruntsfield.co.uk/background/) and with Portpatrick's community buy-out of the harbour and its business concern (http://www.portpatrickharbour.org/about_portpatrick_harbour_trust.html).

However, in many cases, community shares make up a dynamic part of a community enterprise's funding blend. Many find that community shares act as a valuable way to engage the community in the long term, baking in an ambassadorial base of service users and promotors, whilst leveraging in support from funders and lenders. Funders, as well as traditional and social lenders, often are more inclined to work with a group utilising community shares as an aspect of their funding mix, as it gives them added confidence that there is a solid business plan and forecasts, an engaged community and good governance supporting the project. Cultybraggan Camp 21 Self-catering Heritage Accommodation **(http://comriedevelopmenttrust.org.uk/cultybraggan-camp-21-bunkhouse-community-shares**) is one such example of an enterprise with a varied funding package. Their successful share offer raised a total of £27, 325 with 63% local investment and 37% non-local investors, the rest of the finance required was leveraged in through a variety of grants and loan stock.

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

Since Community Shares Scotland's launch, the Scottish Government had the important insight to add Community Benefit Societies as legitimate structures for Asset Transfer and Community Right to Buy within the Community Empowerment Act and Land Reform Bill. This will open up the field further for community shares to be utilised more easily and widely, by more communities, when appropriate, whereas this wasn't a possibility previously. We see community shares as being an obvious fit with the Scottish Government's Enterprising Third Sector agenda and strategy.

Through dialogue and collaboration between Community Shares Scotland and OSCR, The Scottish Charity Regulator OSCR has agreed to allow charitable community benefit societies to issue community share capital and have issued public guidance to that end. This will allow those groups that require charitable status to both retain, or gain, charitable status, but also to access the benefits of being able to operate as a community benefit society and issue community shares to raise equity investment towards their enterprising activities, when appropriate.

Community Shares Scotland is keen that all Third Sector infrastructure bodies, be they central couched within central Scottish Government, Local Authorities, statutory funding bodies, etc. should have an awareness of community shares as a funding option and to help spread the word accordingly.

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Community Shares Scotland

Midway Review Statistics
May 2014 - Dec 2015

Support and Guidance to Community Groups

55
Groups supported directly by Community Shares Scotland

8
Micro grants of £2,500 awarded

7
Succesfully completed share offers supported by Community Shares Scotland

£3,276,000
Total community share money raised

250+
General enquiries

Sectors Reached

- Renewables
- Food and farming
- Harbours
- Creative and media
- Regeneration
- Pubs and shops
- Housing
- Heritage
- Community hubs
- Sport
- Tourism

Raised Awareness of the Community Shares Model

6
Roadshows delivered

1749
Twitter followers

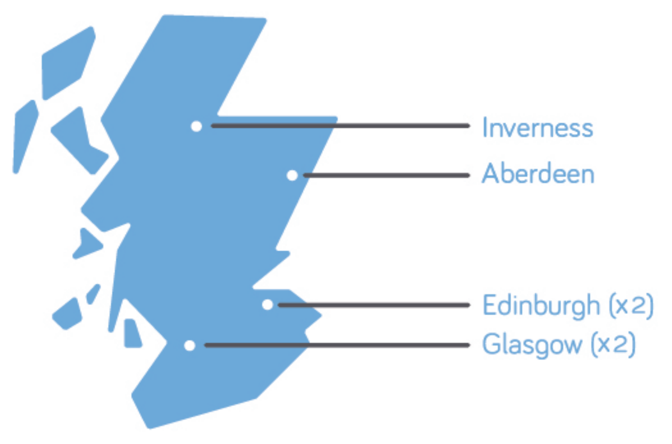
55 Over 1000 Attendees
External presentations and workshops

645
On our mailing list

25, 605
Website hits

60
Counts of media coverage

Training and Upskilling Community Support Organisations



6
Intermediary training sessions delivered

92
Additional intermediary body interactions

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LOTTERY FUNDED

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Community Shares Scotland
www.communitysharesscotland.org.uk
0131 220 3777
1b Washington Lane, Edinburgh, EH11 2HA

What are Community Shares?

Key Messages

1. Community shares is a funding mechanism which helps create sustainable enterprises serving a community purpose.

2. Community shareholders buy shares in local enterprises providing goods and services that meet local needs.

3. This community enterprise must be sustainable with a viable business proposition at its heart.

4. Each shareholder has an equal say in major decisions and the enterprise is therefore controlled and governed by the community it serves.

5. This type of investment has been used to finance:
   - shops and pubs
   - community buildings
   - media and sports initiatives
   - community renewable energy
   - local food schemes
   - along with a host of other community based ventures

Key Principles

Member based and democratic – Each community shareholder has an equal say in major decisions, irrespective of the size of their shareholding, be it £25 or £25,000.

Limited return on investment – Investment should be seen as primarily for social return. Interest on investment is not a guarantee and if offered is fair and modest.

Withdrawable and non-transferable – Community shares cannot increase in value or be sold on to anyone else. However they can be withdrawn within the set rules of the society.

Light touch regulation – Community shares are exempt from regulation under FSMA 2000 but carry a responsibility for stringent self-regulation.

Key Benefits

Patient capital – Unlike loans and bonds community shares have no set repayment date. Repayment to shareholders is linked to the performance of the enterprise and interest is at discretion of directors.

Governance and operation – Community shares inspire meaningful shareholder involvement in the operation of the enterprise.

Leverage – Community shares can lever further funding based on the 'first move' of the community. They are almost always part of a larger funding package.

Who can issue Community Shares?

Community enterprises wishing to raise capital through a community share offer need to ensure they have an appropriate legal form. The current legal forms that can issue community shares are:

1. A Community Benefit Society
2. A Bona-fide Cooperative

Don't worry if your group currently has a different legal structure. We can help you register as one of these two forms. This can either be a conversion from your existing legal structure. Or we can help you create a new group that will work effectively alongside your current structure.

Nb. While the bona-fide cooperative is suitable for some, most groups use the community benefit society model for its broader community functionality.

The 'Rules'

Any organisation seeking to become a co-operative or a community benefit society must register Rules with the FCA. The governance of a society is determined by these Rules. Many societies have adopted Model Rules provided by sponsoring bodies such as Coops UK or Plunkett Foundation. These bodies also provide advice on how model rules can be amended to best serve the interests of the society and its members.

The Rules of a society determine the scope, terms and conditions of a share offer to the public. The society must also have the organisational and managerial capacity to meet its responsibilities.

What about charitable status?

In Scotland, as of August 2015, a community benefit society can apply to the Scottish Charity Regulator to be registered charity. To obtain tax benefits the organisation will also have to apply to HMRC. The Scottish Charity Regulator have acknowledged that charitable community benefit societies may issue community shares and pay members interest on share capital. Talk to the Community Shares Scotland team for further info.

How much does it cost?

Registering as a co-operative or a community benefit society can cost anything from £40 to £950. An application using model rules…

- without any amendment to the model = £40
- with between 1 and 6 amendments to the model = £120
- with between 7 and 10 amendments to the model = £350
- with 11 or more amendments to the model, or application not using model rules = £950

Do other funders, lenders and public bodies have confidence in these models?

Yes! The community benefit society model is an increasingly popular and recognised form with many great advantages to community groups. Using the community benefit society model gives confidence to grant funders, lenders, Scot Gov (a CBS is a legitimate body for Right to Buy and Asset Transfer as enshrined in the Community Empowerment Act) and often levers in further funding thanks to the 'first move' of the community.

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Community Shares

Inside the Market Report June 2015

locality
Communities ambitious for change

CO-OPERATIVES UK
coop

Department of Energy & Climate Change

Department for Communities and Local Government

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Introduction
Inside the Market Report

"(Community Shares)... dramatically increases the participation of individual citizens in social investment."

Building a Social Impact Investment Market: The UK Experience, September 2014

"It is possible that community shares may already be the most significant source of 'cheap, risky, long term growth finance' available to social sector organisations."

After the Gold Rush – The Alternative Commission on Social Investment, March 2015

The community shares model has been subject to a considerable level of interest in the last few years. This form of finance is now considered a key component of a wider social investment market, which has itself, generated a growing profile.

Yet earlier this year, the Alternative Commission on Social Investment reported that the social investment market was possibly not "living up to the rhetoric of politicians and social investment leaders nor meeting the expectations of many charities and social enterprises."

In particular, the report highlighted that actual evidence of need within the social sector was largely limited to an unmet demand for "cheap, risky, long term growth finance in the tens – but not hundreds – of thousands." With this, it recognised the important role that community shares was playing in meeting this demand.

There is no denying the fact that the community shares market has witnessed quite remarkable growth over the last decade. This can be seen in the context of the wider expansion of the alternative investment market in the extraordinary market conditions following the financial market crash of 2007/8. The policies adopted by governments across the world, characterised by extensive quantitative easing to avoid systematic collapse, have resulted in exceptionally low base rates and hence returns for savers.

Some investors have moved to alternative investments in pursuit of higher yields while others have been driven by their disappointment in the banking system to look for investment options more aligned with their ethical or social concerns.

This growing public appetite for investing in and supporting community enterprises is demonstrated by the fact that community shares has brought 60,000 new investors to the market in less than five years, generating the cheap, risky, long-term growth finance so sought after by social sector organisations.

Yet despite these encouraging signs, it is important that the analysis of community shares continues to be rooted in evidence – a central argument of the Alternative Commission's report. With this, the Community Shares Unit (CSU) has decided to produce this market report to provide a measured analysis of the market, based on the data and intelligence as it stands.

This report is also part of a wider ambition to ensure national standards of good practice and to promote public confidence in community shares. Central to promoting public confidence is the ability to provide accurate information about the market as a whole. Furthermore, it is important to not only set out "how" enterprises are raising this finance, but "why" individuals themselves are investing. With this wider perspective, the CSU can hopefully contribute a meaningful element of the overall evidence base which is so crucial to bridge the gap between the rhetoric of social investment leaders and the needs of social enterprise.

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Introducing community shares: equity for social enterprise

All enterprises need risk capital to start, to grow, and to be sustainable. This capital is usually provided by the shareholding owners of the enterprise, plus funding from lenders and, of course, from the business itself, reinvesting its profits. Risk capital allows the enterprise to ride the ups and downs of development, which are to be expected when pursuing ambitious, challenging or innovative business goals.

Figure 1: **How community shares work**

One of the main reasons why social enterprises can find it difficult to compete with private enterprises is their lack of risk capital. A root cause of this under-capitalisation is the belief that social enterprises cannot, or should not, have shareholders. Equity investment is often considered as being incompatible with social purpose, because shares give legal title, meaning that the enterprise is owned, controlled and run in the interest of investors.

"Community shares" provides a mechanism to bridge the gap between under-capitalisation and ownership of social enterprise. This term refers to non-transferable withdrawable share capital; a form of share capital unique to co-operative and community benefit society legislation. This type of share capital can only be issued by co-operative societies and community benefit societies, including charitable community benefit societies and has some unique characteristics:

1. This type of share capital cannot be transferred between people. Instead, the society allows shareholders to withdraw their share capital, subject to terms and conditions that protect the society's financial security.
2. The value of shares is fixed and not subject to speculation, although some societies have the power to reduce share values if the society is experiencing financial difficulties.
3. Shareholders have only one vote, regardless of the size of their shareholding, so the society is democratic. There is also a limit on personal shareholdings, currently up to £100,000.
4. There is also a limit on the interest paid on share capital, based on the principle that interest should be no more than is sufficient to attract investment.
5. Finally, the majority of societies are subject to an asset lock, which prevents the society being sold and the proceeds of the sale being distributed amongst shareholders. This removes the possibility of capital appreciation and the scope for investor speculation.

The consequence of these provisions is that societies are not subject to "financial takeovers", in that they do not offer the prospect of capital gains, and therefore need to attract investors whose interests are aligned with the underlying purpose of the society. For societies it provides a source of long-term patient risk capital which helps attract other forms of finance (grant, donations and debt) giving the enterprise a good chance of viability and sustainability.

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Based on all these qualities, community shares are an ideal way for communities to invest in enterprises serving a community purpose and have been used to finance shops, pubs, community buildings, renewable energy initiatives, local food schemes, along with a host of other community based ventures.

This is an extract of the Community Shares Handbook – a comprehensive guide for professional practitioners who provide advice on community share offers. To explore the guide in full visit www.communityshares.org.uk

The Community Shares Unit

The term community shares was coined by the Development Trust Association (DTA) (now known as Locality) in its 2008 publication Community Share and Bond Issues, which examined how a growing number of community enterprises were raising investment capital from their local supporters.

In the same year, Co-operatives UK published a document called "Community Investment" – using the original industrial and provident society legislation, addressing the same phenomenon, but focusing exclusively on societies. (The Co-operatives and Community Benefit Societies Act 2014 (CCBSA) saw the removal of the term industrial and provident society from legislation.)

Towards the end of 2008 the DTA and Co-operatives UK came together to establish the Community Shares programme, an action research partnership funded by the Cabinet Office and the Department of Communities and Local Government (DCLG). The programme ran from 2009 to 2011. Over 70 societies registered during this period have now successfully completed a community share offer.

The Community Shares Unit (CSU) was launched in October 2012. It continues as a joint initiative between Locality and Co-operatives UK, with funding from DCLG and Department of Energy and Climate Change (DECC). Its overriding objective is to grow a sustainable market and ensure the long-term success of the use of community shares to raise equity finance and participation, with due process and protection for investors, in a range of community and co-operative enterprise.

Market Intelligence

Supporting intelligence and transparency through market analytics was identified early on as core to the CSU's work to grow the community shares market. From early 2013, the CSU has sought to record market activity using an online database: www.communityshares.org.uk/directory

This in itself has not been a straightforward process. Firstly, access to societies' records via the Financial Conduct Authority (FCA) Mutuals Register is neither as comprehensive nor as automated as what is now in place for companies via Companies House. This limits the CSU's ability to easily obtain information for societies planning and launching share offers, alongside monitoring their subsequent trading activities.

However more fundamentally, societies are under no obligation to report their share offer and so there is no formal mechanism for the CSU to record and track community share offers. Thus, the database relies largely on secondary research and whilst every effort has been made to ensure the accuracy of the data, it cannot be considered wholly exhaustive or precise.

Nevertheless, the database provides open and accessible information about societies financed through community shares and this evidence base has proved vital for the CSU's wider work encouraging policy reforms, raising awareness of the model and introducing national standards of good practice.

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Inside the Market Report

This is the first time the CSU has brought together its data and intelligence to present a comprehensive overview of the community shares market. The aim of this report is to showcase the information the CSU captures on the market across three key sources:

1. **Community Shares Directory:** data on enterprises which are planning a share offer and those that have completed offers. Further information on the precise methodology is contained at the end of the report.
2. **Share Offer Document Library:** The CSU holds approximately 200 share offer documents, from which we have extracted key information such as the fundraising targets, the proposed returns to investors, and the shareholding limits.
3. **Microgenius:** Microgenius is a digital platform operated by the CSU and enables societies to administer their share offer online. On this basis, it has access to analytics on the share offer campaigns as well as giving access to investors to capture attitudes and behaviours through investor surveys.

The report will cover each of these sources in turn, before bringing the analysis together to give an overarching account of the community shares market, and how this is being considered in the wider work of the CSU.

Figure 2: CSU sources of intelligence

Community Shares Directory	Community Share Offer Document Library	Microgenius
Enterprise (FCA mutuals register) ▸ Sector ▸ Region ▸ Development Status	**Fundraising targets**	**Investor behaviour / attitudes**
Share Offers (no comprehensive dataset) ▸ Date of share offers ▸ Key targets	**Min and Max shareholdings**	
Annual Returns (FCA mutuals register) ▸ Validation of investment raised/number of members ▸ Business performance data	**Stated returns**	**Share offer campaign analytics**

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Section 1
A focus on the market

Defining community shares

With any analysis of a sector or market, it is important to have a clear definition of the activity that is being focused on. This is particularly pertinent to community shares given it has no formal definition but rather refers to an underlying and rather complex technical feature, which can be subject to contrasting interpretations.

The CSU's starting definition has been to consider societies that have raised at least £10,000 in share capital from at least 20 members. This characterisation was introduced during the initial research programme from 2008, in which it was determined that 39 societies had each raised more than £10,000 in share capital through public share offers since the early 1990s.

However as the CSU has been developing its guidance, it has become increasingly aware of important parameters that need to be applied to ensure a clear and accurate definition when considering the community shares market.

The first parameter is the recognition that in recent years, there has been a growing number of share offers in the renewable energy sector, predominantly issued by a leading developer Energy4All, which issue transferable shares. Such offers fall outside of the scope of the CSU in which withdrawbility is a critical feature of the model. Furthermore these offers fall into the regulated space with respect to the FCA's financial promotion rules.

While this has been an established position for the CSU, more recently we have recognised the importance of narrowing the definition further, by excluding societies that do not have an asset lock, and therefore could be subject to capital speculation and capital gain by the members. The lack of a voluntary asset lock in co-operative societies is much more common than societies issuing transferable share capital.

This cohort of societies have emerged on the basis that there are several "model rules" – template governing documents for societies which have been approved by the FCA, that allow distribution of residual assets to members.

This report provides an analysis of historic market trends in which societies that have issued withdrawable share capital but do not have an asset lock are included. However from now, the CSU will be taking forward a narrower definition of community shares which excludes societies issuing transferable shares as well as societies that have no form of asset lock.

In particular, the introduction of the Community Shares Standard Mark highlights the need for societies to ensure restrictions on the distribution of residual assets, and in turn is the key rationale for adopting a new definition and changing our recording processes accordingly.

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Going for growth

Number of share offers

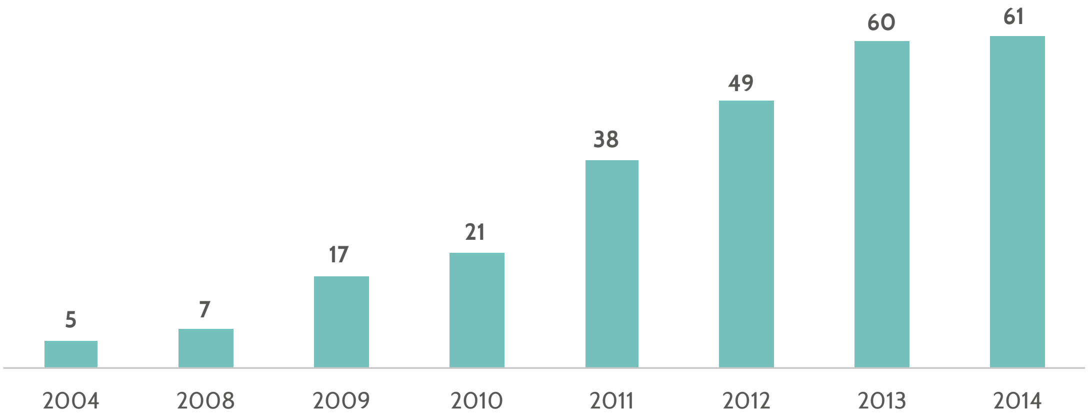
The community shares market has been characterised as one of growth and development throughout the period that a dedicated support programme has been active. However before this time, the offer of share capital by societies could only be considered as a rarefied and niche activity utilised by a handful of enterprises.

Nowhere is this clearer than simply looking at the number of share offers launched by co-operative and community benefit societies over the last ten years. In 2008, the first market research highlighted that since the beginning of the decade, share offers were taking place at a rate of about five new initiatives per year. Yet by 2009, the model had started to become more common place, with the number of share offers increasing by more than two-fold from the previous year.

Between 2009 and 2014, 246 share offers were launched, compared to less than 30 for the previous six-year period. We consider 2009 as the 'tipping point' for the community shares market.

Graph 1: Community share offers over time

Community share offers launched by co-operative and community benefit societies (2004, 2008-14)



Source: Community Shares Directory, CSU

The annual number of community shares offers grew consistently between 2010 and 2013. However, in 2014 there was only an increase of one share offer on the previous year. This marginal increase is likely the consequence of a heightened sense of instability for the sector. We think the lack of growth in 2014 may have been caused by a number of factors including uncertainty generated by regulatory change in the CCBSA 2014, proposed changes to tax benefits associated with community shares, the suspension of the activities of the Co-operative Enterprise Hub – an important provider of development support, and improvement in the wider economy which has slowed the pace of closure of rural shops and pubs.

However, growth appears to have had returned to the market. By June 2015, there have already been 40 share offers launched – indicating that this year could see the number of shares offers rise by a third.

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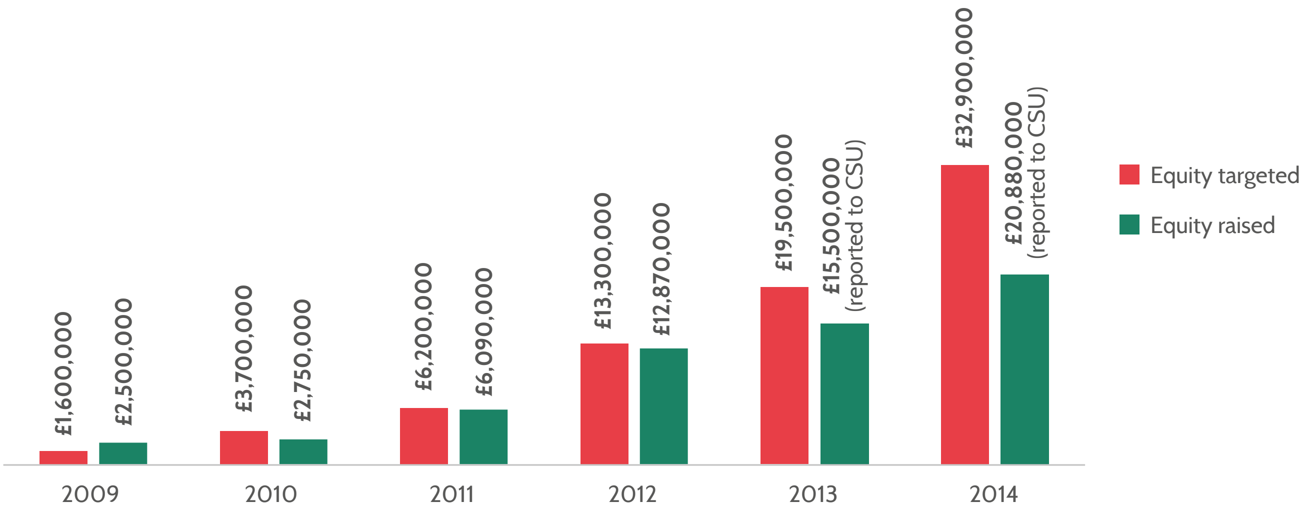
Investment Raised

Furthermore this plateauing should be viewed in light of other key indicators of growth, specifically the equity targeted and raised by offers, as shown below:

Graph 2: Equity targeted and raised over time

Equity investment targeted and subsequently raised by societies' community share offers (2009-2014)



Source: Community Shares Directory, CSU
Rounded to nearest £100k
Equity targeted data from offer documents. Equity raised data from Annual Returns (2009 -12) and reported to CSU (2013-14)

A key consideration for the CSU is that we cannot access a fully accurate figure for the amount raised until it is submitted within a society's annual return, which can often be over two years after the launch of the offer.

With this, the CSU uses two indicators to capture the investment amounts associated with community share offers. Firstly, it captures the equity targeted i.e. the target amount stated within the share offer document. This gives the CSU an immediate indication of the investment amount sought, allowing us to track the market in real time.

This is also particularly valuable given the difficulty and time lag associated with capturing the second indicator – equity raised. On this basis, the figures used for equity raised are currently only accurate to 2012, with the CSU not having access to all the respective annual returns covering offers in subsequent years.

Even using the conservative estimates for the last two years based on what has been reported directly to the CSU, the community shares market has raised almost £60m in the last five years, with upwards of £20m raised in 2014 alone. This in itself is not an inconsequential figure, but when set in the context of the wider social investment and alternative finance sector, is particularly illuminating:

- Community shares now comprises over 10% of the overall annual social investment market, which has been measured at approximately £200 million of funding per year and characterised as being overwhelmingly dominated by secured lending to charities and social enterprises[1]
- It is the second largest form of 'crowdfunding' in the UK, second only to equity crowdfunding in 2014 at £84m[2]

The increase in share capital raised is largely a result of the emergence of larger offers, spearheaded by the renewable energy sector. This 'consolidation effect' is covered later in the report.

[1] GHK, Growing social investment: Landscape and economic impact, 2013
[2] Nesta and Cambridge University, Understanding Alternative Finance Report, 2014

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Number of members

Yet, the most important feature of community shares – which sets it apart from any other form of social investment and alternative finance, is where the investment is coming from. The figure below shows the numbers of people becoming members of co-operative and community benefit societies through investing in community shares.

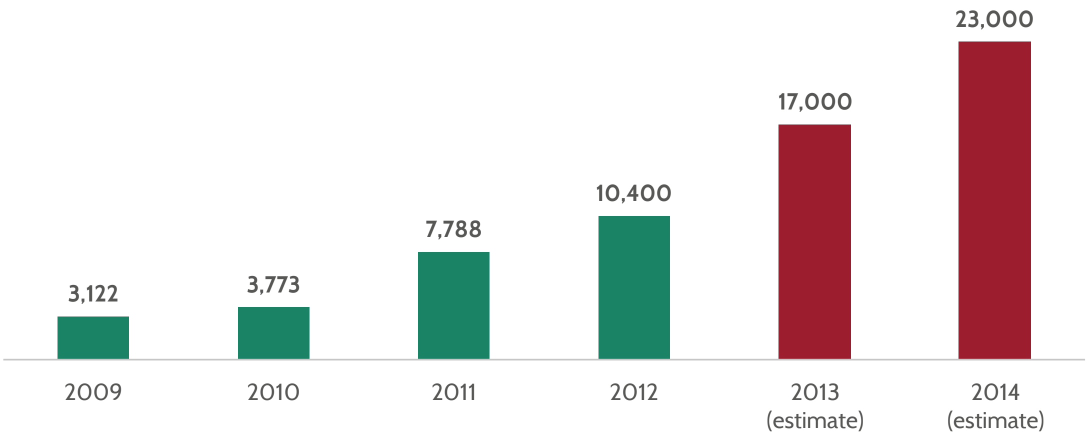
The ability to capture this data is similar to that of equity raised, in that a wholly accurate figure is reported only in a society's annual return. As a result, the CSU is working off estimates for 2013 and 2014 based on total share capital raised divided by average investment per member and is explained further at the end of the report.

Since 2009, over 60,000 people have become members of societies and invested through community shares. The profile and motivations of these community shares investors are explored in Section 3, but if we consider the rate of growth, the community shares market has been by far the fastest growing part of the wider co-operative economy in the last five years.

Overall, the number of members in the co-operative sector has increased by just short of 15% since 2010. The community shares market on the other hand has increased nearly twenty-fold in the same period.

Graph 3: Number of members over time

Number of people becoming members of co-operative and community benefit societies through investing in community shares (2009 – 2014)



Source: Community Shares Directory, CSU
Data for 2009-12 from Annual Returns. 2013-14 data generated by estimates based on share capital raised / average investment.

Importance of sectors

What has been fuelling the growth in community share offers? The simple answer is that a growing number of communities are turning to this form of finance to give local people real and meaningful ownership of valued assets across a range of sectors.

The figure below charts the six leading sectors that have underpinned the growth in the community shares market in the last six years, in which a clear narrative on the fortunes of the various industries starts to emerge.

In particular, energy has seen the most offers, growing each year since 2011 – although even this sector saw a blip in its growth in 2013, most possibly the result of uncertainty in the feed-in-tariff subsidy scheme which is key to the commercial viability of most renewable energy schemes. Community retail grew in line with energy to 2011 but has remained flat ever since. However it remains the second largest sector, and even with the upturn in the UK economy slowing the closure of local shops, it is likely more share offers for community shops will come forward. Most other sectors also saw a decline between 2013 and 2014, which again could have been due to the suspension of the Co-operative Enterprise Hub.

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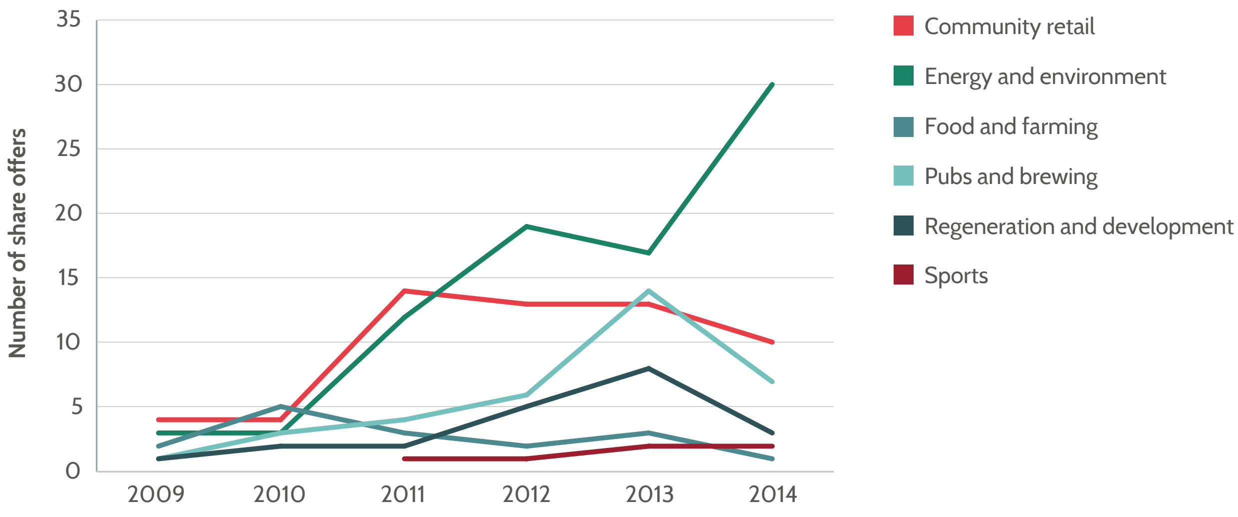
Graph 4: Community shares by leading sectors, over time



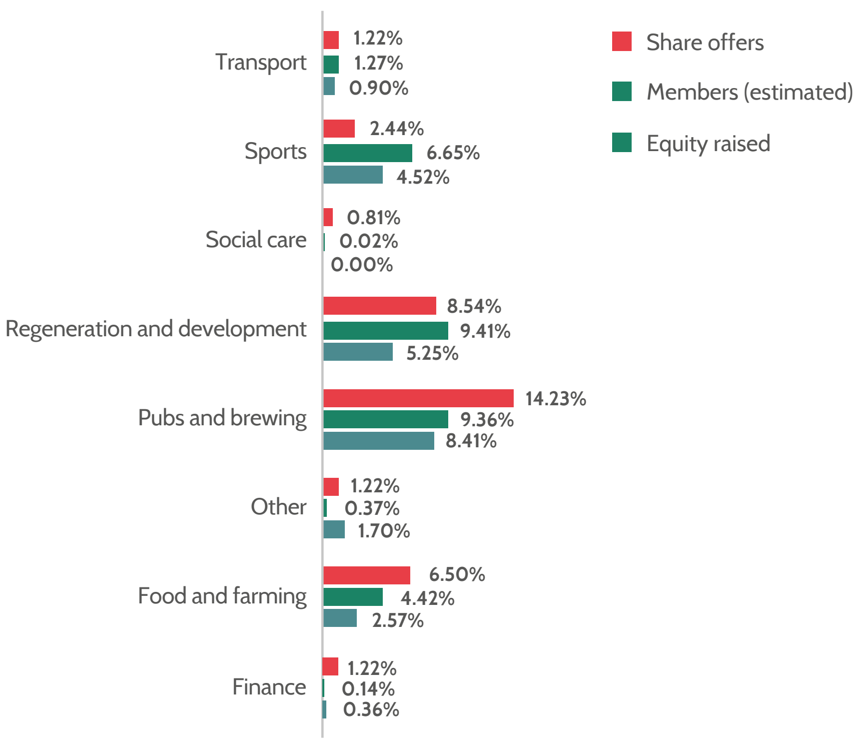
Timeseries of share offers launched by the six leading sectors (2009 – 2014)

Source: Community Shares Directory, CSU

The contrast in fortunes between renewable energy and the other sectors is highlighted in the figure below, which shows relative market share for each industry by number of share offers, number of members and amount of equity raised. Renewable energy is dominant in all three categories but in particular the amount of equity raised. Investments in community energy schemes now account for 70% of all investment in the community shares market.

Graph 5: Community shares by sector

Proportion by sector (%)



Source: Community Shares Directory, CSU

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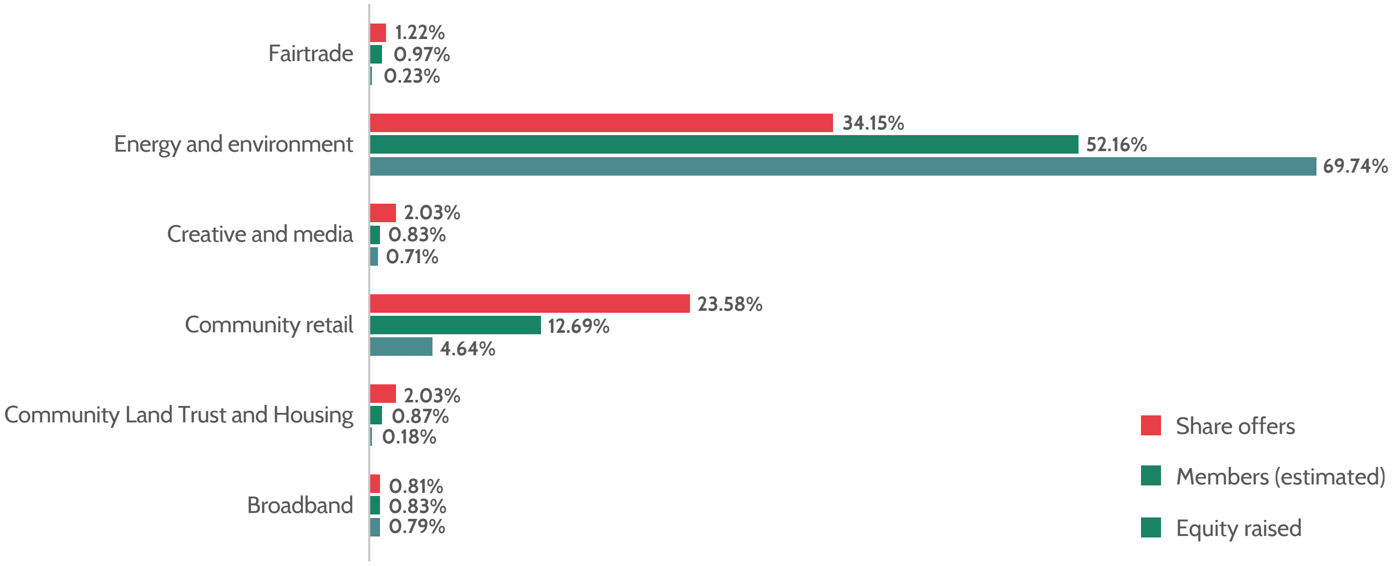
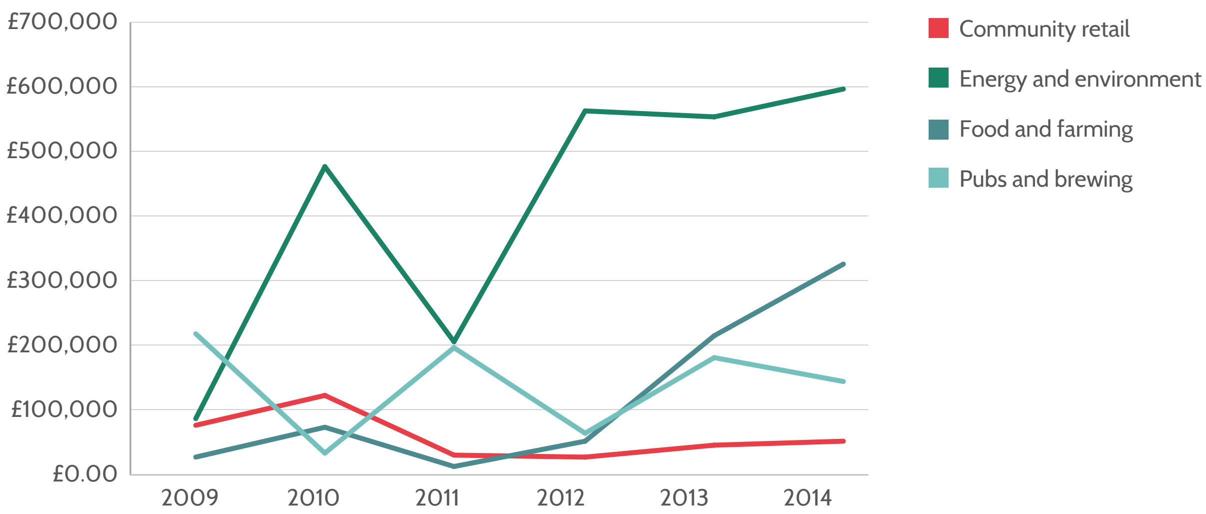
Graph 5: Community shares by sector *continued*



The dominance of renewable energy schemes is not only down to the increased number of share offers for this sector, but due to the growth in the average share offer value. These enterprises are most often focused on solar, wind and hydro installations, all of which have seen communities looking to install larger schemes which require higher capital outlays. The average community energy share offer is now £600,000 – almost double the next largest sector – food and farming.

Graph 6: Average investment raised by sector

Average investment (£) raised over time by the four leading sectors (2009-2014)



Source: Community Shares Directory, CSU

The geography of community shares

Community share offers are taking place up and down the country, however it is not happening uniformly. As the figure shows below, on first viewing community shares appear to be characterised by a well-established north-south divide, with the south west and south east the two leading regions for share offers.

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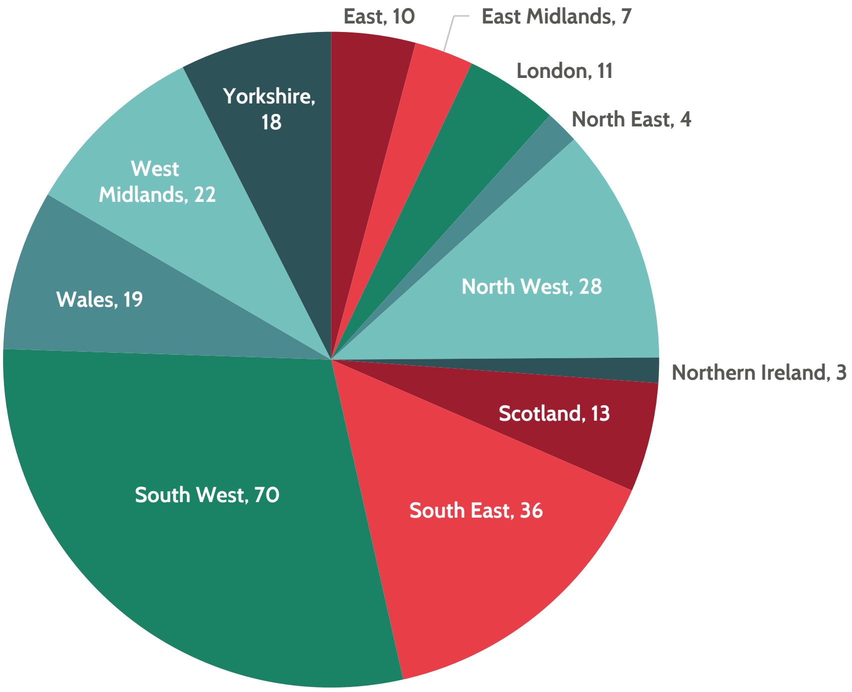
Graph 7: Community shares by region

Regional location of societies launching community share offers (2009 – 2014)

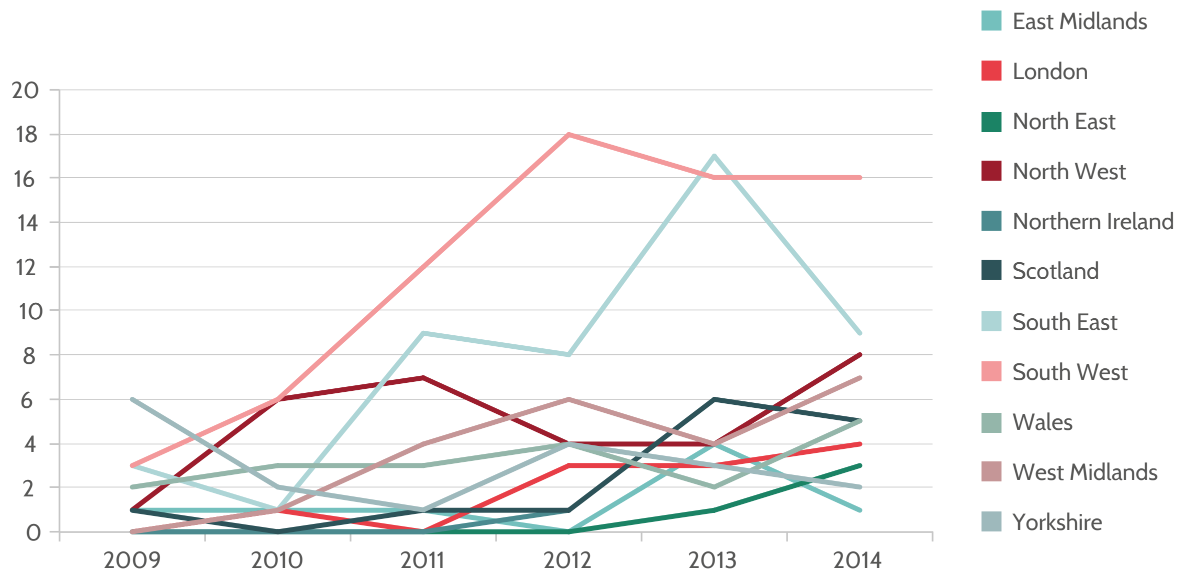


Source: Community Shares Directory, CSU

However while the south west continues to see a high concentration of offers, buoyed by the favourable weather conditions for renewable energy and a culture of self-reliance, the last couple of years has seen a more even distribution of share offers across the country. The north west and the west midlands have seen a series of offers in the last two years, and Scotland – with its own community shares support programme, has moved from one of the weakest areas to overtaking a number of other regions.

Graph 8: Community shares by region over time

Regional location of societies launching community share offers (2009 – 2014)



Source: Community Shares Directory, CSU

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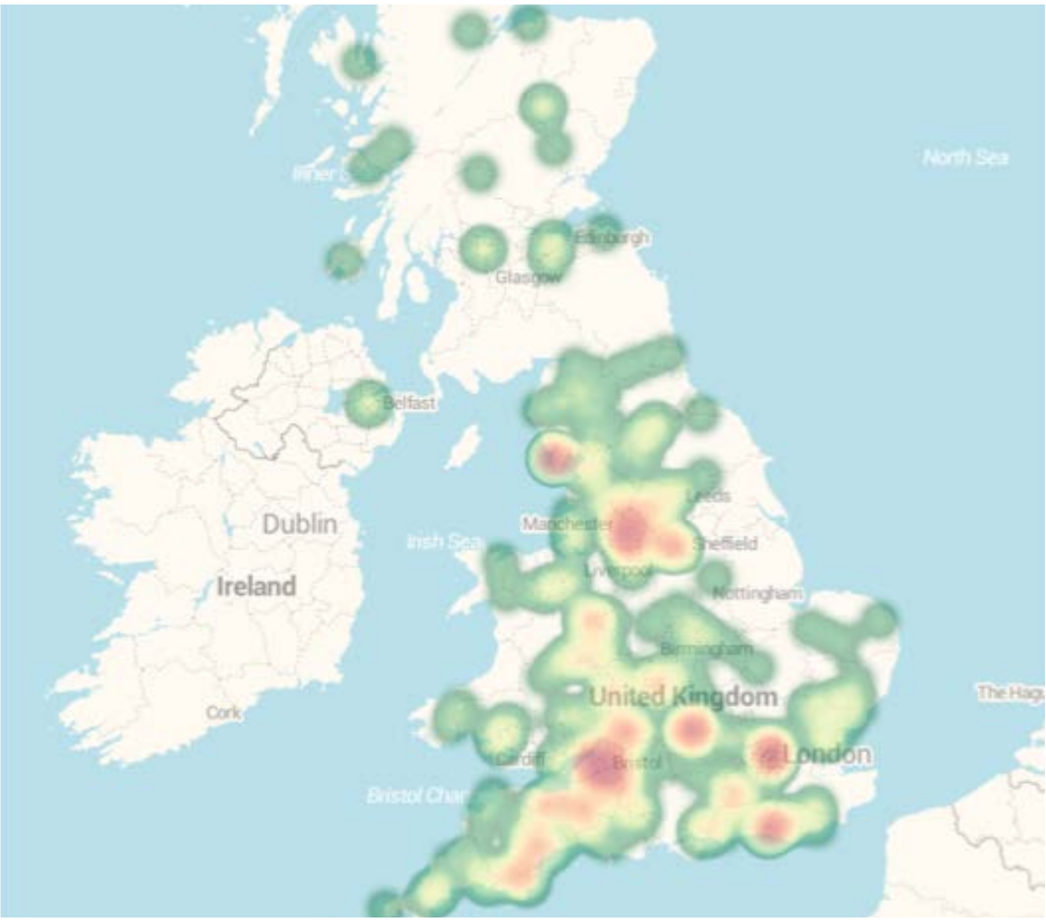
Even within regions, there are concentrations of share offers in more precise geographies. These 'hotspots', as shown in the heatmap below, include the urban conurbations of Oxford, Manchester, Bristol and Brighton, as well as the more rural areas of Gloucestershire, West Yorkshire and Cumbria.

The existence of community shares hotspots has been clearly witnessed for a number of years, and may be the result of local communities becoming equipped with the skills, confidence and enthusiasm through an initial share offer to then work on further initiatives.



Community benefit or co-operative?

The Co-operative and Community Benefit Societies Act 2014 came into force on 1 August 2014, consolidating and replacing previous industrial and provident society legislation. A key component of the new act is that it compelled new societies to be registered specifically as a co-operative society or a community benefit society (including a charitable community benefit society).

The CSU has been able to determine the type of society issuing community shares for all the enterprises on the database, even though prior to 1 August 2014, a society had to have the characteristics of either a co-operative society or a community benefit society, but it was not registered as a specific type of society.

As the figure shows, back in 2009 the split was fairly even between the two forms. However since then, more and more enterprises have opted to register as a community benefit society when launching a share offer. This trend highlights the natural alignment of the community benefit society with one of the key principles of community shares, which recognises the importance of restricting the ability for shareholders to make a private capital gain.

In almost all cases, community benefit societies have an 'asset lock' which prevents the enterprise from converting to a form that would allow it to distribute residual assets to members. The likelihood is that more and more enterprises will choose to register as a community benefit society, with tax reliefs such as Social Investment Tax Relief (SITR) being restricted to community benefit societies rather than co-operatives.

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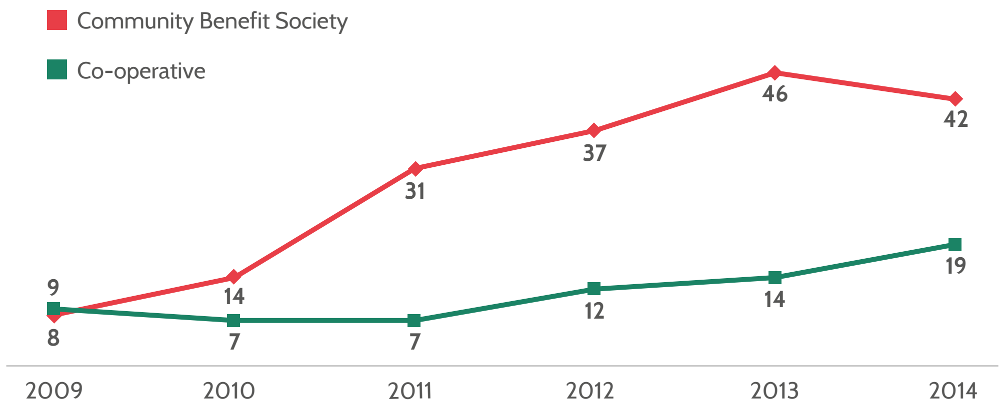
Graph 9: **Community shares by type of society**

Type of societies launching community share offers over time (2009 – 2014)



Source: Community Shares Directory, CSU

The community shares journey

The Community Shares Directory also tracks the 'community shares journey' from registration to share offer to post-offer trading. We classify enterprises as pre-launch, post-launch or lapsed.

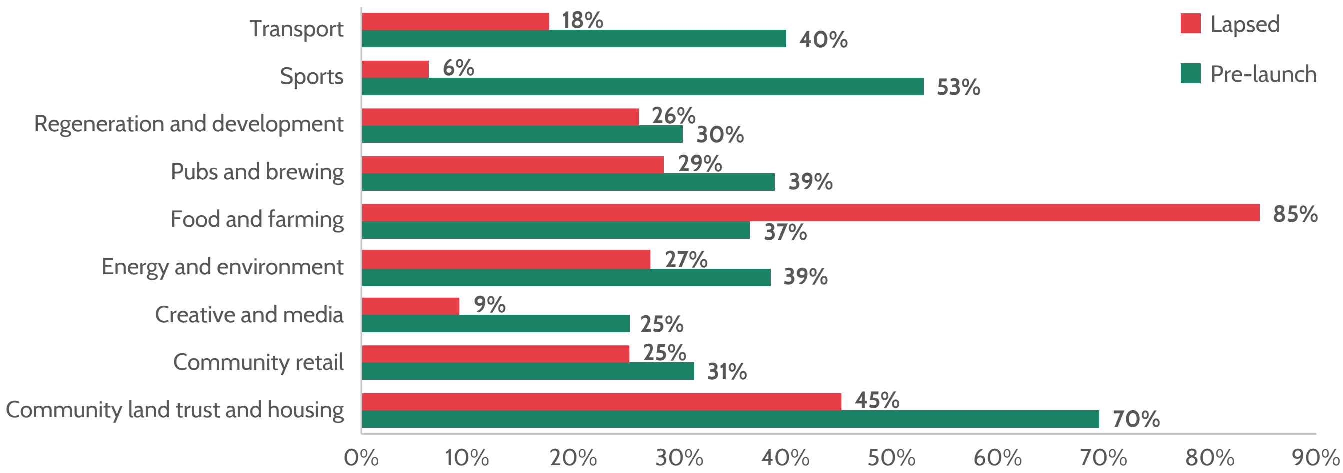
Post-launch denotes all societies which have successfully launched and completed a share offer. Societies that have registered in the last two years but are yet to launch an offer are considered 'pre-launch' and those registering over two years ago are classified as 'lapsed'. We recognise pre-launch and lapsed as there is often a significant lead-in time before an enterprise is in a position to launch their share offer. Indeed some societies will never get to the point of being able to launch a share offer due to issues and constraints at the development stage.

Using this classification, the CSU is able to determine which sectors face the largest development challenges. As shown below, food and farming schemes in particular struggle to move to a share offer with 85% of societies falling into this lapsed category. Similarly, a number of CLTs and other community housing schemes have been unable to realise their share offer plans in the two years since registering.

Other sectors with a number of 'pre-launch' societies include Sports and Transport – both of which have a large proportion of enterprises which have yet to launch an offer, although these are still relatively new ventures and may issue offers in the near future.

Graph 10: Pipeline: pre-launched and lapsed societies

Percentage of societies by sector that have not launched a community share offer, split into two categories;



Source: Community Shares Directory, CSU
Pre-launch: registered after January 2013 and have yet to launch a share offer
Lapsed: registered before January 2013 and have yet to launch a share offer

An early view on performance

Annual Return data for societies that have completed a share offer not only provides information on the share offer itself, but contains information relating to the trading performance of these enterprises. Currently the CSU has a limited picture with 81 annual returns for the years 2013 and 2014 – largely for societies launching share offers in 2012 and earlier. As such this section is regarded as an 'early view' on performance, representative of less than a third of the societies that have completed community share offers.

The figure below sets out the key business performance indicators, extracted from society's annual returns, for the five leading sectors in the community shares market. The figures presented are based on relatively low sample sizes, so the total values presented are significantly below the figures in reality; however it does provide some useful initial findings:

- Across sectors, a considerable amount of debt finance is being accessed by enterprises alongside the share capital secured. In most sectors, loans are being secured against equity on a broad ratio of 1:1. The exception would be for community pubs which based on the available annual returns are relying almost wholly on share capital (and potentially grants) to meet their capital requirements.
- A limited amount of share interest is being paid out by societies. This is expected since the societies for which annual returns are available have not been trading for that long. Furthermore, for community shops, not one society has paid out share interest to its members.

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Society performance indicators using annual return records

Key indicators taken from available annual returns – sum total by sector

Sector	Total Share Capital	Associated loan finance (long-term liabilities	Online	Share interest paid out to members	Sample size (no. of annual returns)	Sample size (as % of total share offers for in the sector)
Community retail	£900,834	£596,579	£3,827,760	£0	27	46%
Energy and Environment	£15,575,007	£12,333,971	£3,592,522	£345,446	29	25%
Food and farming	£542,426	£582,868	£1,384,366	£9,781	8	47%
Pubs and Brewing	£1,321,357	£77,982	£1,226,425	£10,101	11	29%
Regeneration and development	£1,485,681	£1,337,870	£457,197	£25,917	6	29%
Total	£19,825,305	£14,929,270	£10,488,270	£391,245	81	18%

Source: Community Shares Directory, CSU

Moving to the next table, which shows the average values by sector, the key findings to highlight are:

- Pubs and renewable energy schemes are generally the most profitable while enterprises in other sectors appear to operate on a fairly marginal basis
- Community energy schemes are relatively heavily capitalised, when compared to their annual turnover, this is consistent with the higher capital outlays associated with the installation of renewables

It is recognised that there is currently a limited amount of information regarding business performance. In the next couple of years, it is likely that a large number of annual returns will be submitted for those societies which launched offers in the last few years. As such, more significant trends should become clear once the CSU has access to a larger dataset.

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Society performance indicators using annual return records

Key indicators taken from available annual returns – average values by sector

Sector	Av. Share Capital	Av. Associated loan finance (long-term liabilities)	Av. annual turnover	Av. Share interest paid out to members	Average Surplus / Deficit
Community retail	£33,364.22	£22,095.52	£141,768.89	£0.00	£7,133.70
Energy and Environment	£537,069.21	£425,309.34	£123,880.07	£11,911.93	£31,315.07
Food and farming	£67,803.25	£72,858.50	£173,045.75	£1,222.63	-£1,212.00
Pubs and Brewing	£120,123.36	£7,089.27	£111,493.18	£918.27	£43,118.34
Regeneration and development	£247,613.50	£222,978.33	£76,199.50	£4,319.50	£1,219.83

Source: Community Shares Directory, CSU

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Section 2
A focus on offer documents

In this section we examine share offer documents and analyse the interest rates and minimum shareholdings stated in them. This information is sourced from the CSU library of 192 share offer documents produced by 169 societies during the period 2009 to 2014. Within the library 19 societies made two offers and two societies made three offers in this period. However, we acknowledge this analysis falls short of a universal view of the market since it excludes documents from a number of societies that are known to have made share offers but where offer documents were unavailable.

Interest Rates

A key reference in the share offer documentation held by the CSU is the presentation of interest rates. The table below provides the breakdown of interest rate statements for all societies.

All types of society are allowed to pay interest on members' share capital. Most co-operative and community benefit societies adopt rules that set a maximum rate of interest. The actual interest rate payable should only be determined after the financial year end, when the profit for the period is known and the management committee is in a position to make recommendations to the annual general meeting of members about the application of profits (see Handbook Section 3.2.12). These recommendations should include other uses of profit, such as reinvesting in the society, supporting other initiatives of benefit to the community, or in the case of co-operative societies, paying a dividend to members (see Handbook Section 6.3).

Breakdown of share interest statements for all societies

Share interest rate statement (focus on maximum rate or lifetime average rate)	**All societies**
No rates stated	25 (13%)
0% or stated unlikely ever to pay interest	27 (14%)
Up to 3% or savings rate equivalent	28 (15%)
3.1%to 4.0% or base rate plus 2% to 2.5%	29 (15%)
4.1% to 5.0% or base rate plus 4%	40 (21%)
5.1% to 6.5%	11 (6%)
6.6% to 7.5%	13 (7%)
7.6% to 8.5%	8 (4%)
8.6% to 9.5%	4 (2%)
Greater than 9.6%	7 (4%)
Totals	192 (100%)

Source: CSU Offer Document Library

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There are many different conventions used for expressing a society's policies towards interest rate on share capital. Indeed, just less than 15% of share offer documents made no mention of share interest rates. Similarly, another 15% indicated the likelihood or intention that the society would never pay interest on share capital.

Of those that stated an ambition to pay interest, the most common rate of interest was a maximum between 4.1% and 5% or base rate plus 4% with a fifth of offers in this interval. Fifteen per cent of offers referred to a maximum interest rate at or below 3%, or indicated that rates would not be higher than savings rates, and a similar number referred to a maximum rate of between 3.1% and 4% or a formula based on bank rates plus up to 2.5%.

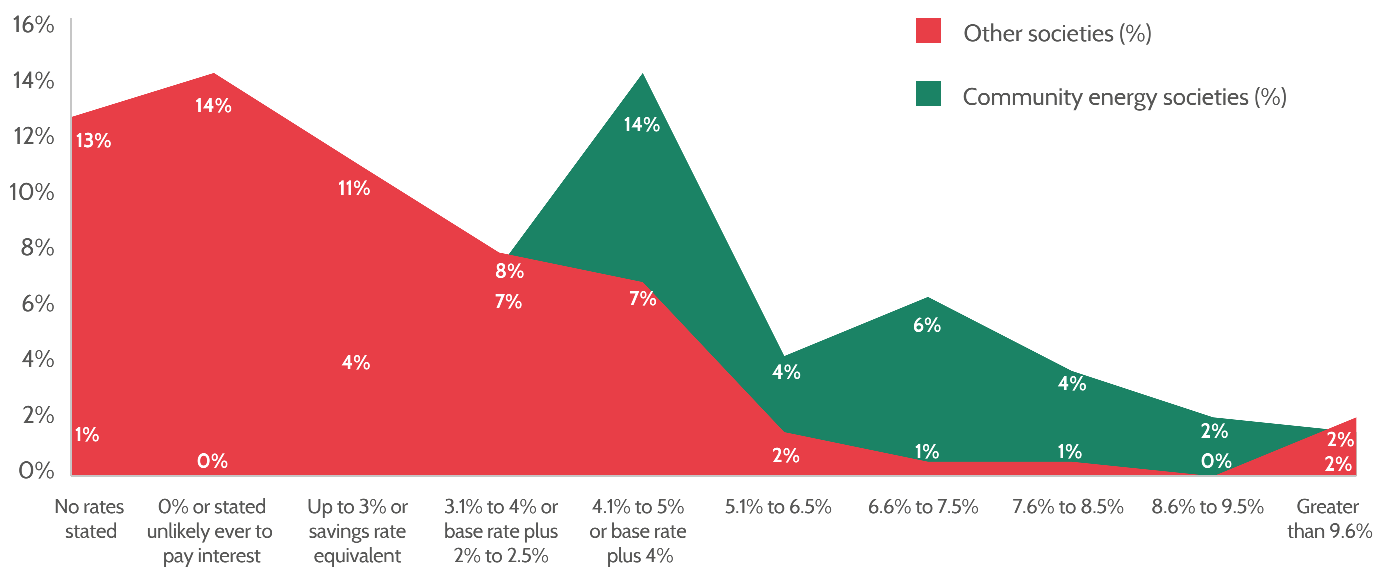
Overall more than three-quarters (78%) of all share offer documents state policies that set the maximum share interest rate at or below the equivalent of 5%. These rates were typically expressed as the maximum share interest rate the society was allowed to pay, based on its rules.

Only 43 share offers (22% of the total) state a share interest rate above 5%. In many of these cases, the share offer document stated an average rate of the lifetime of the investment project, rather than any expression of a cap on interest rates in a given year. The data in the above table is based on these average lifetime rates, where they are stated, rather than the maximum rate in any one year.

It should be noted that this data includes six share offer documents published by community energy societies which promoted transferable share capital as covered earlier in the report, and were fully authorised as financial promotions. All six of these share offers stated average lifetime share interest rates above 7.5%.

Graph 11: Stated returns in share offer documents

Stated maximum returns in share offer documents (percentage of offers that fall into interest rate categories, 2009 – 2014)



Source: CSU Offer Document Library

The figure above highlights the strong contrast between the interest rate policies of community energy societies and all other societies making community share offers. Share offers by community energy societies typically contained aspirations to pay share interest, with more than half (59%) referring to rates no greater than 5% per annum, with the remainder promising higher rates, typically lifetime average rates up to 10%. Nearly all (93%) other societies state a maximum share interest rate at or below 5%. This is in line with the Handbook guidance on how financial returns should be stated in the offer document.

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Minimum Shareholdings

It is up to the society to determine what the minimum investment should be and a review of share offer documentation reveals that the minimum investment required has ranged from £10 to £500 as shown in the table below.

Community energy offers are more likely to set a higher minimum shareholding, with many pitching at £250 – this is likely influenced by the larger overall fundraising requirements for community energy projects. In contrast, the majority of community pubs and shops set their minimum shareholding at the lower end, between £10 and £100. This is often to encourage more people to invest because the stakes are lower.

Graph 12: Minimum shareholdings stated in share offer documents

Percentage of offer documents that state minimum shareholdings according to the following categories

Source: CSU Offer Document Library

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Section 3
A focus on investors

The University of Manchester
Manchester Business School

Introduction

This section provides an insight into investors in community shares based on research carried out by NESTA and Cambridge University into the alternative finance market at the end of 2014. This research investigated the motivations and characteristics of individual investors across a range of alternative finance instruments, including community shares. It has been noted above that the growth of the community shares market is part of the wider growth of the alternative investment market and the wider market conditions post financial crash.

This section has been written in partnership with Manchester Business School. Since April 2014, the CSU and Manchester Business School have been engaged in a process of knowledge exchange to explore the potential of the community shares market as an emerging form of community and social entrepreneurship.

The partnership between the CSU and MBS develops research activity that can frame a broad range of local economic and community issues, potential solutions, and possible delivery models to assist practitioners and policy-makers, and to underpin more systemic analyses of the potential and impact of new forms of community-led enterprise.

Early studies into investor motivations

In 2010 Wessex Community Assets conducted a study to profile investors in community share offers, and distinguished four types of community share investor:

- Local community investor: individuals who live near to the project and are motivated by the social benefits of investment.
- Community of interest investor: individuals who are interested in the project, and motivated by social benefits although they do not live nearby.
- Social investor: an institution or experienced investor seeking to balance social and financial benefits.
- Ethical investor: individuals seeking social benefits but without foregoing financial compensation and sometimes motivated by the ideology and democratic structures associated with co-operative societies.

The Wessex research also developed a profile of the average community shares investor as over 45 years old, slightly more likely to be male (particularly investors not classed as 'local community investors'), of higher or intermediate managerial level at work, or in a profession or retired, and a member of clubs and societies (e.g. 52% are members of the National Trust and 30% are members of arts organisations).

This report updates the Wessex research using a larger sample of investors from the community shares sector who responded to the UK Alternative Finance Industry survey completed by NESTA and the University of Cambridge (NESTA, 2014)[3]. This update is required due to the recent expansion of the community shares sector, and the subsequent need to understand the motivations of investors in more detail.

[3] Anonymised survey data was made available to the Community Shares Unit

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The Nesta Alternative Finance Study

The Alternative Finance market is a term used to refer to a diverse market that includes in this instance: Peer-to-Peer business and consumer lending; invoice trading; equity crowdfunding; community shares; rewards crowdfunding; pension-led funding; debt based securities, and donation crowdfunding.

The investor data analysed below was collected in the course of The UK Alternative Finance Industry Report (NESTA, 2014), which was conducted to provide a holistic and systematic analysis of trends and behaviour across multiple alternative financing models, including community shares.

As a whole, the amount of finance raised through these means rose from £267 million in 2012, to £666 million in 2013 and £1.74 billion in 2014 (NESTA/Cambridge report, 2014: 12). With this, the increasing investment in community shares can be seen as part of a growing pattern of financial relationships or interactions between consumers and enterprises that take place outside of the traditional financial sector.

The community shares investor survey formed part of the study and was disseminated to users of Microgenius. As of August 2014, 15 share offers had been administered through the site and it was the investors in these offers that were contacted to participate in the survey. In total more than 5,000 users were contacted and 380 responded, giving a response rate of 8.1%

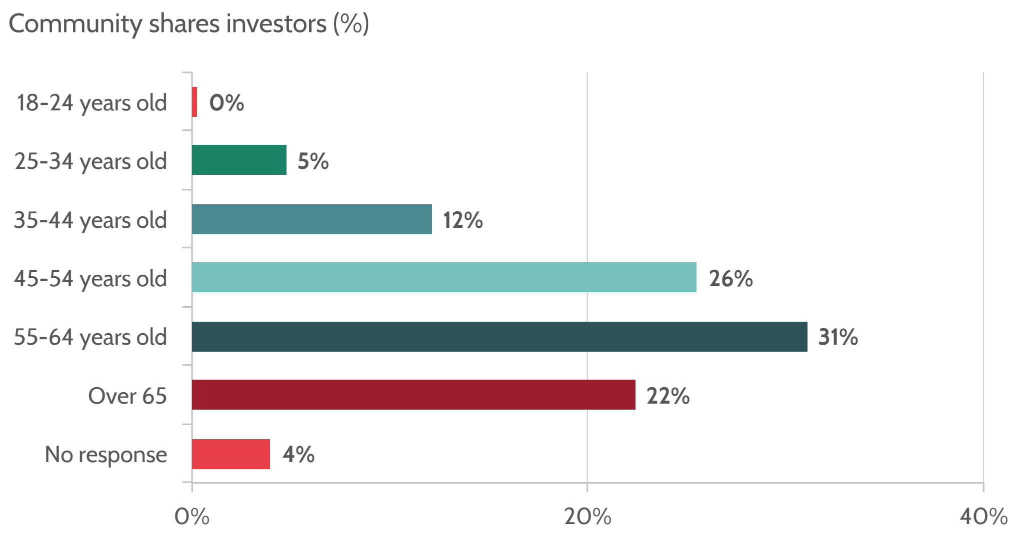
Who is investing in community shares?

In the following section we consider the age; education and income of community shares investors and other forms of alternative finance. Specifically we consider the profile of individual investors in invoice trading; reward-based crowdfunding; donation based crowdfunding; Peer-2-Peer (P2P) consumer lending, and equity based crowdfunding.

How old are investors in community shares?

The Wessex profile of investors in community share offers found that the large majority were over 45 years old. This was confirmed by the larger sample surveyed in 2014, which found 79% were 45 years and older.

Graph 13: **How old are you?**



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q16. How old are you?

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The respondents to the NESTA/Cambridge survey were broadly similar to the Wessex study, but had a larger proportion of investors in community share offers being over 55 (57%) than under.

The NESTA/Cambridge survey enables us to compare the age profiles of investors in different types of alternative finance product, and for Peer2Peer Consumer Lending the trend towards 55+ is also found. However for other models of individual direct investment in alternative finance products a more balanced distribution can be found:

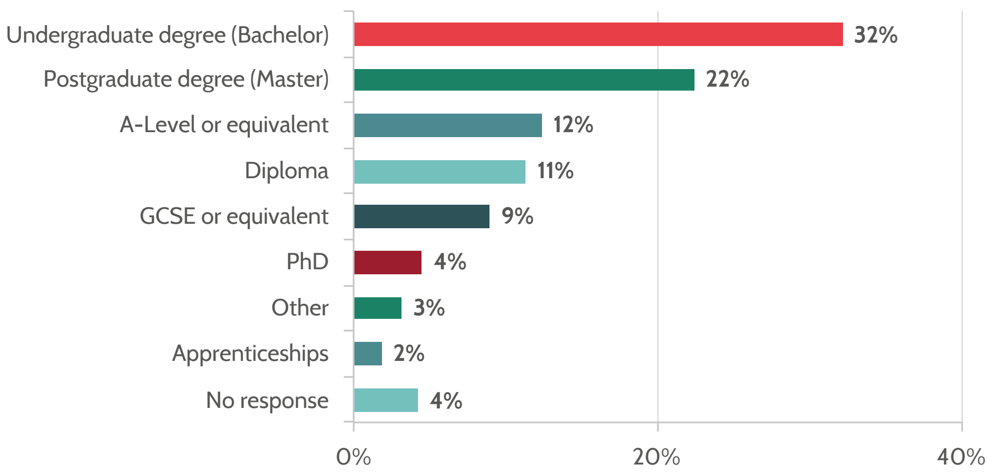
- Equity Crowdfunding: under 35: 38%; 35-54: 36% and over 55: 26%.
- Donation Crowdfunding: under 35: 23%; 35-54: 40% and over 55: 37%.
- Rewards Crowdfunding: under 35: 22%; 35-54: 43% and over 55: 35%.

Although almost three-quarters of survey respondents across all models surveyed tended to be 45 or older (NESTA, 2014: 16), the emergence of crowdfunding as an investment phenomenon, which is embedded in social media and online transactions, may mean a continuing growth of the alternative finance market will attract a younger investor community.

Educational profile of community shares investors
Over half of investors were educated to at least degree level, which is a higher proportion of graduates than the general population: (38% in 2013) (Office for National Statistics, 2013).

Graph 14: What is your highest level of education?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q17. What is your highest level of education?

What is the Annual Income of Investors in community shares?
For the year ending 5 April 2014 median gross annual earnings for full-time employees (who have been in the same job for at least 12 months) were £27, 200 in the UK. A larger number of community share investors fall into the banding that contains this average than any other, and those earning this amount or less account for 68% of investors. Therefore those earning over £35,000 per annum only represent 32% of the investors in community shares responding to this survey.

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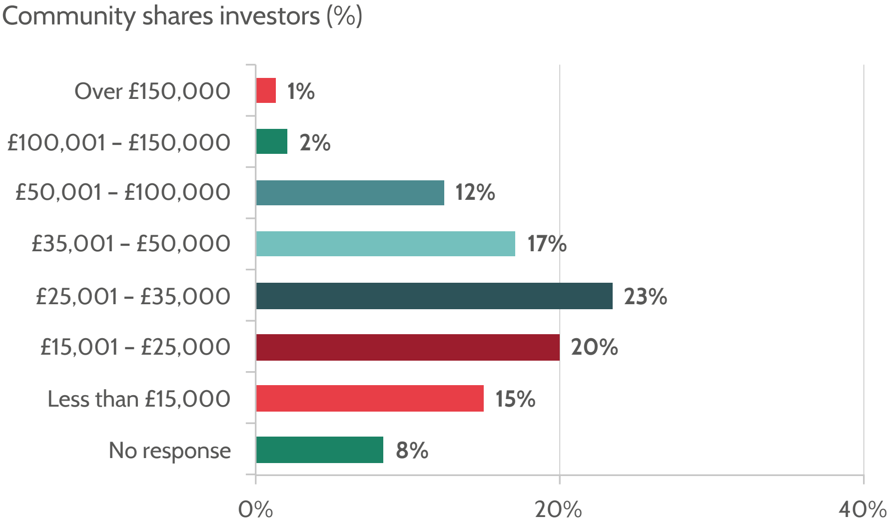
Graph 15: What is your annual income in pound sterling?



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q18. What is your annual income in pound sterling?

This income level was represented to differing degrees in other types of funding model:

- Rewards based crowdfunding: 19% of investors in average income band and 47% in bands containing lower than average incomes.
- Donation Crowdfunding : 6% of investors in average income band and 47% in bands containing lower than average incomes.
- 20% of those investing in Peer2Peer consumer lending in average income band, and 37% in bands containing lower than average income.
- Equity Crowdfunding: 15% of investors in average income band, and 52% had an income in bands containing values higher than average incomes (31% earning £50,000-£100,000).
- 22% of investors in debt-based securities were in the average income band, and 50% had incomes in the bands representing higher than average incomes.
- 53% of those using Peer2Peer Business lending had an income in the banding containing values higher than the average income.

Therefore, investors in rewards crowdfunding and donation crowdfunding appear to have the most similar income profiles to investors in community share offers.

How much do community shares investors invest?

Similarly, survey respondents were asked how much money they had used to invest in community shares.

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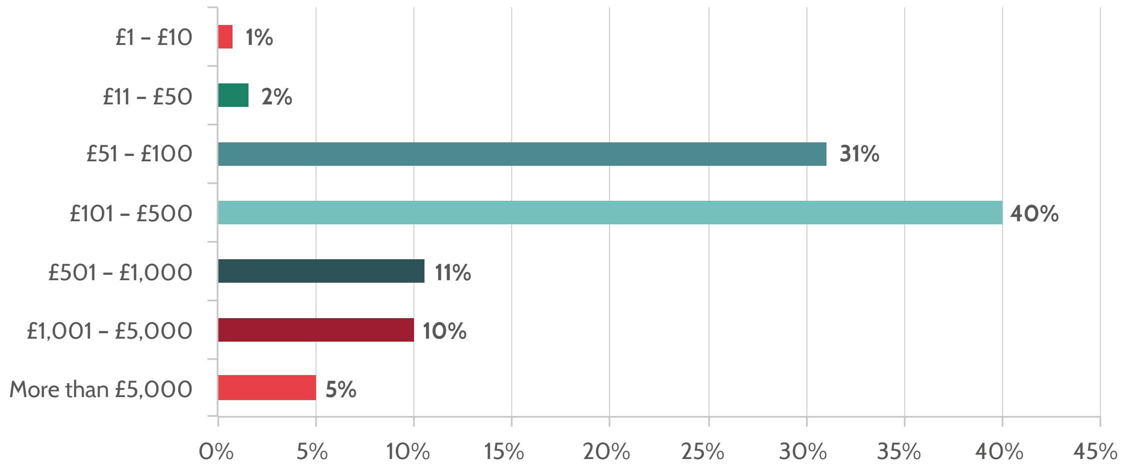
Graph 16: How much money have you used to fund/invest in community shares?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q1. How much money have you used to fund/invest in community shares?

Investments worth between £101 and £500 was most popular among community shares investors. This is in line with the average investment on the platform of £368 (see below). As 77% of respondents had invested in a single share offer, the survey suggests that the average investor invests once in a single share offer at around the average investment amount.

Average investments and transactions by funding model

Model	Average amount raised	Average number of investors	Average individual investment
P2P business lending	£73,222	796	£91.99
P2P consumer lending	£5,471	201	£27.22
Equity crowdfunding	£199,095	125	£1,592.76
Rewards crowdfunding	£3,766	77	£48.91
Donation crowdfunding	£6,102	55	£110.95
Invoice trading	£56,075	7	£8,010.71
Pension-led funding	£70,257	n/a	n/a
Debt-based securities	£730,000	587	£1,243.61
Community shares	£174,286	474	£367.69

Source: NESTA /Cambridge University, August – September 2014

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In comparison to other alternative finance products, investments in community shares are considerably higher than other transactions but lower than investments in other equity platforms. For example:

- The average loan in Peer2Peer business lending is £91.95, but the average portfolio of each lender is £8,137 spread over a median of 52 loans.
- The average transaction in Peer2Peer consumer lending reported was £27.10, but the average portfolio size per lender £5,606.
- The average investment in reward-based crowdfunding was £48.92;
- The average donation through donation-based crowdfunding was £110.54, and
- The average investment in equity-based crowdfunding is £1,599.

The average number of investor transactions required for a successful share offer, loan, donation or crowdfunding event to take place also differs between models. Investments in community shares occupy a middle range between the smaller rewards crowdfunding and micro-loan models and the larger equity and security based models.

What do investors in community shares use to invest?

Investors were asked where the money came from they used to invest in community shares – in terms of their personal and household budgets.

Investors in community shares are overwhelmingly using their savings funds as the resource for funding this investment (56%), followed by money they would use for day to day spending (29%). This trend was also found amongst investors in Peer2Peer Consumer lending (64%), although only 3% of these investors would use money for day to day spending as their investment fund and 37% using money set aside for investment as the next most popular option.

A large proportion of investors in debt-based securities were also using their savings as the source of vestment funding (55%) – these products are similar to purchasing bonds (although the rights and obligations differ).

Respondents that use crowdfunding models gave quite varied responses to this question, with the inclusion of money that would be used for charitable giving for those investing in reward and donation based crowdfunding illuminating the different basis of models to equity-based crowdfunding:

- Equity-based crowdfunding (Money I would invest = 68%; Money I would save: 44%)
- Reward-based crowdfunding (64% would use day to day money, 22% savings and 21% money for charitable purposes)
- Donation-based crowdfunding (63% day to day spending 23% savings and 23% charitable giving).

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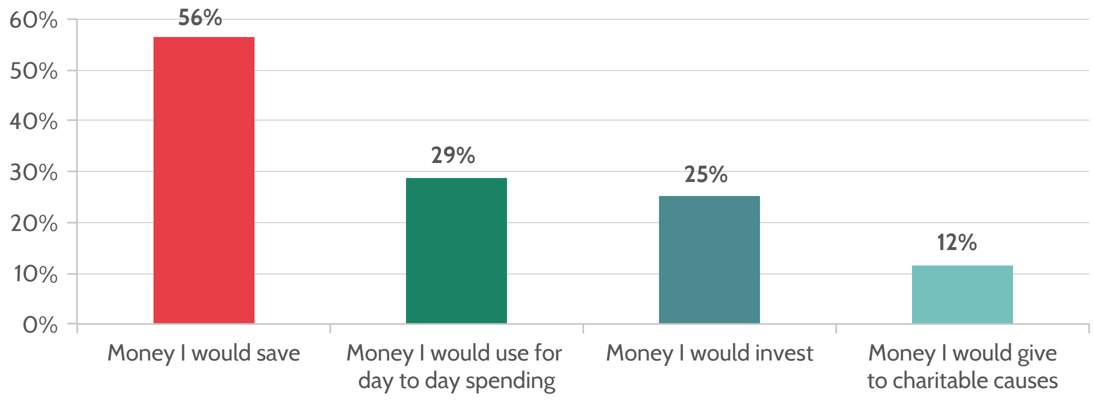
Graph 17: When you budget for investing in community shares crowdfunding, where does the money come from?

Community shares investors (%)



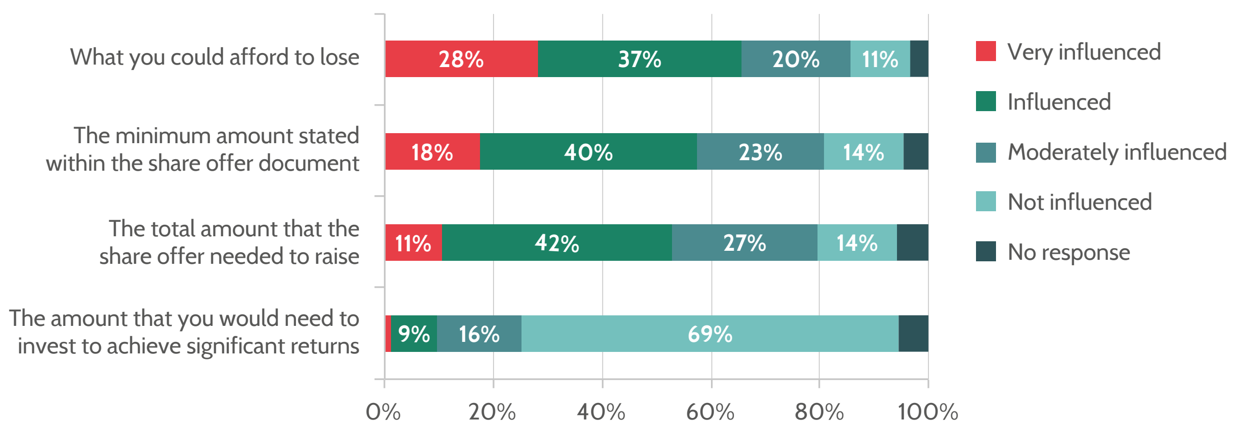
Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q8. When you budget for investing in community shares crowdfunding, where does the money come from?

The survey tried to gain insight into the judgement used by investors when deciding how much to invest in alternative finance models by asking them which factors influenced their decision to invest. For the survey of investors in community shares this question considered the personal factors related to the investor and the presentation of the offer by the society.

Individual finance issues were a strong influence as were the minimum and total amount stated in the share offer document. The importance of these considerations demonstrates the level of risk investors are willing to tolerate, which could be categorised as personal financial risk weighed against project failure risk, and the limited importance of the return profile for investors in community share offers.

Graph 18: When investing in community shares, which factors influence how much you decide to invest?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q9. When investing in community shares, which factors influence how much you decide to invest?

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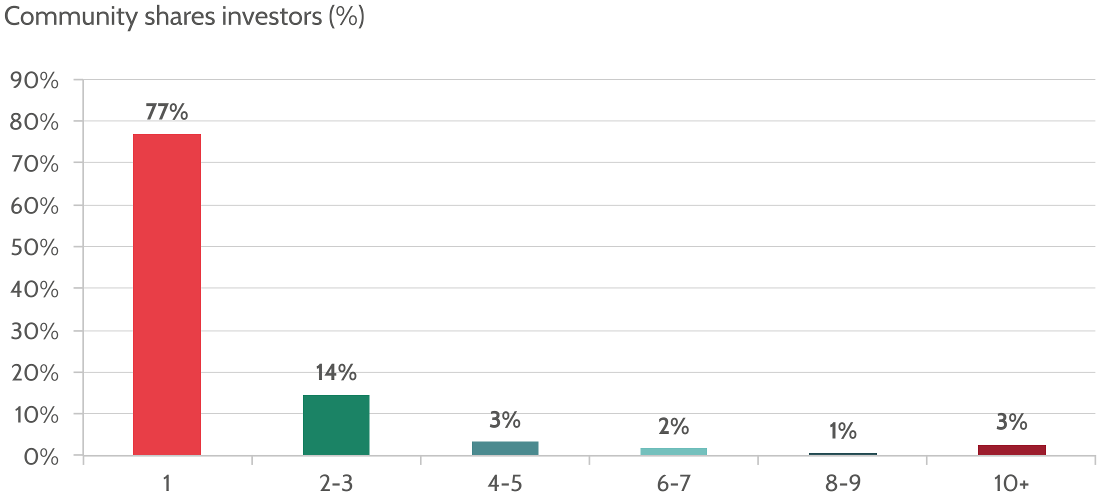
How many projects do investors fund?

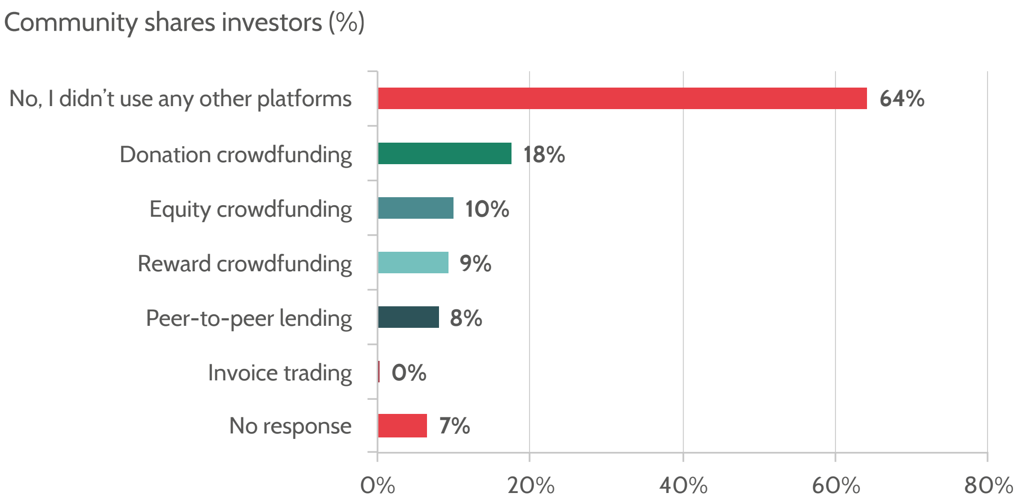
Graph 19: How many community shares projects have you funded in total?



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q2 How many community shares projects have you invested in in total?

This response demonstrates that community shares investors are unlikely to be 'serial investors' and their association with a single investment indicates a strong attachment to a particular society or enterprise. The large number of community share investors who indicated they did not use other models of alternative finance also underlines this suggestion (data is not available for this question across the different models of alternative finance reviewed in The UK Alternative Finance Report 2014).

Graph 20: Have you funded any projects/businesses on other crowdfunding or alternative finance platforms?



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q15. Have you funded any projects/businesses on other crowdfunding or alternative finance platforms? Please select all that apply.

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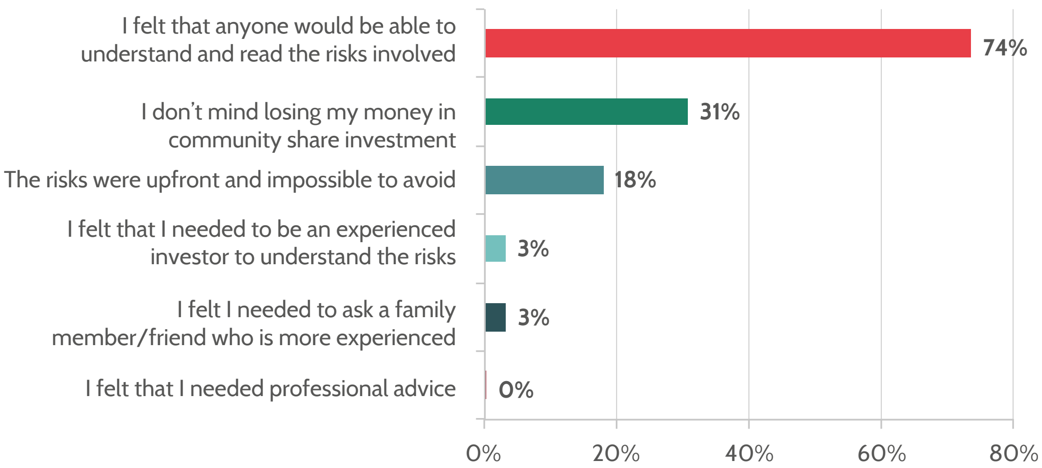
Understanding of Risk

When asked how easy or difficult it was to understand risks involved, the large majority of respondents indicated that they felt that anyone would be able to understand the risks involved in investing in community shares, reflecting the fact that share offers are aimed at stimulating community interest and therefore are often aimed at people with little or no knowledge of equity investment, or the risks associated with this type of finance.

Graph 21: How easy or difficult was it for you to understand risks involved in investing in community shares?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q10. All investments involve a level of risk for your money. From your experience, please tell us how easy or difficult it was for you to understand risks involved in investing in community shares?

What are the motivations of investors?

Community shares are not considered to be a purely financial investment, as investment in a society is primarily made for mutual, community, or charitable benefit. This consideration was reflected in the opinions of survey respondents, of whom 62% had some a personal connection or association to the share offer(s) they had invested in through an organisation or person.

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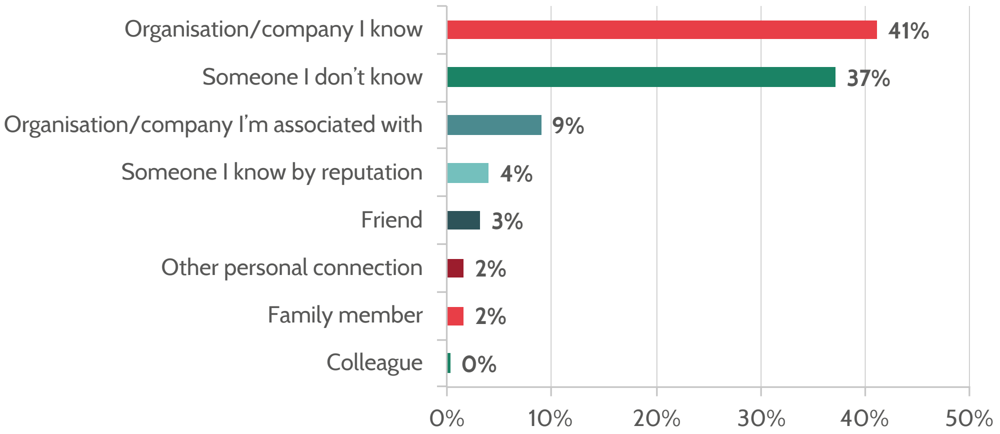
Graph 22: The first time you funded a community shares crowdfunding project was it run by a...

Community shares investors (%)

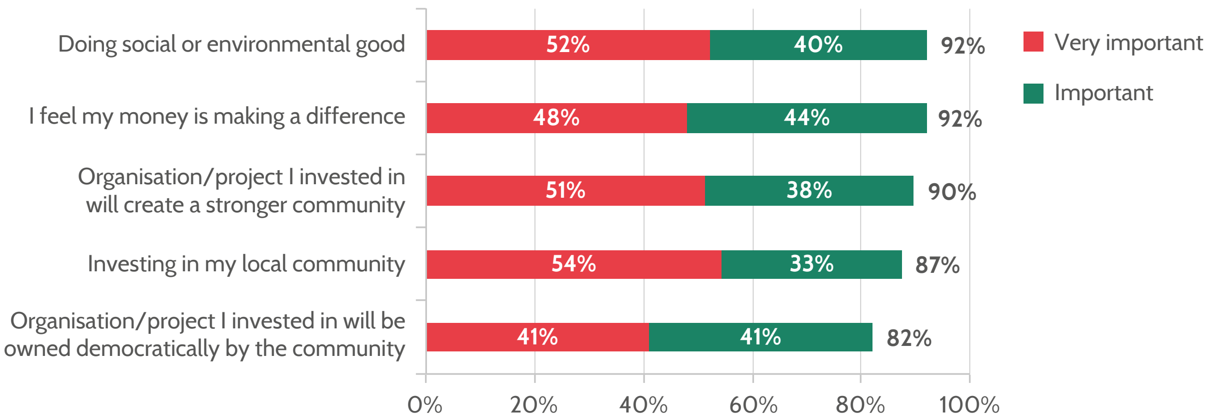


Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q3. The first time you funded a community shares crowdfunding project was it run by a...?

Investors were asked to rank the importance of a series of factors in their decision to invest in organisations/projects. The highest ranking factors for those investing in community shares were using their money to make a difference, doing social or environmental good, creating a stronger community and investing locally.

Graph 23: How important are the following in your decision to invest in organisations/projects through community shares crowdfunding?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q6. How important are the following in your decision to invest in organisations/projects through community shares crowdfunding?

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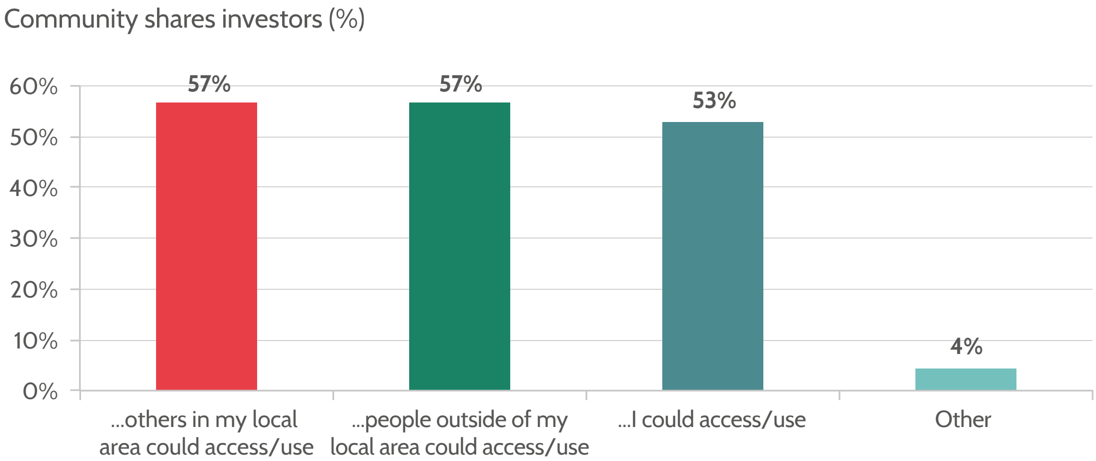
Some comparisons can be made to the motivations of investors in other models of alternative finance. The local connection to a specific organisation or person was not explored in the motivations of investors in Peer2Peer lending, but these investors were asked how important "knowing my money is helping someone" was – 15% stated very important, and 36% stated this was important.

Investors in equity-based crowdfunding appear to have an interest-based motivation: investing in industries I know/care about was ranked as important or very important by 66% of respondents, but investing in local businesses was only important or very important to 33% of respondents, suggesting this interest is not necessarily a locality based interest, which appears to be more a feature of community share offer investment. For those investing in reward-based crowdfunding supporting someone they knew (friends and family) was ranked as very important or important by 51% of respondents and supporting a local project or business by 62%. These figures were broadly similar for those investing in donation-based crowdfunding (69% and 61%), although the personal connection is higher in the model.

Investors in community share offers were asked about the nature of their connection to the community share project they had invested in, i.e. the relative importance of direct personal benefit and enabling others within the community to receive benefits. The responses indicate investors were motivated by ensuring that the society receiving the investment was able to achieve its goals as a means of securing both personal individual benefits and to provide services or facilities that could be used by other people within and outside their locality. This also reinforces the point made above – that community shares are not seen as an instrument for achieving personal financial gain, but have mutual and community purposes.

Graph 24: What is your connection to the community shares project(s) you have funded? It is a creation/product/service...

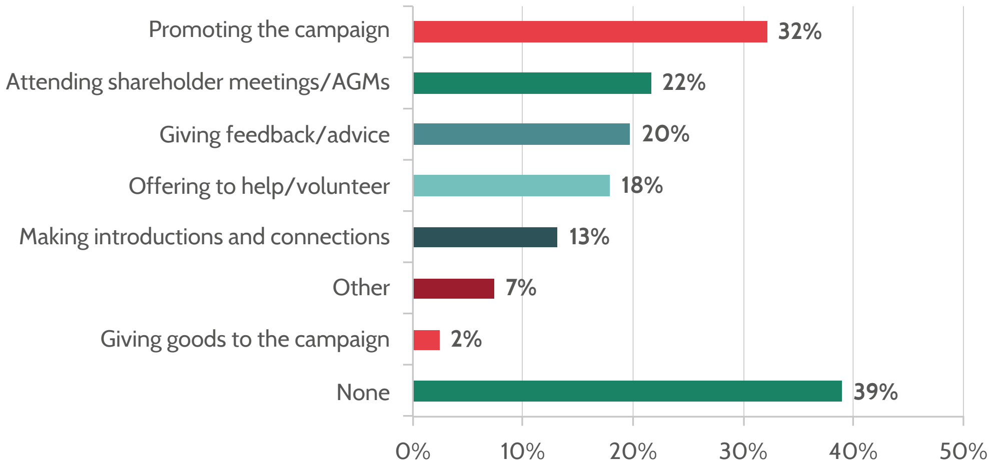


Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q7. What is your connection to the community shares project(s) you have funded?

To test the assumption that investing in a community share offer often involves providing more than financial contributions, investors were asked whether they supported the enterprise they invested in in other non-financial ways.

Graph 25: Did you support community shares crowdfunding campaigns in any of the following ways beyond funding them?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q12 Did you support community shares crowdfunding campaigns in any of the following ways beyond funding them? Please select all that apply.

A significant majority of investors indicated a multi-faceted relationship with the society that they have invested in, often seeking to get involved in the management and governance of the enterprise. Contrastingly, the number of investors who indicated they had no further involvement beyond investing in share capital could also be seen as surprisingly high, indicating that investors in community shares may consist of different categories of investor; one category could be a local cohort that is closely involved in the evolution and running of the society, and another group motivated by the social benefits but potentially living outside the local area or less likely to get involved on the ground.

Interestingly survey respondents who used donation-based crowdfunding also reported high levels of involvement with the project they were investing in, with 90% promoting the campaign; 29% giving feedback and advice to the campaign; 27% offering to volunteer, and 27% making introductions and connections on behalf of the project.

To understand the relative importance of financial and alternative benefits of investing in community share offers, investors were asked to consider the important of a range of factors likely to be involved in each investment decision. The responses given indicate that financial returns are a low priority compared to the ease of the investment process and non-financial benefits. The prospect of getting their investment back (i.e. being able to withdraw share capital) was ranked as important more often than receiving interest or dividends on investments, supporting the idea that stability and longevity are more important than short term returns for investors in community shares.

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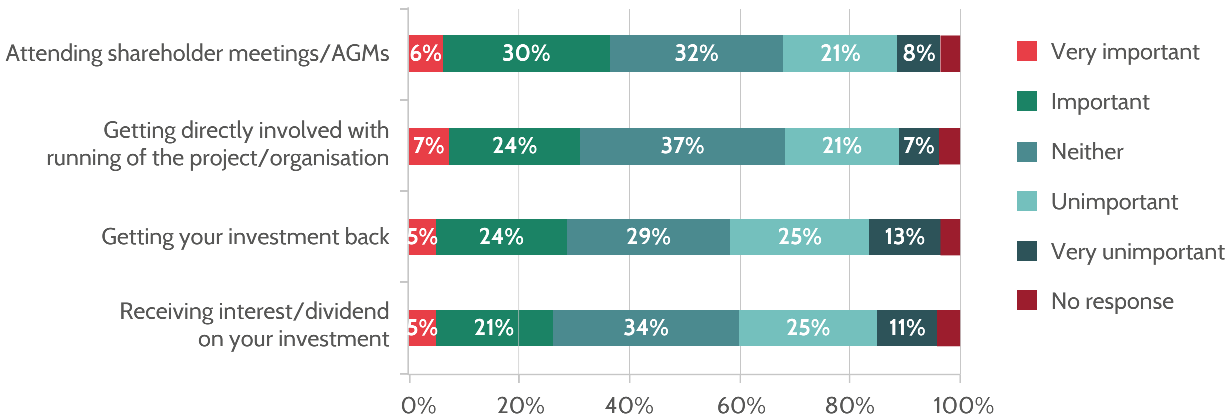
Graph 26: As a funder/investor in community shares, how important is the following?

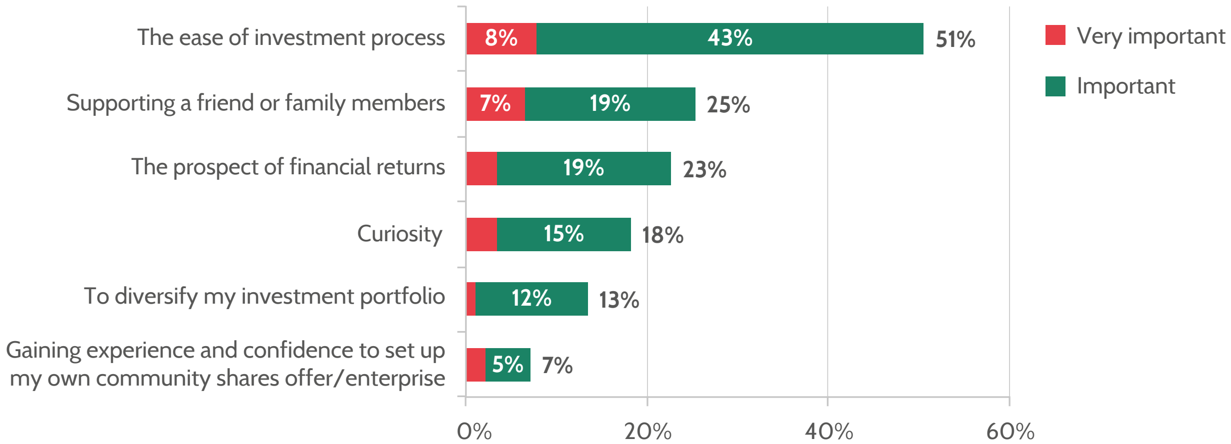
Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q11 As a funder/investor in community shares, how important is the following?

Graph 27: How important are the following in your decision to invest in organisations/projects through community shares crowdfunding?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q6. How important are the following in your decision to invest in organisations/projects through community shares crowdfunding?

The ease of the investment process was also ranked as at least important for 86% of investors in equity-based crowdfunding, and supporting a friend of family member ranked as roughly as important (28%).

Curiosity ranked highly for investors in the equity-based crowdfunding model (50% ranked it as at least important); 31% of those survey respondents investing in reward-based crowdfunding; and 28% of respondents using donation-based crowdfunding platforms. The lower level of curiosity associated with community share offers is probably linked to the lower levels of awareness amongst SMEs and the general public about this financial instrument – only 7% of SMEs surveyed indicated they were aware of them.

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Summary of Survey Findings

The alternative finance market is a rapidly growing and evolving area of financial activity seeking "to revolutionise banking, investing and giving by using technology to simplify the links between those who want to invest money and those who need it" (Stian Westlake, Executive Director of Policy and research, NESTA, 2014: 4). While the investment models within the sector may share this general purpose, the recent survey of the sector reveals they vary in the types of investor-fundraiser relationships, the types of transactions involved and the motivations of the investors using them in relation to the risks and rewards they expect.

Community share investments share different features with other alternative finance models – it has a similar social/ethical risk profile as reward and donation based crowdfunding but it uses a different model to crowdfunding as it is a longer term more stable form of investment than these models. It is therefore more similar to equity-based crowdfunding in this manner, although on a smaller scale in terms of investment sought and investments made. They therefore represent a small but interesting component of the alternative finance community.

The investors profile revealed by the survey data indicates that community shares investors are similar to the overarching investor type identified in the alternative finance report in being older but they appear less likely to be serial investors than investors in other models. Two types of alternative finance model can be broadly distinguished: higher value loans and equity investments in which financial return is a relatively high priority, although not the only priority (particularly when compared with investor motivations in standard financial products), and lower value crowdfunding models in which the connection to and involvement in the project is of higher importance and the prospects of a return on investment may be low. Investors in community shares appear to sit somewhere between these two types: differing from both the equity and lending investors in the importance attached to a direct connection to the project being funded, but investing larger amounts per transaction than the crowd-funders with similar motivations.

Community share investors responding to this survey more often fell into the average income category and were overwhelmingly using their savings to invest, indicating they are 'normal' people who don't invest regularly, or have access to financial advice. They were typically well-educated and in management or professional jobs, although the alignment with average and lower incomes indicates these may be in the public sector, part-time workers or retired people.

Two of the types of investor in community shares identified by the Wessex Community Investor Research appear to be present amongst the survey respondents: the local community investor who lives near to the project and is motivated by social benefits, and the community of interest investor, interested in the purposes and benefits of the project although not living nearby or connected by a sense of location (indicated by the 39% of investors who reported no engagement with the project beyond purchasing share capital).

The findings of the NESTA survey also echo the approaches to risk and decision-making regarding investing in community shares that were identified in the Wessex report, which found that this was a matter of what people could afford to lose and based on careful reading of the offer documentation and knowledge of the individuals and organisations involved.

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Conclusions

We hope this report has gone some way to help bridge the gap between the rhetoric of social investment leaders and the needs of community enterprise, as observed in the introduction.

This report has shed light on what is a fast-growing, somewhat volatile, and diverse market. Yet, possibly the important finding is that since 2009, community shares have enabled more than 60,000 people to become direct investors of community enterprise. The majority of these people had never invested before, but are now active members of ventures that are now running vital assets and services from shops, pubs, farms and sports clubs.

This is a promising trend, but the data also identifies the challenges community enterprises face across a number of sectors in raising the finance they need to start-up and grow. This is most evident with the level of activity in 2014, in which growth tailed-off and several sectors saw a fall in the number of share offers coming forward.

Signs for 2015 are looking more encouraging with more share offers at this stage in the year than ever before. Furthermore this year sees several initiatives and programmes focusing on developing community enterprise, such as Big Potential, The Power to Change and DCLG's latest Community Rights programmes, get underway.

This is even more encouraging based on why people are investing. The investor survey demonstrates the overwhelming motivation of investors to support the society's social purpose. This is an important distinction of the community shares market when compared to equity crowdfunding in particular, in which financial return is paramount.

However, like equity crowdfunding there are risks. But unlike public share offers in companies, which are regulated by the Financial Conduct Authority, community shares are not regulated. This makes it simpler and cheaper for a society to make a community share offer. But it also means there is no protection for people from falling victim to scams or unfair and misleading offers. There is also the risk that the share offer has been poorly developed and not given enough thought and attention.

This is why the Community Shares Unit has developed the Community Shares Standard Mark. The Mark is awarded to community share offers that meet our standards of good practice.

The Mark is not a guarantee that the society will be successful. Instead, the Mark is a sign that the society has been independently assessed to have adopted good practices in developing the offer, and is committed to these standards.

The Community Shares Standard Mark is a voluntary scheme. Because the Mark is voluntary, our powers are limited. However, we feel that rather than resorting to some form of enforcement, central to promoting public confidence is the ability to provide accurate information about the market as a whole.

This report is the beginning of these efforts and we will look to improve and build on this work as we go forward.

Community Shares Unit

The Community Shares Unit is supported by the Department for Communities and Local Government (DCLG) and Department for Energy and Climate Change (DECC) until March 2016 and is delivered in partnership by Co-operatives UK and Locality. Modelled on the highly successful Asset Transfer Unit within Locality, the new unit works with partners to develop standards of good practice, encourage policy reforms and raise awareness to support the growth of community shares.

It acts a central reference point for market intelligence, providing the latest information on community share activities nationwide, as well as producing regularly-updated guidance materials.

The unit also operates as a dynamic hub for support, building relationships with networks and organisations to signpost communities, investors and other interested parties to the most appropriate forms of advice and assistance to develop new share offers and support existing ones.

Finally, it acts as a strong platform for profiling the community share model, raising awareness of the value of the approach to new entrants and facilitating peer support and networking to those already involved in community shares.

Acknowledgements

We are very grateful for the valuable support we have had from Lisa Dale-Clough and Kate Barker of Manchester Business School for leading the design and delivery of the investor survey and providing the subsequent analysis which formed the basis of this section of the report.

Thanks also to Nesta and Cambridge University for involving us in the wider Understanding Alternative Finance Study, providing us with the opportunity to compare and contrast the responses of community shares investors with funders from other platforms in the UK.

Finally, we would like to thank all those communities, practitioners and government officials who have helped inform the priorities for this research.

Notes on the Community Shares Directory

The Community Shares Directory is a listing of registered co-operatives and community benefit societies. Our definition of community shares is where societies have raised at least £10,000 of withdrawable, non-transferable share capital from at least 20 members. Going forward the directory will be restricted to asset locked societies.

We categorise each entry according to the status of the enterprise. This refers to whether the society is:

- 'Post-launch' – has issued one or more share offers
- 'Pre-launch' – registered in the last two years and has the ability or is planning to launch a community share offer

The aim of the directory is to provide more openly accessible information about societies financed through community shares. The directory contains some financial information on societies that have been trading for more than three years, drawn from annual returns made by societies to the FCA.

To the best of our knowledge all the pre-launch societies intend to launch a community share offer at some point in the future, although it can take several years for some societies to become investment-ready.

We have limited financial data for post-launch societies that issued offers in 2013 or later – our records are based on what societies have told us or information that has been published elsewhere. For societies that launched share offers in 2012 or earlier, we have used annual return data to obtain data on the amount of share capital raised and number of members. Estimates have been used for more recent shares offers, based on historic activity.

The directory has been compiled using secondary research methods. Whilst every effort has been made to ensure the accuracy of the data, we cannot accept any liability for any loss or damage whatsoever resulting from reliance on this information.

Find out more at www.communityshares.org.uk
or get in touch at communityshares@uk.coop
follow us on twitter @comshares

locality
Communities ambitious for change

CO-OPERATIVES UK

Department of Energy & Climate Change

Department for Communities and Local Government

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SUBISSION FROM JOHN LEWIS PARTNERSHIP

Overview

1. The John Lewis Partnership welcomes the opportunity to submit written evidence to the Economy, Energy and Tourism Committee‟s inquiry into innovation and productivity in social enterprises and employee owned businesses.

2. The Partnership is the largest employee-owned business in the UK. All 88,700 permanent staff are Partners who own 46 John Lewis shops across the UK, 346 Waitrose supermarkets, an online and catalogue business, waitrose.com, johnlewis.com, a production unit, a farm and a financial services arm. The business has annual gross sales of over £10bn. In Scotland the Partnership operates 3 John Lewis shops, 7 Waitrose supermarkets and a contact centre.

3. John Spedan Lewis, son of our Founder, John Lewis, was inspired by the desire to innovate and improve the capitalist system. In 1914 he had the opportunity to put his principles into practice when his father gave him control of Peter Jones, a small shop trading on Sloane Square in London. The young Spedan promised his staff that when the shop became profitable they would share in these profits, the first step in his long-term plan to turn his employees into Partners. He fulfilled this promise just 5 years later when every member of staff received the equivalent of 5 weeks of extra pay. Ten years later, he created a trust to take over the assets of the company and run it as a Partnership thus creating our modern co owned business in 1929. Spedan created a second irrevocable trust in 1950 when complete ownership was transferred to Partners working in the business.

4. John Spedan Lewis was no philanthropist; the Trust was a mechanism to sell his business to his employees because he saw the strength of aligning the interests of employees and shareholders. Spedan Lewis was just as concerned with running a successful, innovative company as he was with ensuring the happiness of the employees and equitable sharing of the benefits of success. This is clearly expressed in the Partnership‟s Constitution where the first Principle sets out the „Ultimate Purpose‟ of the Partnership as *“the happiness of all its members, through worthwhile and satisfying employment in a successful business”.*

5. Not many companies have a written Constitution. Ours does, for two reasons. The first is historical as the John Lewis Partnership exists today because of the extraordinary vision and ideals of our Founder. He signed away his personal ownership rights in a growing retail company to allow future generations of employees to take forward his 'experiment in industrial democracy'. Not unreasonably, he wanted to leave some clear guidelines for his successors, so that the values which had motivated him would not be eroded with the passage of time. The second reason looks forward. Spedan Lewis was committed to establishing 'a better form of business' and the challenge for Partners of today is to prove that a business which is not driven

by the demands of outside shareholders and which sets high standards of behaviour can flourish in the competitive conditions of the third millennium. Indeed, we aim to demonstrate that adhering to these Principles and Rules enables us over the long term to outperform companies with conventional ownership structures. This is achieved simply by taking the right decisions for the long term.

Purpose and Sharing Power, Profit and Knowledge

6. We have three principles of motivation. The first is **our Purpose**, set out in Principle one and as already mentioned states that the Partnership‟s ultimate purpose is the "happiness of all its members, through the worthwhile and satisfying employment in a successful business". This establishes a balance of 'rights and responsibilities' which places on all Partners the obligation to work for the improvement of our business, in the knowledge that we share the rewards of success.

7. The second is about **Power.** Power in the Partnership is shared between three governing authorities; the Partnership Council, the Partnership Board and the Chairman. This provides a check and balance to ensure the Constitution is upheld and that the needs of the business are kept in balance with the needs of Partners. What all this boils down to is that our 88,700 Partners don‟t merely have the satisfaction of working for a good business; they have the enjoyment of owning it. That is the essential difference of the Partnership. Last year this essential difference translated into £156.2m profit being shared with Partners in the form of an annual bonus of 11% of pay. Perhaps not surprisingly first-hand experience shows Partners feel a strong sense of ownership in the month of March each year when we announce the annual bonus.

8. All shares in the John Lewis Partnership are held in Trust for the benefit of all employees. Shares are not traded and profit is returned to our shareholders - our Partners - who each receive the same percentage of salary in the form of an annual bonus each March. Around half our pre-tax profit goes to this annual bonus each year, with the remainder reinvested in the future growth of the business. This collective reward for collective effort gives us a relentless focus on continuous improvement; a powerful competitive advantage especially in a retail market that is one of the most contested in the world.

9. The third is about **Profit**. Our Constitution states that the Partnership aims to make „sufficient profit from its trading operations to sustain its continued development, to distribute a share of those profits each year to its members, and to enable it to undertake other activities consistent with its ultimate purpose‟. This means our focus is on generating "sufficient" profit and not profit at all costs. Our ownership structure enables us to take decisions for the long term. Decisions which can be counterintuitive and avoid the sort of short-term culture often seen in shareholder owned businesses where returns are demanded at all costs.

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10. Our Partners have a say in how the business is run and our model relies on a commitment from each Partner to share **Knowledge** and power, as well as in the rewards of success. We have democratic channels embedded at all levels of the business – from Partner Voice representatives in each John Lewis and Waitrose branch, to elected Divisional Councils for John Lewis and Waitrose and a Partnership Council which, as one of our three governing authorities, has an important role in influencing Partnership policy and how our profits are spent. It has the power to discuss, to ask questions, and to make recommendations on any subject. The Partnership"s Chairman appears before the Council twice a year to answer questions on the running of the business and the Partnership Council is responsible for holding the Chairman to account. Ultimately they have the power to remove him from office.

Inspiring Engagement and Innovation

11. Shared ownership gives Partners a social and emotional connection to the Partnership which drives discretionary effort, cross functional working and innovative approaches to problem solving. It means Partners are engaged and motivated to deliver more for our customers and more for the business. Survey data shows this is a common theme amongst employee owned businesses; more than 80% of employee-owners strongly agreed with the proposition that employee ownership makes employees „more committed to company success".[1]

12. Giving Partners a say in how our business is run helps ensure the long term sustainability of the Partnership. In 2014 the Partnership conducted a review of our pension scheme, one of the most important benefits for Partners and our greatest investment. We needed to ensure it was sustainable for the years ahead but rather than management taking decisions we ran a lengthy internal consultation into how to split the proportion of benefits between pension and bonus and create a fair system for both long serving and new Partners. Throughout the Pension Benefit Review our democratic bodies enabled Partners to shape the proposal which was voted through unanimously by our elected Partnership Council in February 2015. This year we will use a similar process to review our broader benefits package, to ensure we have an engaging offer that is relevant to Partners in today"s world.

13. Our experience is that increasing engagement drives discretionary effort, the difference between the minimum required and how much we could actually put into work. Discretionary effort does not increase costs; it flows straight to the bottom line, so not surprisingly it's better to invest in increasing discretionary effort than in expanding resources (via retraining, recruitment etc). We have seen that when an employee believes that their own and the organisation's goals are aligned, engagement soars and they take ownership at work (provided the employee also

[1] JOL, *Good business: the employee ownership experience*, http://employeeownership.co.uk/wp-content/uploads/Good_Business___The_employee_ownership_experience.pdf

believes the employer cares about them). The evidence that financial incentives are key to motivating people is limited and clearly no longer enough; today‟s employee is sensitive to employer self-interest and needs to feel mutually engaged. That calls for shared goals and values, an enlightened leadership culture, positive emotional connections with colleagues and work, and replacing learned helplessness with a sense of ownership. When these conditions are in place, discretionary effort soars and transforms business performance.

14. Our John Lewis business runs a scheme called Roof Raisers, aimed at motivating and mobilising innovation and exceptional effort from Partners. Such employee motivation and recognition schemes are not unique but the point of difference in our business the focus on stimulating innovation by ensuring every Partner in every part of the business understands the individual and collective role they can play in inspiring others and driving commercial success.

15. Similarly in 2014, to coincide with the business‟ 150 year anniversary, John Lewis launched JLAB, a technology incubator offering five start ups 12 weeks of mentoring, a possible £100,000 prize and contract with John Lewis. The aim of JLAB is to recognise and grow the new ideas that support omni-channel commerce across in-store, mobile and online devices. The success of the scheme stems from a passion and energy within the business to look at new ways of doing things and the encouragement to be inventive that is built into the DNA of our business and which we can trace back to the ambitions of our founder.

Creating Value in Communities and our Supply Chain

16. Our Partners‟ sense of ownership inspires a greater connection to the locations where we trade, which in turn drives initiative and engagement in our community partnerships. Across Scotland our local Waitrose Community Matters Scheme provides £1000 a month for each Waitrose store (£500 for each convenience store) to divide between three local good causes. We have helped over 900 good causes and donated £320,000 in Scotland since the Community Matters scheme began in 2009. Our Waitrose branch in Helensburgh nominated Alzheimer Scotland as its local charity and beyond donating £700, Partners were inspired to do more to help local customers and the community, organising dementia awareness training for all 180 local Partners. They are now better able to identify signs of dementia and assist and communicate with customers.

17. Waitrose Milngavie is our first Waitrose branch to have a dedicated Community Room, a space which can be used for free by any local group for meetings and which has enabled our Partners to form closer links with the local community.

18. Our own research shows the benefits to the wider local economy when the Partnership opens a new shop. John Lewis and Waitrose shops are often seen as part of a wider revitalisation of shopping areas. In Liverpool 75% of businesses reported that the opening of John Lewis contributed to the city becoming a more attractive place to

spend time.[2] The Partnership Bonus also contributes to local economies; our research shows that 20-25% of Bonus pay is spent at shops within the same local authority area.[3]

19. By taking a long term view of supplier relationships we help our suppliers to grow and create value. As owners of the business we have an incentive to ensure we are meeting the needs of customers by offering high-quality products and provenance information. In 2015 four small-scale Scottish Waitrose suppliers had their products introduced across the UK. Mo‟s Cookie Dough and Dean‟s of Huntley are two such suppliers whose products are now stocked in 247 and 130 Waitrose branches across the UK respectively, following their popularity in Scotland.

20. We work to promote the benefits of employee ownership to our suppliers. Waitrose has worked with Scottish farmed Atlantic salmon retailer, Aquascot, since 1993. The company was established in 1987 and in 2000 was sold to a large multi-national. By 2003 it was clear the new owners had different objectives for the business so the former owners and employees sought to convert the business to employee ownership. Waitrose provided guidance and later this year Aquascot will convert to full employee ownership.

21. In October 2015 we ran an „Inspire EO‟ conference in Edinburgh aimed at raising awareness and understanding of employee ownership in Scotland. We invited our Scottish suppliers and small and medium sized business from range of sectors to learn more about employee ownership. To date we know of ten businesses who attended our conference who are now exploring conversion to employee ownership.

Productivity and Continuous Improvement

22. Employee-ownership can be an advantage in tackling the linked challenges of improving productivity and creating sustainable economic growth. Our ownership structure has helped us remain resilient in the face of challenging economic conditions, a resilience that is mirrored across the employee-owned sector. From 2005 to 2008 non-employee-owned businesses experienced higher average sales growth per annum (12%) than employee-owned businesses (10%), however the average sales growth of employee-owned businesses during the 2008- 2009 recessionary period was 11%, significantly surpassing the 0.6% growth of non-employee-owned businesses.

23. Evidence shows that productivity increased 4.5% year-on-year in the fifty largest employee-owned businesses in 2013/14.[4] The positive impact of employee ownership

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[2] New Economics Foundation, *Our social and economic contribution*, http://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/our%20responsibilities/our%20communities/Local%20investment/executive_summary_our_social_and_economic_contribution.pdf

[3] New Economics Foundation, *Our social and economic contribution*, http://www.johnlewispartnership.co.uk/content/dam/cws/pdfs/our%20responsibilities/our%20communities/Local%20investment/executive_summary_our_social_and_economic_contribution.pdf

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on productivity may be greatest among small and medium-sized companies. Employee owned businesses with fewer than 75 employees do significantly better than non-employee owned businesses of the same size measured by both profit before tax and profit before tax per employee.[5]

24. The employee ownership model confers particular advantages in knowledge and skill-intensive sectors. Employee-owned businesses with average wage costs of more than £40,000 per employee have significantly higher profit per employee than non-employee owned businesses with a similar wage cost structure.[6]

25. That is not to say that employee ownership is a simple solution to the complexity of the productivity challenge, far from it, but a sense of ownership can be an advantage in driving productivity and in shaping the way it is addressed. At the John Lewis Partnership, improving productivity is a key focus in this challenging time for retail. Our co-ownership model shapes the way we are looking at this challenge. It helps us put Partners, not „output", at the heart of issue, and to look at productivity in the wider context of pay, performance and progression.

26. A key factor holding back productivity and performance in retail is a lack of progression opportunities for workers in modestly paid jobs, who dominate employment in the sector. Given the labour intensity of the sector, along with advances in technology, there is much to gain in focusing on creating good jobs and progression pathways that support employees to use and develop their talents. Employee-owned businesses have been shown to be better at job creation, at job retention, and at job development. At the most basic level, our experience is that employee ownership helps decrease absenteeism; at JLP our absence rate is 3.4% compared to the UK average for retail of 7.8%[7].

27. Whilst not a panacea, the experience of the John Lewis Partnership is that employee ownership is integral to the long term sustainability, growth and success of our business.

For further information please contact Victoria Wheal, Group Senior Corporate Affairs Manager, John Lewis Partnership; victoria.wheal@johnlewis.co.uk; 020 7592 6199

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[4] Employee Ownership Association, *The economic case for EO*, http://employeeownership.co.uk/resources/facts-and-figures/
[5] *Model Growth: Do employee-owned businesses deliver sustainable performance?* Cass Business School, 2010
[6] *Model Growth: Do employee-owned businesses deliver sustainable performance?* Cass Business School, 2010
[7] "Our Mutual Friends: Making the Case for Public Service Mutuals"

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SUBMISSION FROM PAGE \ PARK ARCHITECTS

In response to your call for views in relation to the above, we are pleased to respond with the following comments under the themes referred to in that call.

Scale and Growth

Statistics from organisations such as Co-operative Development Scotland will no doubt provide an overview however the extent to which we have been asked for advice and to participate in both formal and informal briefing sessions and seminars on our experience of becoming an EOB would suggest a significant growth in interest across many professional sectors. Perhaps a brief summary of the statistics relative to this professional practice and our exceptionally positive experience with, to date, no perceived drawbacks in relation to becoming employee owned will be helpful in informing your Committee.

Established in 1981, Page \ Park has grown organically as a traditional practice and at the point of transition to an EOB we were 35 strong and working across many sectors throughout Scotland and occasionally beyond. The reasons for transition were partly to do with succession but, more importantly, were related to an ethos which wished to ensure a long term future within Scotland without future generations being 'tempted' to sell out to other companies who may or not be based in Scotland or the UK. We have seen the (generally negative) impact of this with many of Scotland's best engineering practices with whom we have worked over the years, typically now being owned by north American companies with priorities which have not been aligned with what we require from fellow consultants on a wide range of projects.

Just to note that are projects are significant within the Scottish economy. The new HQ for Scottish Power in Glasgow is one of many in the commercial sector; arts and cultural projects such as The Scottish National Portrait Gallery, Rosslyn Chapel and McManus Galleries, Dundee with impact in the tourism sector; educational work including major projects in the independent schools sector and with most of Scotland's universities; conservation work such as the restoration of the fire damaged Glasgow School of Art Charles Rennie Mackintosh Building; work with charities and churches such as significant building projects with the Scottish War Blinded in both the east and east of Scotland.

We transitioned to being an EOB on 1 December 2013 so have just completed two years as an EOB. In our first financial year to November 2014 we had the highest turnover and profit we have ever made, now being allocated not to 4 partners but to all employees and also to re-invest and 'make a difference' as referred to below. The year just completed has comparable results though perhaps not quite so high in terms of profit but this is largely due to the fact that we have increased in terms of staff employed – now 52 compared to the 35 just over two years ago.

Innovation and Employee Engagement

While we started as an EOB with a very flat and participative structure, we have seen that grow further with everyone now having the incentive of working for themselves within a structure where the key principles are, creativity, integrity and making a difference. A wide representation from all levels within the practice were involved in the transition process and we have ended up with all the shares in the Limited Company being owned by a Trust with a range of objectives (none of which are about maximising revenue or profits) including re-investment in the business, employee benefits and, very importantly, making a difference by setting aside a proportion of profits for charitable purposes – early days but

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perhaps typically in future funding an employee to take several months off (still being paid) and taking their professional skills and some funding elsewhere to make that difference, whether in the UK or further afield. Staff have already, on their own initiative, been involved in such work in Peru, Tanzania, Bangladesh and Nepal as well as in Scotland.

Our ethos and culture are not driven by money however that approach has in fact generated more revenue than we could have reasonably anticipated. This has allowed us to consider carefully the relationship between the benefits enjoyed by the higher paid employees and recent graduates and we are in the process of ‘altering the pitch’ of the graph which plots salaries to ensure that ‘fairness’ is achieved across the board, moving away from traditional models of bosses and then all the rest. This internal process has included some of the youngest staff members (and indeed that is typical of all our internal processes in which we have evolved a unique business model), there being absolute transparency across the business on every aspect, including salaries.

These internal benefits are all very well but what of the wider benefits? We are finding that other organisations who are aligned with our ethos and culture across many sectors are attracted to working with us on initiatives which, over the years, we hope will have significant impact on our society and economy. For example, we are currently working with The Simon Community who, in partnership with others, are seeking long term sustainable solutions to the ever-present issues of homelessness. This is not about senior staff leading on everything as per the traditional model but staff at all levels being able to work innovatively in relation to whatever their passion might be ….. and that cannot be a bad thing in terms of societal impact.

Funding

In view of what is set out above, we have not had direct involvement in seeking funding in relation to the EOB however it is worth noting that a stated objective of the Trust is to build a financial buffer so that we are no longer dependent on (any) banks …… or at least have funds in hand to allow appropriate arrangements to be made should recessionary or other pressures hit. Out past treatment by our bank of 32 years was an element in our determination so become a self-supporting community of professionals working co-operatively across Scotland and now (more extensively than in the past) further afield.

Public Body Encouragement

Other than to note that Co-operative Development Scotland were extremely helpful in the lead up to our transition to EOB and also since then in working with us and vice versa to ‘spread the word’, we have little comment to make in terms of what public bodies are already doing. We would, however, encourage the Scottish Government to promote and assist in establishing employee owned businesses (of which our particular model is just one example) as we believe it has economic benefit, incentivises people and enhances the sense of wellbeing rather than people being stuck in the traditional ‘us and them’ work context.

Page \ Park
Architects

SUBMISSION FROM ANDREW PENDLETON

EMPLOYEE OWNERSHIP IN BRITAIN

Findings from the 2014-15

Employee Ownership Survey

Andrew Pendleton and Andrew Robinson

November 2015

The White Rose Employee Ownership Centre was established by employee ownership academics at the universities of Leeds, Sheffield, and York to foster collaboration between academics, policy-makers, and company practitioners. It is open to all those with an interest in employee ownership.

http://lubswww.leeds.ac.uk/wreoc/home/

Executive Summary

This paper reports findings from a research project conducted during 2014-15 into employee ownership in Britain. The aims are to establish the size of the employee-owned sector, identify the ownership and governance characteristics of employee-owned firms, consider the factors promoting employee ownership, and evaluate the performance of employee-owned firms.

Data on ownership and governance has been collected by questionnaire and will be linked to company financial information. Data has been collected on 109 firms out of an estimated population of 250-280 employee-owned companies. The current population of employee-owned firms is about four times larger than in the mid-1990s. Employee ownership is defined as 25 per cent ownership by or on behalf of all or most employees.

The average level of employee ownership in our sample is 85 per cent.

The paper identifies the main ways that employee ownership operates in Britain: Employee Benefit or Employee Ownership Trusts, direct share ownership or membership, and hybrids of trust and direct ownership. 28 per cent of our firms achieve employee ownership exclusively through an EBT or EOT, 43 per cent use direct ownership or membership, and 27 per cent use a mixture of trusts and direct ownership.

The sectoral distribution of employee-owned firms is 22 per cent manufacturing, 45 per cent business services (information and communication, finance, professional,

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scientific, technical, and administrative activities), and 21 per cent personal services such as education, health, and social services. Most companies in the latter category are public-sector spin-outs. Employee ownership is also found in construction (5 per cent of the sample) and wholesale and retail (7 per cent of the sample).

The long-term factors favouring the development of employee ownership are identified as the shift from manufacturing to services, and a corresponding growth in the importance of human capital, and economic insecurity. The financial crisis of 2007-8 has heightened awareness of alternative forms of corporate organisation. Political action is a very important influence. Regulatory initiatives remove barriers to employee ownership and provide incentives to convert to employee ownership. Privatisation has also been important. A well-developed employee ownership community successfully exploited opportunities offered by political competition within the 2010-15 governing coalition.

Employee ownership occurs in four main contexts: business succession (32 per cent of the sample), privatisation (15 per cent), where owners wish to widen ownership (24 per cent), and start-ups (23 per cent). In Britain very few employee ownership conversions are rescues of failing firms. The level of employee ownership is similar across these four contexts but there are differences in governance characteristics and in the means by which employee ownership is achieved (trusts versus direct ownership).

Introduction

Employee ownership is an increasingly important form of business ownership and organisation in Britain. Employee-owned firms operate in a range of sectors, including retail, wholesale, ancillary health services, social care, business consultancy, and manufacturing. Although some firms have been employee-owned for many years, employee ownership started to become more prevalent from the mid-1980s. A wave of conversions took place in the late 1980s and early 1990s, often using an ESOP-type structure. After a lull in the late 1990s, conversions to employee ownership picked-up in the 2000s, with the pace escalating from around 2010. Following recent policy initiatives, there is currently considerable interest in employee ownership within the business community.

There is considerable heterogeneity across the employee-owned sector in Britain. Traditionally, workers co-operatives were the most common form of employee ownership, but since the late 1980s new ownership forms and structures have developed. Some firms have indirect employee ownership, with shares held collectively in an Employee Benefits or Employee Ownership Trust, whilst others have direct employee ownership whereby individual employees own shares. It is common for ownership to take a hybrid form, combining direct and indirect ownership.

In this paper we consider the influences on the development of employee ownership since the 1980s, and highlight the factors contributing to the current rise in employee ownership conversions. Political support for employee ownership is found to be the strongest but not the only influence on levels of employee ownership activity.

The paper highlights variations in ownership and governance characteristics of employee-owned firms. We argue that these characteristics reflect the interaction of choices and interests of those involved in the transition to employee ownership and the circumstances of the conversion (see Pendleton 2001).

Initially, the features of the main ownership forms will be outlined. We then consider the influences upon the development of employee ownership. Finally, the paper will identify and discuss groupings of employee-owned firms, based on the circumstances of their conversion. Four main groups are identified: ownership conversions arising from privatisation, business succession, sharing ownership, and business start-ups.

The paper draws on the findings of a major research project conducted by members of the White Rose Employee Ownership Centre during 2014-2015 in collaboration with the Employee Ownership Association (EOA) (http://employeeownership.co.uk). All firms in Britain that appear to have significant levels of employee ownership are being surveyed. Currently, 109 firms have responded: we estimate that these constitute approximately 40 per cent of the companies in Britain that are substantially employee-owned. For a short summary of other recent findings see Employee Ownership in Britain http://employeeownership.co.uk/resources/reports/

Disclaimer: the views expressed in this paper are those of the authors and should not be attributed to those assisting the research such as the Employee Ownership Association.

References to specific named companies in the paper are drawn from publicly available information such as company web-sites and not from any data supplied to the survey

The Employee Ownership Research Project

The employee ownership research project commenced in 2014. There are several key objectives:

- To estimate, based on comprehensive and solid evidence, the total size and sectoral distribution of the employee-owned sector in terms of employment, sales, and economic and financial activity;

- To identify the ownership and governance characteristics of employee-owned firms, and to identify the nature and causes of variation between firms;

- To understand the evolution of employee ownership in Britain, and to identify the factors contributing to the growth and changing nature of this form of ownership.

- To evaluate the economic performance of the employee-owned sector relative to various benchmarks.

To meet these objectives, we are collecting organisational and financial data on employee-owned companies. Our aim is to achieve coverage of the entire sector: so far we have data on 40-45 per cent of the population of companies we believe to be employee-owned. We have undertaken a large-scale screening exercise using the internet (company web-sites, web searches, social media sites etc.) drawing on knowledge and information within the employee ownership community. Our current estimate is that there are between 250 and 280 companies that meet our definition of employee ownership. This is an increase of about four times on the peak in the mid-1990s.

There is no universally-accepted definition of employee ownership, with the result that identifying employee-owned firms is not straightforward. Krusi and Blasi (1997) highlight four main dimensions of employee ownership: the proportion of company shares owned by employees, the proportion of employees owning shares, the distribution of ownership amongst employees, and the nature and extent of rights associated with ownership. Whilst this identifies key dimensions of employee ownership, classifying whether firms are employee-owned is not straightforward. For instance, a firm might be 100% owned by its employees but most of the ownership is held by a small group of senior employees. Should this firm be said to be employee owned?

We classify a firm as employee-owned where 25 per cent or more of the ownership of the company is broadly held by all or most employees other than the directors (or on their behalf by a trust), taking into account that in most cases the remainder of the ownership may be held by a smaller group of employees. 25 per cent is chosen as the cut-off because ownership of a 25 per cent stake is viewed in some company legislation as a ‘material stake’ and is therefore likely to facilitate substantial employee involvement in the governance of the company. In practice, levels of employee ownership are much higher in most cases: the average in our sample is 85 per cent (median = 100). At this stage we have not targeted the worker co-operative segment of the employee ownership sector though there are some worker co-operatives in our database along with some firms that partially adopt co-operative principles.

We have collected data on ownership, governance, and the evolution into employee ownership using a questionnaire survey sent to all companies thought to be employee-owned. This has been distributed with the assistance of the Employee Ownership Association. So far, we have received 109 completed questionnaires that meet our criteria for employee ownership.

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At the end of 2015 we intend to merge this data with financial data obtained from Companies House returns or directly from companies. This will enable us to evaluate the economic and financial performance of employee-owned firms.

The historical dimension to the research is achieved by comparing the results with those of a similar, but smaller-scale project, conducted by the authors in the 1990s (see Pendleton 2001).

Forms of employee ownership in Britain

In the analysis that follows we distinguish between indirect or trust-based employee ownership, direct ownership, a membership-based version of direct ownership, and a hybrid model that combines indirect and direct ownership.

Indirect ownership

Indirect ownership is where ownership is vested in an Employee Benefits or Employee Ownership Trust. The employees do not directly own the company but are the beneficiaries of the trust. The primary duty of the trust is to operate in accordance with the interests of the beneficiaries as set out in the Trust Deed. Although the Deed may not stipulate it as such, trust ownership provides the basis for employees to participate in the governance and returns of the company.

The most well-known case of indirect ownership in Britain is the John Lewis Partnership, operator of John Lewis department stores and Waitrose supermarkets with 91,000 employees in 2014. John Lewis has been a beacon for employee ownership in Britain, especially in recent years when it has been far more overt in advertising its ownership to customers, lobbying governments, and supporting the development of the employee ownership sector. The Partnership was initially established in 1929 to provide profit-sharing to the employees, with the firm being passed to the Trust in 1950. The trust deed requires that the trust benefit employees past, present, and future. Although employees do not directly own John Lewis (technically, it can be argued that John Lewis is not employee-owned as such), they are the beneficiaries of the Trust and receive a substantial portion of the profits each year in the form of a profit share. This has been as much as 17 per cent of annual salary in recent years. Employees also have a substantial role in governance, with elected institutions at store, region, divisional, and head office level.

This form of indirect ownership received a substantial filip recently when the 2014 Budget created Employee Ownership Trusts (EOT) alongside tax breaks on bonuses paid with companies with a majority EOT (see page 12).

Direct ownership

The opposite of the indirect, trust-based model is direct ownership of shares by employees, which they acquire either by gift, or purchase, or a combination of the two. An exemplar of the direct model is Sheffield-based Gripple, manufacturers of a wire joining and tensioning device used in fencing and construction known as a Gripple. Currently, all of Gripple's 460 strong workforce directly own shares in the company, with new employees since 2004 required to purchase £1000 of shares within a year of joining the company, assisted by a loan from the company (EOA 2014; Silcox 2009). Somewhat earlier, the privatisation of the National Freight Corporation in 1982 was brought about by individual subscriptions to shares by employees: 35 per cent of the company's 24,500-strong workforce chose to buy into ownership of the new company with an average shareholding of around £700 (Bradley and Nejad 1989).

A key advantage claimed by adherents of the direct model of employee ownership is that it can provide a more tangible form of ownership than the indirect model, with employees benefiting directly from growth in value of the company (Employee Ownership Association 2013). Against this, achieving successful conversions to employee ownership may be more dependent on the wealth and liquidity of employees. Since individual circumstances and preferences determine participation in ownership, it is common for ownership to be less widespread amongst the workforce and for shareholdings to be unequal in the direct form of employee ownership.

Membership model

A variant of the direct share ownership model is the membership model. In this, employees can become a member of the company by purchasing a nominal share (often £1). The roots of this form of ownership can be found in the worker co-operative and friendly society tradition, and it is common for firms using this model to register as a membership society under the Co-operative and Community Benefit Societies Act 2014 and its predecessors. As in worker co-operatives, ownership rights are equally distributed amongst eligible and participating employees.

This membership model is not usually suitable for raising capital to bring about an ownership conversion but can be appropriate where conversion does not involve a substantial purchase price. Examples include transfers of employees to newly-formed organisations with no prior trading history or where there are few physical assets. This form of ownership is common in the public service spin-outs from central and local government and the National Health Service which have been taking place since the late 2000s. A notable feature of many of these public service 'mutuals' is that service users can also become members. For instance, Explore – the spin-out of library services from the City of York Council – will become two-thirds owned by members of the local community and one-third owned by its staff.

Hybrid model

A hybrid model of employee ownership comprises elements of both direct and indirect models by combining trust ownership with share distributions to individual employees. This form of employee ownership first developed in the mid-1980s

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based on the ESOP form that had developed in the United States after the passage of the 1974 ERISA pension legislation. In this model ownership is initially held collectively in an employee trust but over time all or some of this ownership is transferred to individual employees.

This model emerged in Britain when advocates of employee ownership developed structures that linked trust vehicles to the share-based profit sharing legislation introduced by the Labour/Liberal Government in 1978. Typically, the initial ownership conversion is achieved using an Employee Benefits Trust, with shares held in this trust then being passed to a trust set-up to distribute shares to employees such as a Share Incentive Plan trust. The benefit of this arrangement is it sidesteps the liquidity constraints and coordination costs that arise if capital contributions are sought from individual employees. Shares are passed to employees after the profit sharing scheme acquires shares from the Employee Benefit Trust using company profits. The profits passed to the EBT are then used to repay the loan typically incurred by the EBT to acquire the shares in the first place.

The first ESOP to be formed in Britain is said to be the motorway services organisation Roadchef in 1986. In this case an EBT initially acquired a 12.5 per cent stake, later rising to 34 per cent, in the company from the estate of the recently deceased Finance Director (See Pendleton 2001: 19) . The ESOP structure was then widely imitated during the wave of bus company privatisations in the late 1980s/early 1990s (ibid; 87-94). More recent ESOPs have used the Share Incentive Plan (SIP) to distribute shares. SIPs can be used to distribute shares at no cost to employees (‘Free Shares’) or to provide a means for employees to purchase shares (‘Partnership Shares’) on highly advantageous terms (tax concessions and the potential award of Matching Shares). Some firms using an ESOP-type model enable employees to purchase shares, some award free shares, and some use a combination of the two.

Table 1 (next page) provides details of the distribution of the main ownership types in our sample. 59 per cent of the sample have an Employee Benefit or Employee Ownership Trust, whilst 70 per cent have direct ownership of some form. Just under 30 per cent combine both forms of ownership, leaving 30 per cent using a trust alone and 41 per cent using direct ownership exclusively. 90 per cent of those companies using a trust envisage that at least some of the equity will be held permanently in trust. In 55 per cent of cases where there is direct ownership, participating employees acquire a single share each.

Table 2 Distribution of employee-owned companies between business sectors

Percentage of responding companies

Business Sector (SIC categories)	**Proportion of sample (%)**

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Manufacturing	22
Construction	5
Wholesale and retail	7
Information and communications	7
Financial and insurance	8
Professional, technical, and scientific	28
Administration and support activities	2
Education	7
Health and social services	12
Arts, entertainment, and recreation	2
Transport and storage	0
Hotels and restaurants	0

N = 109

The merits of each ownership type

The choice of the most appropriate structure for employee ownership has been the subject of continuing debate within the employee ownership community for many years. Some prefer the trust-based model because ownership conversion is less reliant on employee wealth and liquidity. Once trust ownership has been achieved, the level of risk-bearing by individual employees is clearly lower than where employees have purchased shares. Trust-based employee ownership may also offer greater ownership sustainability because ownership is less susceptible to individual preferences.

It is notable that John Lewis has been trust-owned for over fifty years, during which time other well-established employee-owned firms have converted out of employee ownership. For instance, the individual owners of the National Freight Corporation sold their shares on the open market once the company had listed, and a very rapid dilution of employees' shareholding in the company took place. This is not to say that the trust-based form of employee ownership is immune from re-conversion to 'conventional' ownership: if trustees have clear grounds for believing that it is in the interests of the beneficiaries to liquidate the share-holding in the company their fiduciary duty is to implement these wishes. This is what happened with the bus company ESOPs during the latter half of the 1990s, to the extent that substantial employee ownership has disappeared from the bus industry.

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The primary argument advanced by advocates of the direct form of employee ownership is that individual share-holdings promote more responsible ownership. Employees more clearly perceive links between their own actions and company outcomes, and are more likely to be motivated by them because they have a direct and immediate stake in these outcomes. Evidence from the academic literature on ownership and employee attitudes suggests that employees need to receive a direct financial benefit from ownership to feel like owners (French 1987; Buchko 1993). In organisations adopting the membership model in a social enterprise context, participants do not usually benefit from dividends or capital growth but an advantage of nominal membership fees is that participation is readily accessible to all eligible employees.

The hybrid model combines benefits of both the trust and direct models of ownership by enabling conversions at low up-front cost to employees whilst facilitating direct participation in ownership. A further benefit is that the trust can be used to re-purchase shares from departing employees, thereby limiting the potential for dilution of employee ownership when employees sell their shares. However, a potential problem with such arrangements is that the trust may require resources for repurchases, with the company being the most likely source of these. This has led to severe cash-flow problems in firms with large proportions of employees approaching retirement.

The development of employee ownership

Although employee ownership is growing in Britain, it is still a relatively uncommon form of business ownership. Currently, we estimate that there are between 250-280 firms with significant employee ownership in Britain (not including workers' co-operatives). The forms of employee ownership described earlier have mainly developed since the early 1980s, with an intensification of interest and acceleration of ownership conversions in the last five years. Employee ownership was no by means new in the early 1980s – there had been an upsurge in the number of worker co-operatives in the 1970s – but the ownership structures and forms of conversion in the mid-1980s were relatively novel. Why did these new forms develop, and what explains the subsequent patterns of growth in employee ownership conversions?

Contextual factors favouring employee ownership

Several long-run developments provide a favourable context for the development of employee ownership. One is the shift from manufacturing to services in advanced industrial economies. This has favoured the development of firms that are rich in human capital and less dependent on physical assets for the generation of value. Firms that are dependent on human capital clearly need to attract, retain, and develop high quality human resources to achieve competitive advantage (Rousseau and Shperling 2003). As value generation by the firm resides in employee skills and knowledge, it is appropriate to provide employees with rights to control and to the

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returns to human capital. It is notable that employee ownership is spreading fast amongst ‘human capital’ firms providing business consultancy, architecture, and engineering design services, with some world-leading firms such as Arup owned by or on behalf of their employees. 45 per cent of the companies responding to the survey are firms of this sort (see Table 2 over-page).

A second development is increasing economic and employment insecurity. Globalisation, competition, and deregulation have made it increasingly difficult for firms to offer the implicit guarantees of long-term employment, career progression, and social benefits that became common in large firms post-Second World War. But how can firms achieve employee commitment, especially when they are increasingly dependent on human capital, when they can commit less in terms of careers and job security in return? Margaret Blair (1995) has argued that employee ownership provides a means to break out of this ‘hold-up’ situation by giving employees control and return rights commensurate with those of other shareholders (see Pendleton and Robinson 2011). The adoption of employee ownership in the American airline industry and the British bus industry can be viewed as a way of securing employee support for changes to traditional wage and employment structures in response to increased competition, deregulation, and new entry (Gordon 2000).

Table 2 Distribution of employee-owned companies between business sectors

Percentage of responding companies

Business Sector (SIC categories)	**Proportion of sample (%)**
Manufacturing	22
Construction	5
Wholesale and retail	7
Information and communications	7
Financial and insurance	8
Professional, technical, and scientific	28
Administration and support activities	2
Education	7
Health and social services	12
Arts, entertainment, and recreation	2

Transport and storage	0
Hotels and restaurants	0

N = 109

Finally, the financial crisis of 2007-8 and its aftermath have heightened interest in alternative forms of corporate organisation. It has been argued that the dominant forms of corporate ownership and organisation, most notably public limited companies (PLCs), tend to be characterised by short-termism and limited engagement by owners (Ownership Commission 2012). Employee ownership can ameliorate both problems. It can also reduce inequalities by passing greater control to workers, as argued in the influential book on inequality The Spirit Level (Wilkinson and Pickett 2010). In so doing employee ownership may contribute to better health and well-being (McQuaid et al 2012)

Micro-level support

At the micro-level, an important factor is the emergence of an employee ownership ‘community of practice’. This grouping has been able to develop forms of employee ownership, and to penetrate and influence the policy-making process. The initial ESOP form in the 1980s was developed by a small number of professional services providers, primarily lawyers, who were able to weld together various legal instruments such as Employee Benefits Trusts and profit sharing schemes to create feasible means for converting conventional firms. Their role model was the ESOP form of ownership that had developed in the United States after the 1974 ERISA legislation, and their interest in this stemmed in part from the perceived shortcomings of the hitherto main form of employee ownership – the worker co-operative. There had been considerable growth of workers’ cooperatives in the 1970s but the perceived problems of the ‘Benn Co-operatives’ in the late 1970s left a legacy of disillusion in some quarters with this form of worker ownership. One of the appeals of the emergent ESOP form of employee ownership was that worker ownership could be combined with conventional forms of company management.

The role of employee ownership ‘champions’, with a deep personal commitment to employee ownership, cannot be under-estimated. Through relationships with key lobbyists they have been able to exert influence on policy-makers, leading to a series of legislative and policy changes. The articulation of interests within the employee ownership community (employee-owned firms and their advisers) has developed as the sector has grown, assisted by the development of an employee ownership trade association (the Employee Ownership Association) and the decision of key employee-owned firms, John Lewis Partnership especially, to act as champions for the employee ownership cause. This lobby group has been able to exploit the opportunities provided by a favourable political context: the sometimes uneasy governing coalition between Liberals and Conservatives in 2010-2015, with both parties interested in developing employee ownership though perhaps for different motives.

In addition to lobbying, the active diffusion of information through a variety of networks has enhanced mimetic processes of ownership conversion. Clusters of employee-owned firms can be found in various sectors such as social care, architecture, design and advertising and retail/wholesale.

Government action and policy development

Developments in government policy towards employee ownership have had a major influence on the growth of employee ownership. There are two elements to this: regulatory initiatives and privatisation

i) Regulatory and legislative initiatives.

Regulatory initiatives comprise the establishment of legal identities for share plans and the provision of tax concessions. Since the late 1970s successive UK governments have initiated several employee share schemes, including Approved Profit Sharing (1978) and the Share Incentive Plan (2000). Although these schemes were not designed with substantial employee ownership as a primary objective, they have nevertheless provided mechanisms for employee-owned firms to distribute equity to employees .

There have also been several initiatives targeted more specifically at promoting employee ownership. In 1989 the Conservative Government introduced the Qualifying Employee Share Trust (QUEST), commonly referred to as a Statutory ESOP to distinguish it from the ‘case law’ ESOP developed from the amalgam of trust and profit sharing instruments described earlier. This was designed to simplify ESOP creation by enabling the use of one rather than two trusts, and by making expenses incurred in establishing a trust tax deductible by statute (rather than case law). Most notably, however, it provided an incentive for owners to establish QUESTs by allowing capital gains tax (CGT) rollover relief if at least 10 per cent of the company’s equity was sold to the QUEST .

Recently, a series of initiatives by the 2010-2015 Conservative-Liberal coalition promoted employee ownership. In 2012 the Government initiated a major review of employee ownership by employee ownership expert Graeme Nuttall to consider the barriers to employee ownership (Nuttall 2012). The Coalition Government undertook to implement most of the proposals put forward in the Nuttall review, most of which focused on overcoming obstacles to employee ownership such as inadequate information and financial support.

In the Finance Act 2014 a series of measures were implemented to encourage trust-based employee ownership. Owners selling 50 per cent or more of their company to an Employee Ownership Trust (EOT) were exempted from capital gains tax on the growth in value, whilst firms with at least 50 per cent ownership by a trust became able to award profit shares to employees that are exempt from income tax up to a value of £3,600 each year. This was designed to mirror the tax reliefs available in the SIP scheme for distributions of shares in direct ownership schemes. These legislative changes are still fairly recent so it is difficult to fully evaluate their effectiveness. However, they have helped to stimulate a great deal of interest in employee ownership, and there has been a wave of conversions using the EOT form. Some existing employee-owned firms have changed their ownership structure to incorporate an EOT.

These kinds of initiatives provide incentives and signals to firms and their owners to convert to employee ownership. The justification for them is that they counter-balance obstacles to employee ownership, such as the expense of establishing trust structures (where used), a lack of awareness and knowledge of employee ownership amongst professional advisors such as lawyers and accountants, as well as amongst business owners, and a perceived unwillingness of financial institutions to provide support for employee ownership conversions (see All Party Parliamentary Group on Employee Ownership 2008).

ii) Privatisation

Privatisation is the other main government activity that has stimulated employee ownership. Waves of employee ownership conversions correspond with privatisation programmes in Britain. Two main phases can be discerned: the first is the privatisation programme of the Thatcher-Major Governments in the 1980s and first half of the 1990s; and the second is the current privatisation programme mainly implemented by the Conservative-Liberal Coalition Government from 2010-2015 but initiated by the Labour Government preceding it.

In the first phase of privatisation, notable conversions to employee ownership included the National Freight Consortium, and many state and local authority-owned bus passenger companies in England and Scotland. At its peak, most of the major bus operators in most of the largest English and Scottish cities were employee-owned. Privatisation into employee ownership was encouraged by governmental offers of preferential pricing. Whilst many local authorities were ideologically opposed to privatisation, they viewed employee ownership as preferable to acquisition by companies based elsewhere with consequent loss of local control of bus services. Although national trade unions were generally hostile to privatisation, local union organisations often preferred employee ownership to acquisition by new entrants to the bus industry with reputations for changing wage and employment structures. However, none of these bus companies survive as employee-owned entities, and employee ownership appears to have been a transitional stage in the re-concentration of the industry (see Pendleton 2001: 193-195).

The second phase of privatisation has involved the divestment of local authority, national government, and National Health Service activities into ‘public service mutuals'. This is a continuation of contracting-out measures initiated in the first phase of privatisation. Divestments from the Health Service were introduced by the 2005-2010 Labour Government whereby primary care trust staff were given the 'right to request' the formation of social enterprises to deliver community health services (see Ellis and Ham 2009). The Coalition Government continued this policy with its 'right to provide' policy for NHS trusts and adult social care. Support has also been given for the creation of public service 'spin-outs' from national and local government services by the Mutuals Support Programme.

By mid-2014 100 'mutuals' had been 'spun-out'. Examples include children's social care, youth services, and libraries, as well as healthcare. The Coalition Government was also keen to extend the mutual model to the fire rescue and probation services. Some members of the government have been ardent advocates of the mutual form as a way of empowering workforces and improving services, but others have probably viewed employee ownership as a relatively less contentious means of privatising services, especially in the politically sensitive health service.

The support for employee ownership by the 2010-2015 Conservative-Liberal Coalition is unprecedented in Britain. It is perhaps best explained by competition between the two government parties (cf. Carter and Jacobs 2013), with the Liberal Party in particular keen to introduce policies that would give it a distinct identity within a government in which it was a minority member. Policies to support employee ownership during privatisation emanated from the Treasury and Cabinet Office, primarily controlled by the Conservatives, whilst policies to promote employee ownership conversions during business succession were introduced by the Department of Business, Innovation, and Skills, headed by a Liberal-Democrat. Policy experts, lobbyists, and 'flagship' employee-owned firms, aided by 'policy entrepreneurs' in the employee ownership community, were able to exploit this competition to push employee ownership further onto the political agenda (cf. Kingdon 1995).

With the election of a Conservative Government in May 2015, the prospects for further development of employee ownership are unclear. Further substantial legislative or regulatory change seems unlikely given other policy commitments but further encouragement of privatisation may well stimulate further public sector conversions. Even so, it seems likely that a significant number of private companies will take advantage of the 2014 changes to convert to employee ownership.

The nature of the employee ownership sector.

We identify four main contexts in which employee ownership is typically created: business succession, privatisation, sharing ownership, and start-ups. The proportions of each type, along with key ownership and governance characteristics, are shown in Table 3.

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As Table 3 shows, business succession is the most common context for employee ownership, followed by 'sharing ownership' and start-ups. The 'other' category is a residual, mixed category, and includes cases where firms have been divested from larger firms. Levels of employee ownership are similar between the four main categories but there are greater differences in governance characteristics.

Table 3 Employee ownership: ownership and governance characteristics of employee ownership groups

Percentage of firms in each category

	Business succession	***Privatisation***	***Sharing ownership***	***Start-ups***	***Other***
Proportion in the total sample (%)	32	15	24	23	5
Average level of employee ownership (%)	87	83	86	89	79
Proportion using a trust (%)	83	19	68	36	71
Proportion with worker directors (%)	38	63	28	24	36
Proportion with employee shareholder council (%)	34	56	36	4	7
Median employees (n)	80	640	63	28	66

N = 109

Business succession

Employee ownership of this sort arises when business owners want to exit the business but do not want to sell the company to a competitor or to pass the company to a family member (often because family members do not wish to take over the business). It can include cases where the owner wishes to retire or to share part of the ownership as a stage in the process of withdrawing from ownership. Employee ownership is a way of protecting the company and the interests of the company's workforce as the owner exits. There has been a steady expansion of these cases in recent years: whereas they accounted for 16 per cent of the population of employee-owned firms in the late 1990s they are now double this at 32 per cent.

Ownership conversion in these cases is nearly always instigated by the business owner, and the design of the ownership and governance structures typically reflects this. Employees often have little direct involvement in the conversion, and sometimes only become more deeply involved once the ownership conversion has taken place. The level of employee ownership is typically fairly high (average employee ownership is 87 per cent), providing protection against acquisition by other firms. There is widespread use of employee trusts amongst these firms (83 per cent of cases) tempered by the view of some exiting owners that direct ownership is more likely to lead to 'responsible' ownership.

In most cases the owner sells the ownership share to the trust but there are cases where owners gift the company and in some instances owners either defer the payment or provide a loan to the trust to purchase the shares off them. In others, the trust secures an external loan to purchase shares from the owner, backed by future income streams. The advantage of a trust in these circumstances is that lack of worker expertise, and employee wealth and liquidity constraints, do not prevent the conversion from taking place. Owner instigation of the conversion also sidesteps the coordination problem that would arise if workers themselves were to organise the buy-out. Recent legislation creating Employee Ownership Trusts appears likely to encourage conversions of this type.

The predominance of the business owner in the initiation and design of employee ownership affects governance as well as ownership structures. Whilst these companies are often highly participative, employee representation on the company board of directors itself is less widespread than the use of employee councils to represent the views of employee shareholders to the board. Nevertheless, worker directors are more prevalent than in other owner-instigated forms of employee ownership.

Privatisation

Privatisation was an important backdrop to many conversions to employee ownership in the late 1980s/early 1990s, accounting for over 50 per cent of conversions at the time. It then declined in importance until very recently. The Conservative-Liberal Coalition Government of 2010-2015 reinvigorated privatisation, primarily by spinning-off parts of public services out of the private sector. This has focused especially on the National Health Service and central government. Local government spin-outs have been less common, in part because of ideological objections amongst local authorities, but are likely to become more common given severe constraints on local authority finance.

Although the mean level of employee ownership is very similar, public service 'spin-outs' differ from business succession conversions in several ways. Firstly, because many of these organisations provide public services at nil cost to the service user, they have typically registered as either Community Benefit Societies or Community Interest Companies (CICs). Secondly, because of lower capital requirements than in business succession companies, there has been less perceived need to vest equity in Employee Benefit Trusts (found in just 19 per cent of cases).

In the health service spin-outs, ownership is usually offered directly to the workforces, typically in the form of £1 shares. Subscription by employees, along with users, gives them membership rights. The typical subscription level within these organisations is around 80 per cent of the workforce. There is greater use of employee benefit trusts in local authority spin-outs but ownership is nevertheless mainly vested in direct, individual ownership. Unlike business succession and sharing ownership conversions, these conversions are typically instigated by managers and employees, often with substantial trade union involvement. As a result, there tends to be extensive employee involvement in governance. There are worker directors in 69 per cent of cases and employee councils in 62 per cent (some companies clearly have both). As might be anticipated, given the public sector background, collective bargaining over pay and conditions is widespread in this group (whilst near absent in the other types of employee-owned firm).

Sharing ownership

The sharing ownership group is comprised of cases where, prior to employee ownership, the company is typically owned by a group of owner-managers serving as company directors. Often these companies are human-capital-rich firms providing business and professional services (see Pendleton 2011). They devote more resources to training and development than the other groups of companies in our sample, and experience greater difficulty in recruiting employees with specialist skills. Employee ownership serves to extend ownership to a wider group of employees than hitherto. Unlike many business succession cases, owner-managers typically continue to work in the firm though the conversion may form part of a longer-term succession plan.

The average level of employee ownership (86 per cent) is similar to business succession firms. The use of an employee trust is somewhat less widespread than in business succession firms, and a third of these firms require employees to subscribe to shares to become owners. Employee directors are relatively uncommon (found in just over a quarter of cases), reflecting a concern in some cases to maintain existing management approaches and practices. The use of employee shareholder councils is similar to business succession companies but less than in privatisation companies.

Start-ups

In the past, employee ownership does not seem to have been that well-suited to business start-ups. There have been significant barriers to the supply of capital and the assumption of risk by employees, except in the case of the smallest companies. For this reason, there were no business start-ups in our survey of employee-owned companies in the late 1990s. However, with the continuing shift to services, and the importance of human capital in some service industries (such as business consulting) these barriers to employee ownership are much less significant. Employee ownership can be a form of 'glue' that links together members of an otherwise fairly loose network of consultants or creative employees. 23 per cent of the current sample are start-ups. As in the other types of firm, the average level of employee ownership is high (89 per cent).

Several features flow from these circumstances of employee ownership creation. One, ownership tends to take the form of direct ownership: employees may be required to subscribe to shares to supply working capital and to show their commitment to the emergent organisation. There is a trust in 36 per cent of cases but these hold on average lower levels of equity than business succession and sharing conversions. The value of EOTs and EBTs as instruments of conversion are less relevant to recent start-ups, though they may become more so as these firms develop.

Two, as most are relatively recent start-ups they are typically considerably smaller than companies in the other ownership categories, with median employment of 28 employees at the time of the survey.

Three, perhaps reflecting the small size of these organisations, formal institutions of employee governance are in some respects less in evidence than the other groups, with just 4 per cent of these companies holding employee shareholder councils and 24 per cent having worker directors.

Rescue conversions?

It might be anticipated that the financial crisis of 2007-8 would have led to employee ownership conversions involving firms in economic distress. It has been argued that co-op formation will increase during downturns of the business cycle because the opportunity costs for risk-averse workers of forming co-ops will be lower than during better economic times (Ben-ner 1988). In practice, however, ownership conversions of this type are rare in Britain, though there have been some well-known examples such as the rescue of Tower Colliery in South Wales in the 1990s (where miners contributed £8,000 of their redundancy money from British Coal to acquire the colliery). In our sample so far there are no cases of rescue conversions.

The reason that they are so rare in Britain is that they are fraught with risks. Raising cash from financial institutions to effect a buy-out is extremely difficult where firms are in distress for obvious reasons. Meanwhile, many workers may be reluctant to risk investing any money they might be due in redundancy payments. To the problems of raising capital, have to be added those of a lack of expertise amongst many of those involved in the rescue. Finally, compared with some other European

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countries, there is little support from government and local agencies in Britain to find innovative ways to prevent failing companies from going into receivership or administration.

Conclusions

This paper has reviewed the development of employee ownership over a thirty year period, and draws on research conducted during this time. The role of political support for employee ownership emerges as critical to the development of employee ownership, with the extent of conversion activity broadly correlating with levels of policy activity and innovation. The current level of support for employee ownership is unprecedented, and this is reflected in a vibrant and growing employee ownership sector.

This review has also highlighted the variety of ownership forms and contexts within the employee ownership sector. This makes it difficult to generalise about the sector, and highlights the imperative that policy prescriptions should be sensitive to the various contexts in which employee ownership is created. Nevertheless, our current research suggests there are distinct constellations of employee-owned firms, created in distinct sets of circumstances. As yet, this research draws on a modest number of firms but the patterns observed are not dissimilar from those generated by earlier research and we believe our findings to be representative of the broader population of employee-owned firms. Our findings provide a detailed portrait of the growing employee-owned sector: as the research develops further we hope to portray in greater depth the richness of employee ownership in Britain today.

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If you have any comments on or queries about this paper or the research project please e-mail us. Please contact us if you manage an employee-owned firm and would like to contribute to this research:

Andrew.pendleton@durham.ac.uk

a.m.robinson@lubs.leeds.ac.uk

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Employee Ownership in Britain: 2015 and 2020

Andrew Pendleton
University of Durham

Andrew Robinson
Leeds University Business School

ADVANCING KNOWLEDGE TOGETHER
Researchers Practitioners Policymakers

The White Rose Study of Employee Ownership

Currently undertaking the largest-scale study yet of employee ownership in Britain. Similar to earlier study in late 1980s/early 1990s. Will use survey to present key features and predict EO 2020
Collecting data on ownership and governance of all firms with substantial employee ownership in Britain.
Currently have data on 111 firms with 25%+ EO.
Estimate that full population is about 250-280 firms (40-45% response). Increase of x4 on mid-1990s peak.
Currently merging this with Companies House financial information (where available)

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What does the sector currently look like?

Variation in circumstances and structures of EO		
Average level of ownership 85% (median = 100)		
Total employment in survey = 154,000		
Estimated employment in EO sector = 240,000 (just under 1% of total employment in Britain)		
28% with EBT/EOT only; 43% direct ownership only; 27% hybrid		
Circumstances of EO creation	Privatisation	15%
	Business succession	32%
	'Sharing ownership'	24%
	Start-ups	23%

Business sectors

Sector	Proportion of sample (%)
Manufacturing	22
Construction	5
Wholesale and retail	7
Information and communications	7
Financial and insurance	8
Professional, technical and scientific	28
Administration and support activities	2
Education	7
Health and social services	12
Arts, entertainment, recreation	2

(based on top-level SIC code)

Employee ownership absent from transport and storage, and hotels and catering

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Dates of employee ownership conversions

Decade	Proportion of sample (%)
1950s	4
1960s	2
1970s	5
1980s	8
1990s	12
2000s	28
2010s	42
Prediction 2020: total number of EO firms Projected employment	250/280 + 100. 300,000

Development of employee ownership in Britain: longer-run contextual features

Key point	Conditions favouring employee ownership are here to stay
Shift from manufacturing to services. Human capital as primary source of value. EO as 'lock-in'	
Economic and employment insecurity. Hold-up problem: low commitment all round. EO to signal commitment	
GFC shock. Heightened critique of short-termism and inequality. EO as 'better alternative' (though rarely used in rescues)	

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Development of employee ownership in Britain: cyclical influences

Key point	Environment for employee ownership fluctuates over time. We have just had a very good period. Next 5 years: steady growth and consolidation
Business cycle	Economic recovery/growth favours EO conversions Few EO firms created in distress
Politics	Privatisation (but questions over sustainability)
	Regulatory framework and initiatives
	Signalling
	Political competition, providing windows of opportunity

SUBMISSION FROM PORTPATRICK HARBOUR

Portpatrick Harbour, built and largely unchanged since the mid 1800's is located on the South west coast of Scotland on a peninsula approximately twenty miles from the Irish coast. The Harbour and village provide both a relaxing environment and a safe haven in adverse weather for thousands of mariners each year. The Village of Portpatrick is a very idyllic and charming place offering many fine Hotels, pubs, shops and restaurants to the visitor whilst providing vital local employment within the area. The picturesque harbour which lies at the very heart of the village underpins much of this local economy acting as both a gateway to the area for sailors and by providing the stunning focal point around which the village exists.

Portpatrick Harbour Community Benefit Society was formed in July 2015 with the aim of saving and securing Portpatrick Harbour into full community ownership. This became necessary after the community of Portpatrick discovered in a public meeting held in January 2015 that a failed attempt to purchase the harbour by a previous group in 2012 had resulted in an imminent threat of repossession of the harbour by a Jersey based property developer. This crisis meeting uncovered, for the first time, some very uncomfortable and ugly financial facts surrounding the circumstances of that agreement. This led the community of Portpatrick to take direct action at that meeting and subsequently take full control over the situation in order to attempt to save the harbour which lies at the very heart of the village.

Supported by Third sector D&G we were introduced to Community Share Scotland. Borrowing capabilities had already been identified as being very weak due to the financial history created under the previous group which was a company limited by guarantee with charitable status, subsequently access to normal routes of finance prove very limited and unsuccessful. Community Share Scotland offered a new possibility, indeed for our community this looked to possibly be our only chance to avoid losing our harbour. There was much work to be done; this required us breaking new ground in the Scottish third sector. With the aid of Community Share Scotland we would together need to create, for the first time, a totally new type of charitable group in order to achieve our goal. We required to generate business plans, financial forecasts, share offer documents and very importantly, the new rules required to pass the charity test and become the first Community Benefit Society to gain charitable status with the Scottish charity regulator OSCR.

A new "charitable Community Benefit Society" the first in Scotland, would be formed to give our community the platform from which we could raise community shares to finance the rescue of our harbour from what was inherently a very negative financial position. The new "Portpatrick Harbour Community Benefit Society" would provide

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Governance and structure, registered under both the FCA and Scottish charity regulator, this would allow our Community the opportunity to start again.

Community Share Scotland are an inspirational group of people who are extremely innovative in their efforts to find solutions when faced by problems. They introduced us to Social investment Scotland who provided much needed bridging finance to us in the form of the “Community share loan”. This new financial product allowed us to avoid repossession of the harbour by the property developer whilst the process of registering the new Community Benefit Society along with raising the share offer was carried out.

Portpatrick Harbour CBS subsequently became the first Community Benefit Society in Scotland to register with both the FCA and gain charitable status with OSCR in August 2015. The new Community Benefit Society planned to raise £75,000.00 through Community Shares. This was the prime target but the business plan along with the financial advice received through Co-operatives UK identified that we could go a little further and raise further share capital should we gain enough interest in our share offer, this would be invested in the harbour to kick start it’s much needed regeneration.

The share offer was planned to run for eight weeks, banners were erected and media were engaged to capture as much interest in the campaign as possible. The share offer opened in a flurry of activity during our local folk festival on 5th September 2015 selling 30% of the Community shares on day one. Thirteen days later we had sold £75,000.00 worth of community shares, achieving our primary target. Only Seven days later on the 26 September we smashed through our upper limit of £100,000.00 eventually seeing an oversubscription of over £14,000.00.

This fantastic opportunity allowed people from all around the world to support this community initiative, indeed we discovered that our community was not as small as we had once thought. Applications poured in not only from local residents in the village but from all over the country and indeed, several different countries around the world. People with family connections to the area, people in the yachting fraternity, people who visited the area on holiday, people with an affiliation to the village and harbour and who all clearly cared enough to support the campaign and who wished to see the village harbour remain secure and unspoiled for the future. Together our community have proven that today’s world is not as large and disjointed as it once was and that the little village of Portpatrick now has a very large and diverse community supporting it in today’s modern world.

Out of what appeared to be an almost hopeless inherited financial situation discovered by our community in January 2015, a new opportunity has been born. This opportunity saw the birth of the “Portpatrick harbour Community Benefit Society” supported by its diverse community this allowed us to take direct action and control over a vital community asset for the benefit of all. This new charitable Community Benefit Society model now stands ready for other groups and communities around the country to engage and utilise, giving them the ability where once it did not exist to make a real difference.

Today Portpatrick Harbour Community Benefit Society has a membership of over 560 people who are all part of our diverse and engaged community, Village residents, sailors, regular tourists, family and friends living all around the world. Portpatrick Harbour has now engaged its first phase of regeneration following closely our business plan, utilising community empowerment in order to acquire adjacent council wasteland this will help provide space for much needed facilities at the harbour. This will subsequently support growth to the core business of the harbour whilst supporting our community's infrastructure through our charity's wider reaching objectives and promoting local business and employment.

Calum Currie (Chairman)

Portpatrick Harbour Community Benefit Society

SUBMISSION FROM SCOTT AND FYFE LIMITED

This submission is prepared by Scott & Fyfe Limited, Tayport to identify the benefits of employee ownership allied to innovation as practiced since 2012.

In 2008 Scott & Fyfe was a traditional family-owned industrial textiles company with long-term conservative management. The recession of 2008 had disguised the significant impact of the structural loss of two profitable product sectors and two overseas loss-making subsidiaries leading to a fragile and vulnerable business.

In 2009 a new chairman (non-executive) was appointed and a short-term recovery plan was put into action. In 2010 a new chief executive was recruited which accelerated the plans for change, recognising the many challenges facing the company, leading to a reduction in staff from 150 to 100. Additionally, the two overseas subsidiaries were closed and the two remaining Scottish plants and management block were merged onto one Tayport site.

It was decided to move the business model from a commodity producer (no longer possible given the secular market sector declines and the company's size) to that of a specialist niche producer. Through a collaboration with the Glasgow School of Art financed by the Scottish Funding Council, innovation in a meaningful and sustainable way became embedded in the company ethos and strategy. This exercise was notable for the recognition of the inherent skills of the existing workforce, stimulated by internships and ultimately employment of a handful of Duncan of Jordanstone design graduates. This combination also led to the establishment of a company museum (150 years of history) in order not to lose the heritage and to the incorporation of an Innovation Centre within the production area. This became the "control room" and "brain" of the company, co-locating with the five pods (strategic business units). This combination, together with the formation of pods with individuals from different roles and levels and the sharing of all relevant information encouraged much greater participation.

In 2011 conversations started between the chairman and the family about the future ownership strategy which led to opening up and ultimately agreeing on a transfer to employee ownership. This led to the acquisition of the family's equity as at 1.1.2013 by a newly-formed Employee Benefits Trust (EBT), funded in its entirety by the company's cash balances This transition was carefully planned and implemented in order to ensure that there was no misunderstanding on the owners' objectives which involved a phased withdrawal of their capital and a commitment that the company would remain in Tayport.

This move was introduced with a detailed explanation of the owners' objectives and of the future company structure, both ownership and managerial, and included a detailed and still extant website (www.tayportworks.com) explaining all of the related complexities covering:

- redeemable preference shares issued to the family to fund the company,
- an initial share distribution so that all staff would be genuine direct owners from the start,

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- stressing that only current staff could be shareholders (and would sell the shares back on retiral)
- the routes to additional shares through purchase out of payroll (share investment plan), profits and incentive schemes,
- the role and appointment of EBT trustees,
- the introduction of an employee-elected director on the board,
- the enhancement of the role of the employee forum, and
- the role and importance of the annual shareholders' meeting, open to all staff.

This was accompanied by an emphasis on significant changes on the pension front, introduced in order to ensure that staff would have a state pension, a company pension (with mitigation of the disparities between defined benefit and defined contribution scheme members) and an equity pot on retiral.

The employees are represented by an employee-elected employee director who has full rights on the board (and is Companies House registered). The employee forum monitors employee terms and conditions (but not pay) and considers and recommends changes with particular emphasis on hygiene factors. The trades union involvement has diminished to virtual irrelevance since the transition although this was not the original intention. As a result of the transparency of all communications (salaries are literally the only confidential information at this stage)) and the understanding that all staff members (with 12 months service) are now owners so that the long-term interests of the company are looked at through the eyes of the staff. Since the start of this process staff have acquired rights to circa 7% of the equity directly, the balance being held by the EBT.

It is acknowledged that this combination of the EBT (which will always control a majority of the equity) and direct share ownership by staff is complicated and demands more administration and "management" than a scheme (cf John Lewis Partnership) whereby the EBT owns 100% of the equity. In revenue terms the management costs are of the order of £15k-£20k p.a. However it is believed that the benefits are significant (they have been analysed as part of a third party audit by EckosGen on behalf of Co-Operative Development Scotland) and that the link with direct ownership creates a more meaningful relationship between individual and company.

Amongst the changes resulting for the benefit of the company are:

- Flexibility of shift patterns
- Flexibility on holidays i.e. as required by customer demand
- Flexibility between machines and between departments
- Readiness to undertake additional training to support such flexibility
- Recognition that short-term working and lay-offs may be required with criteria for such lay-offs to be determined by management in the interest of the company rather than " last-in, first-out"
- Pay increases only when the company can afford them (following a pay freeze applicable to all staff including directors)
- Reduction of the "us" and "them" mentality and resultant evaporation of union activity

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- Employee forum responsible for elections of trustees of pension scheme, EBT and for employee director and employee forum members
- Self-monitoring and control of revenue expenditure e.g. spare parts, energy utilization, waste, health & safety
- Greater interest in and contribution from a wide range of staff to product, market and technology development.

The emerging benefits to the workforce are:

- Free shares (£500) on the transition for all staff
- Opportunity to subscribe to a share purchase scheme with tax benefits
- Opportunity for all to earn shares based on profit share scheme
- Greater acceptance that there is a job for them as they buy into the concept of employee ownership
- Recognition that opportunities for promotion/alternative jobs are available (many internal promotions)
- Enhanced training opportunities (both in-house and externally).
- Full awareness of company performance, sales and profitability on a monthly basis with acknowledged easy access to the chief executive
- Fairer pension treatment: this included the defined benefit scheme members accepting an increase in contribution from 6% to 10% over a period of years to ensure continued membership
- Enhanced company contributions to the defined benefit scheme well ahead of the obligatory auto-enrolment state scheme
- All staff are invited to the AGM and vote on the report and accounts and on the appointment of directors (restricted to two year terms)

The company has seen improved productivity, a more collaborative working environment and greater job satisfaction accompanied by enhanced individual autonomy and influence on operational decision-making. All salaries have been increased recently (2.5% in 2014 and 1.5% in 2015 after a nil increase in 2013). The company has recruited since late 2014 at all levels except director and, while textile pay is not high, we have had only three leavers from the company for reasons of pay and conditions in the last two years (all recent graduate recruits). There is nobody earning less than the living wage (including interns) and no utilization of zero hour contracts. More importantly there is now a funnel of new products at various stages of development including full market introduction without which the board would be extremely concerned about the future.

It should be pointed out that the company is not currently profitable, largely because of the loss of one major customer, the secular reduction in two key market sectors, pension scheme funding demands and the weakening of the Euro, but the company would be in significantly worse shape without the changes implicit in employee ownership.

In summary we would suggest that:

- There is definitely a role for employee ownership and specifically for those family owned and managed companies that cannot see a route to succession.
- Employee ownership is also an option for management buy-outs that have not prospered to the degree anticipated.

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- Employee ownership properly managed provides an excellent route for the development of new products and services that can radically change the way a company does business.
- Research (St Andrews University) suggests that access to finance is not the barrier that it is believed to be; it should be possible to create a finance model incorporating a pay-out over a period of years (indeed if not possible, there is probably little hope for the company concerned).
- While Cooperative Development is doing a good job, more could be done e.g. large-scale annual conference in partnership with SE, SCDI, CBI ; and perhaps those SE executives/consultants charged with the responsibility for SE account-managed companies should be educated in the potential of employee ownership.

We would be happy to provide further explanation(s) to the Committee in person.

Nick Kuenssberg	*John Lupton*
Non-executive chairman	Chief executive

4 January 2016

SUBMISSION FROM SCOTISH ENTERPRISE

INTRODUCTION

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

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

- **Social Enterprises** are 'innovative, independent businesses that exist to deliver a specific social and/or environmental mission'[1]. They form a subset of the Third Sector. Social enterprise is a way of doing business rather than a 'sector'. Profits/surpluses are reinvested back into the social/environmental purpose and capital is held subject to an 'asset lock'.

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

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

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

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

1 SOCIAL ENTERPRISE

1.1 Scale and growth of social enterprises in Scotland

The Social Enterprise Census 2015[2] demonstrates the scale, reach, contribution and potential of this model. There are currently over 5,000 social enterprises in Scotland, with more than 200 being formed each year. They generate an annual income of £3.63 billion, £1.68 billion gross value add (GVA) and have a net worth of £3.86 billion. 68% expect income to increase over the next year. 112,400 people are employed by social enterprises. The research identified the prominence of inclusive working practices with 68% paying at, or above, the national living wage, average pay differential of 1:2.5 and 60% led by women.

[1] Social Enterprise Scotland, 2014; 'What is a Social Enterprise?
[2] SocialValueLab; 'Social Enterprise in Scotland: Census 2015'

48% of Board members are women. They operate in greatest number in 4 sectors; arts/creative industries, community amenities, childcare and health/social care.

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

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

Cornerstone is one of Scotland's largest social care organisations, providing high quality care and support to individuals with learning disabilities and other support needs across 20 Local Authorities. 'Cornerstone Connects' is a unique model of service delivery to better serve the trend towards self-directed support. It is a non-building based service which makes use of all community facilities, activities and volunteers. The Connects model is one of a number of innovative services developed following participation in a SE programme designed to help unleash the creative potential of employees. A 'Business Model Canvas' session[3] helped identify the appropriate business model and resources.

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

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

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

1.3 Assessing the sources of funding and support available

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

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

[3] A facilitated approach, using a focused methodology, for a business to consider their existing and alternative business models

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

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

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

2 CO-OPERATIVE MODELS

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

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

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

<u>Employee Ownership</u>

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

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

[4] Cass Business School (2014) identified employee owned businesses (EOBs) out-performed non-EOBs during the recent financial crisis. EOBs were better able to maintain both top line performance and employment levels.
[5] Co-operatives UK (2015), 'The Co-operative Economy'
[6] Employee Ownership Association, in assn with RM2 Partnership; 'The Employee Ownership Top 50 2015'

employee owned as a result of ownership succession, an issue that is growing in prominence in developed countries, with aging populations and 'babyboom' owners nearing retirement. Research[7] commissioned by SE estimates that there are 16,000 businesses whose owners will be looking to exit within five years. As such, the potential for greater uptake of this model is strong. SE recently introduced a Succession Expert Support service in address this issue.

Further[8] research, commissioned by SE, identified that the performance of Scottish employee owned businesses is generally superior to their peers. The model is particularly attractive to exporters (anchoring businesses in Scotland). They are more resilient and create jobs faster[9]. Productivity is boosted by 5-10% and sustained at a higher level[10]. Over the last ten years, the Employee Ownership index[11] has out-performed the FTSE All Share by on average 7.7% pa. Recognising these attributes, HMRC introduced tax incentives in 2014 to increase take-up both as a start-up and succession solution.

Consortium Co-operatives

Evidence from across Europe[12] highlights that the more connected and collaborative businesses are, the more innovative and productive they become. Evidence also shows that those regions with a collaborative culture achieve high levels of economic performance[13]. The key challenge is embedding collaboration in Scotland's business culture; promoting business model innovation and recognising **'collaborative advantage'** as a competitive strength.

There are approximately 414 consortium co-operatives in the UK[14] and Scotland is a leading force in the application of this model, with Co-operative Development Scotland (CDS) having supported the set-up of over 130 consortia. Given that collaboration is relevant to all businesses, there is significant scope for greater adoption of the model. The model is particularly relevant to sectors with large numbers of small and medium sized enterprises (e.g. tourism, food & drink and creative industries).

Community Co-operatives

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

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

[7] University of Stirling & University of St Andrews (2014), 'Employee Owned Businesses – Access to Funding'
[8] Edinburgh Napier University (2013), 'The Growth of Employee Owned Businesses in Scotland'
[9] Case Business School (2010), 'Model Growth'
[10] The Nuffield Trust (2009), NHS Mutual,
[11] FTSE International (2014), 'The Employee Ownership Index'
[12] European Commission (2012), 'Community Innovation Survey'
[13] John Restakis (2010), 'Humanising the Economy: Co-operatives in the Age of Capital'
[14] Co-operatives UK (2013), 'From Homegrown – The UK Co-operative Economy 2013'

Co-operative models, by their nature, promote commitment, creativity and innovative approaches. This unlocks capability and capacity from people (employees and partner businesses) and stimulates innovative business practices. In addition, the co-operative ethos delivers wider societal benefits e.g. resilience, well-being, equality.

Employee Ownership

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

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

Consortium co-operatives

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

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

Community co-operatives

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

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

2.3 Assessing the sources of funding and support available

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

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

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

Raising awareness of cooperative models among businesses and professional advisors, who are important multipliers in raising awareness among the business base, is one of the most critical roles for public agencies. CDS is doing this through an extensive programme of promotional activity and advice, together with upskilling of professional advisers. As an integral part of SE/HIE operations, CDS works closely with account managers, sector teams and Scottish Development International (SDI) to support growing enterprises. Business Gateway is an important partner, particularly in Edinburgh and Glasgow with both cities being 'co-operative councils'.
Co-operatives UK, Employee Ownership Association, SAOS and CSS are key partners given their significant involvement in cooperative models. Other industry partners (e.g. Scottish Tourism Alliance and Scotland Food and Drink) are important channels to raise awareness and understanding among businesses. Ambassadors/Champions, all leaders of employee owned and co-operative businesses, provide support CDS in an advisory and advocacy capacity.

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

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

[15] University of Stirling & University of St Andrews (2014), 'Employee Owned Businesses – Access to Funding'
[16] Ekosgen (2015), 'A study of the contribution of cooperative models to Scotland's Economic Strategy and evaluation of Cooperative Development Scotland'

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

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

3 CONCLUSION

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

ANNEX 1– VIDEO CASE STUDIES

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

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

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

Community Cooperatives: Cultybraggan Camp; Harlaw Hydro; Portpatrick Harbour

SUBMISSION FROM SCREEN FACILITIES SCOTLAND

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

Screen Facilities Scotland (SFS) formalised as a consortium in 2012 with significant support from Co-Operative Development Scotland. Since then, SFS has become a focus point for its 23 members and a strong representational voice for the facilities and service companies of the screen sector within the creative industries in Scotland.

Member companies of SFS provide an array of specialist services essential to successful screen production including: Casting; Locations; Creatures; Puppets; Tracking; Specialist Consultancy; Specialist Vehicles; Camera; Stunts; SFX; Extras; Crew; Insurance; Equipment; Actors; Music; Audio; Editing; Composition; Studio Space; VFX; Grading; Foley; Design; Lighting; Compliance; Rental; Health & Safety; Graphics; Sound and more.

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

SFS members know first-hand the unpredictable environment in which creative businesses operate. Working together with other like-minded companies in a formal consortium co-operative affords each member a number of advantages – the ability to grow their business, network more often, share common challenges and build a higher profile.

As a collaborative venture, SFS promotes and advocates screen facilities and services available in Scotland; provides data, research and expertise to reports, research programmes and case studies.

As a unified voice, we market our industry with greater impact, lobby for improvements to industry practices and policy, and pitch for projects as a larger group or series of sub-groups.

As a central point of contact for potential clients, government, public agencies and other organisations, SFS is widely recognised as the collective voice for this sector of the industry.

Member companies benefit from shared marketing and promotional activities, new networking opportunities, stronger engagement and participation across creative industries and closer working with peers, colleagues and clients.

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SFS membership includes membership (facilitated by Creative Scotland) of UK Screen Association in London providing further influence and networking opportunities across the UK.

3. Assessing the sources of funding and support available;

Creative Scotland, Scottish Enterprise, Highlands and Islands Enterprise, Scottish Development International and Co-Operative Development Scotland have each supported SFS in different and tangible ways. These agencies recognised that, by establishing SFS, the facility and service companies were trying to take constructive steps to ensure future growth in Scotland and the consortium business model has provided structure and support to do so. Positive outcomes have been achieved through collaborative efforts between SFS and separate public agencies using existing support mechanisms.

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

Supporting development and production finance, business development, and engagement with the international market place are vital to the growth of the Scottish production sector and infrastructure. Expanding and reinforcing relationships between consortia such as SFS and the public bodies is mutually beneficial and will maximise the value of these agencies to the creative sector.

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